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Who's Wagging the Dog?: State, Rent-Seeking, and Finance in South Korean NIC-hood

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In assessing the changing patterns of state-big business relations vis-a-vis South Korean NIC-hood, two paradoxical perspectives come to the fore. The state-centric perspective, on the one hand, alludes to the state's strategy to tightly control finance as a source of state-assigned rents that would subsidize business conglomerates or *chaebols*. Accordingly, the junior-partner dependency alliance that arises from this relationship results in rent-seekers becoming receptive to state initiatives, thus being disciplined in the process as they comply with standards imposed upon them. On the other hand, the alternative business-centric perspective deems the state as autonomous to capital such that other sources of credit, like global finance markets, become accessible to *chaebols*. As such, the dependence of *chaebols* on state-assigned largesse is reduced inasmuch as the state's clout is weakened. The earlier view is criticized in that the nurturing state inevitably becomes hostage to business conglomerates as it bails out the latter in times of economic downturns. In effect, big business gains economic and political strength, enough to influence vulnerable politicans to ensure policy continuity to its favor, as well as to support rent-seeking efforts. In the attempt to explore possibilities for a more balanced view of state-big business relations, the discussion futher expounds on South Korean regimes, from Park to Roh, with respect to the utilization of finance as a potent industrial policy tool and on the competing approaches to industrialization between a seeming *laissez faire* perspective and otherwise.

Introduction

The state-centric literature on South Korean NIC-hood[1] stipulates that among many other factors, tight control over finance provided the South Korean state the leverage to rein in the South Korean capitalists behind a national industrialization plan. Given state control over funds, the Korean state was reportedly able to choose "winning" sectors and firms through an enlightened strategic industrial policy. The control of finance has represented the most important

Editors' note: Although dated 3rd and 4th Quarter 1995, this issue's planning and production spilled over to the following year. Due to the delay of the issue's release, let the readers be informed that some events mentioned in this article, such as the trial and sentencing of former South Korean presidents Chun and Roh, may post-date this volume.

source of economic rents since the mid-1960s and enabled the South Korean government to use it as the most potent industrial policy instrument. Byung-Sun Choi[2] writes that it was used as "the fundamental tool with which Korean policymakers induced business cooperation" and that without it, South Korea would not have been able to "carry out the rapid and continued industrial restructuring that has characterized its growth'.

While most neoclassical economists (e.g. Islam 1994) criticize strategic industrial policy as unnecessary and conducive to wasteful rent-seeking, other sympathetic writers (e.g. Lee 1992; Haggard and Lee 1993; Lew 1996) argue that the policy worked in South Korea since the state was able to use the market itself to discipline the beneficiaries of state-assigned rents. Economic performance standards are supposed to be met by firms for them to continue receiving state-subsidized credits and other forms of state assistance.

More recent work[3] had alluded to changing patterns of business-government relations in South Korea since the mid-1980s. According to this view, Korean business, through economic growth, had been able to extricate itself from a junior-partner relationship vis-a-vis the Korean state. With their access to other sources of finance (including global funds markets), the clout enjoyed by the state over Korean business has supposedly weakened. This means that a new relationship between the Korean state and big business is expected to develop.

In the literature on South Korean NIC (Newly Industrializing Country) development, an alternative picture of business-government relationships is suggested. This view, designated by Moon[4] as the "business-centric perspective", is closer to the Marxist-instrumentalist view of the state. In this perspective, the South Korean state is seen as being captured by business interests, even as it acknowledges the relative autonomy it enjoys with respect to the capitalist class. A number of works, from K. D. Kim[5] to Koo and E. M. Kim,[6] documented repeated instances where Korean big business conglomerates

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(*chaebols*) were able to get the state to either back down from anti-*chaebol* campaigns (against illicitly accumulated wealth) or to continue providing state-subsidized funds, even to the extent of violating the sanctity of private property (as in the 8-3 measure).

This alternative view suggests a more nuanced relationship between the Korean state and Korean capital, especially the Korean big bourgeoisie organized into the *chaebols*. It submits that the Korean state was more "tail- than-dog"; that the dog that wagged the tail was the Korean big bourgeoisie rather than the state. One can argue both from Marxist and Weberian perspectives, that the capitalist class does not fear and in fact, welcomes the emergence of a relatively autonomous and competent state especially when it is a late-developing class and when it is competing with other national bourgeoisies. Not only has Korean capital benefited from the state's suppression of labor, it has likewise prospered in the drive towards NIC-hood.

Nonetheless, the same class (or fractions of it) will not be above attempts to capture the state for reasons like preferential benefits or treatment, including massive financial bail outs during inevitable economic downturns. It has been strongly suggested[7] that by encouraging the growth of big business with subsidized credit, the Korean state has been increasingly influenced in its decision-making by the *chaebols*. State control over finance has created perverse incentives for beneficiaries of state support: businesses relied heavily on state credits and had asked for relief from the government time and again during troubled times. The government, in turn, had to respond favorably to these requests or risk the political cost of bankruptcies and massive layoffs — even if the provision of relief will only nurse continued dependence on state credits.[8]

Notwithstanding the personal example of Park Chung Hee, it is quite clear that big business, on the one hand, had additionally been able to "discipline" politicians and state leaders through legal political contributions. Root[9] in fact asserts that "when business people give money to political parties, they do so to ensure regulatory benefits and policy outcomes that they value and to prevent something they don't like." He even suggests that business will have to make greater contributions to ensure policy continuity as the Korean polity democratizes. To the extent that political contestation is even, i.e., as Korea moves away from a dominant party system, then

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the Korean state may be able to buy greater autonomy from Korean big business and clip rent-seeking.

On the other hand, one can think of an opposite effect of democratization. As political contestation is now possible and becomes more expensive under democratic auspices, then, politicians may prove to be more vulnerable to seduction by big business and to be more amenable to rent-seeking efforts. This paper intends to investigate these opposing views on business-government relations in South Korea from the Park to Kim regimes. It hopes to come up with a more balanced view of state-big business relations in South Korea, along the lines suggested by Moon.[10]

Origins of Contemporary Korean Big Business

A study of government-business relations in South Korea will be facilitated by a review of the origins of the South Korean bourgeoisie. Such a review clearly indicates that the modern South Korean capitalist class is largely a creation of the South Korean state. Notwithstanding its long history as a unitary state, class differentiation in Korean society was deterred by a long tradition of a centralized power, organized along patrimonial lines. Inspired by Weberian studies on the contrasts between patrimonialism and feudalism, Lew[11] explains that to control the nation from the center, Korean kings depended upon the services of prebend-holding officials, and not upon the military services of self-equipped warriors, as in the Western European feudal polities.[12] Centralization of power persisted well into the mid-20th century, despite Japanese colonialism and American military governments, leading Henderson[13] to argue that at the time of Park Chung Hee's coup in 1961, Korea was in a condition of "mass society" wherein no significant class divisions were formed.

Henderson's argument is quite extreme; there were classes in Korean society. However, they were extremely weak in comparison to Park's regime, propped up by the military, which emerged to be the best organized social group after the Korean War. The successful land reform implemented by the American military government practically eliminated the landowners as significant political actors. The national indigenous bourgeoisie and urban workers being weak and fragmented, and the minimal level of industrialization and the low level of foreign direct investment foreclosed the possibility of an influential comprador class.

According to Hamilton,[14] the transition to capitalist industrialization came about in two broad phases — the transformation of rentier assets into commercial capital in the 1950s and the transformation of commercial into industrial capital in the 1960s. While it is true that significant industrial growth took place in the 1950s, from the viewpoint of capital accumulation, what was significant during this period was that "asset-holding and investment in land declined, while commercial accumulation accelerated." It is not clear whether landlords got transformed wholesale into merchants and industrialists. Jones and Sakong[15] believe that efforts at such conversion were a failure, while Cole and Lyman[16] report that many of the modern entrepreneurs had landed origins.

The 1950s also saw the emergence of the so-called "political capitalists" — the entrepreneurs who accumulated capital by accessing state resources through political connections. Kyong-Dong Kim[17] argued that among other means, these entrepreneurs sought the best opportunities by accessing US-provided foreign aid to politicians as they play on the latter's urgent need for political funds and on the prevalent corruption of high-ranking bureaucrats.[18] Other means included the non-competitive allocation of import quotas and licenses,[19] acquisition of former Japanese properties at bargain prices,[20] privileged access to cheap bank loans,[21] and preferential award of construction contracts.[22] In short, the 1950s could be seen as a period of capital accumulation through rent-seeking.

Rent-Assigning and Financial Bail Outs During the Park Regime

It is argued by Hamilton[23] that by the end of the 1950s, "it was becoming clear that the economic system had overseen the decline of the landed rentier and the rise of the capitalist class could not sustain itself." The Student Revolution of 1960, which toppled Rhee's administration was largely directed against the profiteers, the parasites, the corrupt, and the abusers of authority. This event, therefore, may be interpreted as a product of the inability of commercial capital to fully provide for the needs of the people.

The military regime, headed by Park Chung Hee, which succeeded the short-lived Chang Myon government through a coup in May 1961 appeared at first to be responsive to the popular clamor for retribution. One of the first measures adopted by the Park regime was to implement a special law enacted by the Chang government that punishes those who "accumulated wealth by taking advantage of their positions and power." As a result, the government arrested most of the nation's leading businessmen and appeared ready to confiscate their properties. A deal was subsequently struck whereby the government would exempt most businessmen from criminal prosecution provided the latter paid off their assessed obligations by building new industrial firms and turning them over to the government.[24]

Opinion on this episode is divided. Jones and Sakong[25] believe that this reflected the Park government's "dominant commitment to growth" and the government's belief that entrepreneurs were a scarce resource to be used in the attainment of economic goals. Others view the episode as a "sell-out", while K. D. Kim[26] opines that the Park regime had to compromise because the only viable economic force for achieving an industrial take-off happened to be the target group of leading entrepreneurs with their superior organization, personnel, facilities and capital resources. At any rate, this initial trade-off between government and big business should temper any over-estimate of the strength of the South Korean state under Park. Furthermore, it sets the terms of the sword-*won* alliance that is to exist under the Park regime. Substantial assistance was given to established businessmen who proved themselves capable in the economic battlefield, especially on the export front.

The adoption of externally-set performance standards is considered by some (e.g. Lee 1992 and Lew 1996) as a sufficient check on a rent-assigning state since it does not give the state control over such success indicators and cannot, therefore, hide the consequences of erroneous credit allocation. However, it will be apparent that the South Korean state will have other policy options. Subsequent events will reveal the fine print in this social contract. While the Park regime will allow individual capitalists to go under, it will bail out the industrial bourgeois as a whole in times of trouble.

An important proviso of the 1961 compromise agreement with big business resulted in government's control over the commercial banking system. The Park government nationalized the commercial banks by 'repossessing' the shares held by large stockholders, most of whom were among the big businessmen accused of illicit wealth accumulation.[27] The annual budgets of the commercial banks and appointments to top management then became subject to the approval of the finance minister. Together with the state-owned specialized banks, banks began to serve as credit-rationing outlets for the government as the allocation of credit was tightly controlled by the Ministry of Finance.[28] This control over finance was used to promote industrial growth by lengthening loan maturities so that industrial projects with long gestation periods could secure finance.[29]

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In the 1960s, the South Korean government undertook several other steps to reorganize the financial system in support of economic development goals. As outlined by B. S. Choi,[30] these steps included the setting up of a number of specialized state-owned banks, the amendment of the Bank of Korea (BOK) Act (to ensure that the government, through the Ministry of Finance, rather than the Central Bank, was ultimately responsible for monetary and financial policy),[31] and the allowing of the Korean Development Bank (KDB) to borrow funds from abroad and to guarantee foreign commercial loans. The turn to foreign credits to finance economic development was made in recognition of the declining levels of aid monies from the United States.

With these institutional changes in place, monetary authorities exerted a substantial influence on the allocation of financial resources into strategic economic or industrial sectors. According to one source,[32] through its control of the commercial banks, specialized banks and development finance institutions, the government gained control over 90 percent of the assets of organized finance. Under the Park regime, the allocation of subsidized credit has been the most important single instrument of government microeconomic control. Credit is the lifeblood of business firms everywhere in the world, but it is particularly critical in South Korea. Credit dependence is especially high for manufacturing firms whose average debt-to-equity ratio rose steadily from 1.2 in 1966 to 3.9 in 1971. This high level of dependence on credit is, therefore, largely a product of the Park period.[33]

The chief instrument of the Korean monetary authorities was the "policy loan", usually earmarked for certain economic sectors or even specific industries.These loans, in most cases, had preferential interest rates when compared to ordinary loans. Yet, even the interest rates on ordinary loans were kept lower than curb market rates or equilibrium interest rates. From 1963 to 1976, the general picture shows that the general bank rate has typically been half of the curb-market rate; and that the real loan rate (nominal loan rate minus rate of inflation) has often been negative and generally below the most conservative estimates of the opportunity costs of capital. In 1963, for instance, the nominal loan rate was only 15.7 percent compared to an inflation rate of 28.7 percent to yield a negative 13 percent real loan rate.[34]

Throughout the Park period, the largest proportion of policy loans provided to the manufacturing sector (62.3 percent during the 1962 to 1980 period) supported direct export activities. Other policy loans, such as loans for export industry plants and equipment and for special plant and equipment funds, were likewise related to export activities. All these facts reflect the export orientation of government's credit program.[35]

The above observations indicate that the unofficial money market has proven remarkably buoyant despite government's efforts.[36] Nonetheless, the Park government sought to ensure that industrial capital does not fall under the control of financial capital. As indicated earlier, landlord power was significantly clipped by earlier land reform and the grip of rural money lenders was seriously weakened by the cancellation of farmers' debts in 1971 and the establishment of programs to provide cheaper credits to farmers. The government policy of cheap industrial loans resulted surplus demand for them which, in turn, helped nurture the growth of the informal money market.[37]

The interest rate reform of 1965 raised official bank deposit rates (to levels higher than official lending rates creating 'negative spreads") and attracted large quantities of savings away from the unofficial market into the formal financial institutions. It caused a nearly sevenfold increase in total bank deposits over the 1965 to 1969 period. In addition, the reform contributed to a massive inflow of foreign loans that were guaranteed by the Korean Development Bank and the commercial banks. The stock of outstanding foreign loans increased from only $210 million in 1965 to $2.25 billion in 1970.[38] These foreign credits will ultimately find their way into the coffers of industrial firms through a system of guarantees, participated in by development and commercial banks. Cole and Park[39] report that the banks, however, played a very limited role in the decision-making process regarding these loans. Arrangements were finalized directly by the borrower and the lender, then approved by the government. The banks issued the guarantees upon government's instruction and took little responsibility for evaluating project feasibility.

These huge inflows generated inflationary pressures and government responded by restricting domestic credit so that only the favored firms (those in the export and key industries) would have access to bank loans. According to Hamilton,[40] while non-favored firms responded by returning to informal lenders, the size of the informal market appears to have declined relative to organized finance.

The economic boom generated by foreign loans could not be sustained and the large firms dependent on foreign credits began experiencing great difficulties. The economic austerity measures adopted by government under the surveillance of the International Monetary Fund (IMF) following the 1969 elections pushed many businesses into near bankruptcy. This will provide the need for a government rescue effort. Among 86 firms that borrowed heavily from abroad, the loans of 30 firms were restructured when government ordered banks to convert past-due loans into equity or reschedule them and to provide additional credits to meet debt service repayments.[41]

Several observers[42] report that despite the financial bail out, the financial distress of many large firms persisted into the early 1970s. The 18 percent devaluation and the slowdown of exports forced many large enterprises to default on their foreign loan service payments, forcing the guaranteeing banks to step in. In addition, the financial distress forced many big firms to turn to the curb market for funds. The atmosphere got increasingly polluted by persistent rumors that several large companies went bankrupt by the refusal of the informal money lenders to continue lending. Again, government responded with a larger bail out effort in favor of the industrialists, at the expense of the informal lenders and the saving public.

On August 3, 1972, the Park government announced a Presidential Emergency Decree for Economic Stability and Growth (later known as the 8-3 measure). The decree provided for the nullification of all loan agreements between firms and informal lenders and their replacement by new ones. The loans, totaling to 345.6 billion *won* , were to be repaid over five years after a three-year grace period at very liberal interest rates. The informal lenders had the option of converting their loans into equity shares of the borrowing firms. Loans made by large stockholders and executives to their firms were converted mandatorily into shares of stock.[43] Some of the short-term, high-interest bank loans were replaced by long-term loans (worth 200 billion *won*) payable at 8 percent annual interest rate. It also provided for the establishment of an industrial rationalization fund (to which government contributed 50 billion *won*) and a 2- billion *won* credit guarantee fund for small and medium industries.[44] The decree had the effect of relieving "all firms, large and small, of financial difficulties in one fell swoop"[45]. However, the same observers are unanimous in noting that while the informal lenders were profoundly shocked by the 8-3 measure and laid low for a year or so after August 1972, they reappeared and continued to prosper. The same real forces, which constantly reproduce the curb market (the government policy of cheap credits to favored firms) remained in place. Nonetheless, they were given the message that they were vulnerable to repeated assaults whenever it served government's and industrial capital's interests.

Heavy and Chemical Industrialization in the 1970s

Sakong[46] argues that the provision of policy loans in the 1960s indicates that government financial policies were selective in the sense that exports were singled out for assistance. However, they were simultaneously general or non-selective in the sense that all exporting industries and firms were treated equally. This policy regime will differ substantially from that of the 1973 to 1979 period, when heavy and chemical industries were actively promoted by the government.

During this period, financial policy tools became industry-specific and sometimes, firm-specific. The heavy and chemical industrialization drive will again bring about a significant change in government-big business relationship and the practice of credit allocation.

The rise of protectionism in the industrialized countries in the early 1970s and the heightened security concerns of South Korea, following increased tensions with Pyongyang and the announced downsizing of US military commitments in the peninsula are seen as among the key considerations behind the industrialization. However, a large part of the impetus for the drive was political. Park barely won the 1971 presidential elections and proclaimed martial law in October 1972. A new *Yushin* constitution was proclaimed to strengthen his authoritarian rule. Faced with strong opposition, Park justified his extra-constitutional rule at a January 1973 press conference with a bold vision of "$10- billion worth of exports and a $1,000 per capita income by the early 1980s" as a mid-term objective of the Yushin regime.[47] The corresponding figures for 1972 were $318 per capita income and $1.6 billion worth of exports.[48]

To accomplish this vision, the government adopted the Heavy and Chemical Industry Promotion Plan (HCIP), which focused on six strategic industries: iron and steel, general machinery, non-ferrous metals, electronics, shipbuilding, and petrochemicals. The requirements of a self-reliant defense posture made it necessary to develop the steel and petrochemical industries. On the other hand, the development of the electronics and shipbuilding sectors was based largely on their export-earning potentials. Lastly, the development of the general machinery sector was aimed at substitution of rapidly increasing capital goods imports. In order to finance the drive expected to require total investments of $9.6 billion over the 1973 to 1981 period, $5.8 billion were to be borrowed from external sources, while the remainder was to be raised internally.[49]

As in the previous decade, the state took on the *chaebols* as its principal partner in carrying out the HCIP. The latter were not enthusiastic at first and had to be enticed anew by a carrot-and-stick package by the former. The government stimulated specific projects by providing preferential credits, both in terms of availability and cost. Almost 60 percent of the total bank loans, from 1975 to 1977, and close to 95 percent of the policy loans in 1978 were extended to HCI firms. In addition, the state established a special fund called the National Investment Fund (NIF). Other incentives included tax incentives such as investment tax credits, accelerated depreciation allowances, and tax holidays;[50] an increased budget for HCI-related infrastructure; and the construction of special industrial parks. In addition, government restricted the importation of certain intermediate inputs produced by the promoted HCIs. Lastly, the state itself was the major domestic customer for many projects, including electricity generators, electric transformers, and electric switching systems.[51]

This approach did much to "cure" initial *chaebol* disinterest and the big business groups began to invest in the HCIP, especially in the export-oriented and labor-intensive automobile, shipbuilding, electric, and general machinery industries. The push for the HCIP reached its peak in the first three years of the Fourth Five-Year Plan (1977-1981) with total investments totaling to $9.8 billion over the 1977 to 1979 period. This amount represented 79 percent of total industrial investment during the same period. Admittedly, some *chaebols* participated in these ventures principally to take advantage of state-provided incentives and privileges. Whatever their motivations may be, the HCIP was a very important factor behind the fast growth of the *chaebols* during the 1970s. During the 1975 to 1978 period, the sales of the largest 50 and 100 firms listed in the stock exchange were on the average 52.9 percent and 73.9 percent of the total sales of all listed firms (excluding financial and insurance companies). At the end of 1977, there were about 40 *chaebols* in mining, manufacturing, and services, excluding financial, insurance, and trading companies. While the top 30 business groups controlled only 126 enterprises in 1970, they controlled 429 firms in 1979, by establishing 202 new firms and buying 135 concerns. But the HCIP also resulted in high debt-to-equity ratios for *chaebol* enterprises.[52]

The HCIP, on the one hand, effected a significant change in South Korea's overall economic structure from labor-intensive manufacturing to relatively capital-intensive manufacturing, with the share of the HCI industries in the manufacturing sector increasing in terms of value-added from 38 percent in 1973 to 54.3 percent in 1980.[53] The drive, likewise, helped fuel overall economic growth—an average annual rate of 7.3 percent during the 1973 to 1979 period.[54] By December 1977, the goals announced during the January 1973 press conference ($10 billion worth of exports and $1,000 per capita GNP) were achieved, three years ahead of schedule. The growth of the economy paralleled *chaebol* growth. In 1973, the top fifty *chaebol* accounted for 32 percent of gross domestic product (GDP). By 1980, the *chaebol* accounted for 49 percent of GDP, 24 percent of total sales, 18 percent of manufacturing employment, and over half of Korea's total exports.[55]

On the other hand, the HCIP also produced adverse consequences, including loss of South Korean international competitiveness in many labor-intensive manufactures, acceleration of inflation, excess capacity and under-utilization in many HCI firms. By 1979, the economy faltered, with growth registering only just over 2 percent between 1979 and 1981, with a particularly sharp depression in 1980. At the same time, inflation increased to 26 percent from an annual average of 16 percent for the 1962 to 1978 period. Also, growth of exports fell from the 1962 to 1978 average of 27 percent to only 7.5 percent between 1979 and 1982. While it is true that several exogenous shocks such as Park's assassination in 1979, rising interest rates, increased foreign debt service burdens, the second oil shock worsened Korea's terms of trade and balance of payments, and a major crop failure in 1980, contributed to South Korea's economic downturn, there is a consensus that government HCI policy was partly to blame for Korea's economic woes. The economic slowdown and the second oil shock aggravated the problems of the under-utilized HCI firms. Since most of these firms are highly leveraged (with high debt-to-equity ratios), it was particularly difficult to survive during this time span. Since the HCI firms also had difficulty servicing their loans, their troubles resulted in non-performing asset (NPA) overhang for the commercial banks which lent heavily to them.[56]

While the failure of the HCIP could be examined from the perspective of neoclassical theory, D.S. Choi[57] believes that the episode further exposes the weaknesses of the *Yushin* state. These include the predominance of political considerations in the policy-making process, the lack of organizational coherence within the state apparatus, and "the inability to insulate itself from big business pressures." A few comments must be made on the first two items before attention is focused on the third infirmity. In implementing the HCIP, Park drew away from the relatively-insulated Economic Planning Board (EPB), the body responsible for long-term economic planning and implementation during the 1960s. He, instead, became more dependent on his personal staff's advice concerning major economic policy issues. The HCIP was developed by a new body, the Second Economy Secretariat directly under the presidential office, and was a departure from a more cautious approach proposed by the EPB. Considerations for political legitimacy faced by the *Yushin* state apparently forced Park to pursue a more aggressive economic strategy. The said secretariat eventually dominated the implementation of the HCIP. With the EPB effectively sidelined to a mere monitoring role, the heavy industrialization drive failed to draw on the expertise and experience gained by the EPB during the 1960s.

The more significant frailty appears to be the inability of the *Yushin* state to avoid a perverse "soft-budget constraint' vis-a-vis the *chaebols* harnessed to implement the HCI projects. As in the 1960s, big business was largely drawn by state largesse and initial protocols of restricted entry into HCI projects to ensure that economies of scale were subsequently abandoned. Intense competition among the *chaebols* for state credits was accompanied by intense lobbying on the state. According to D. S. Choi,[58] the government allowed for more *chaebol* participation than originally planned, partly due to big business lobbying and also to avoid charges of favoritism. As a result, many business groups moved into entirely new fields outside of their experience. For example, many *chaebol* groups in the textile and garment sectors (e.g. Korea Raw Silk, Seoul Trading, Daewoo, Wonjin and Samdo), with no experience in the electronics industry, managed to participate in the semi-conductor sector when the state declared the localization of the entire process of semi-conductor production.[59]

The inevitable result of the state's liberalism with its credits included overinvestment and highly-leveraged firms burdened with substantial overcapacity. In the power generating equipment industry, for instance, the state's readiness to accommodate several *chaebols* [including Hyundai, Hyundai International (not part of Hyundai), Daewoo, and Samsung] resulted in an excess of six-million kilowatt worth of equipment in 1978. By 1979, the problem became too visible; about 60 percent of HCI production capacity was idle, 30 percent of their output remained unsold, and the average profit rate was just above a third of the preferential bank lending rate. Consequently, the problem of overcapacity and high leverage led to financial danger for many big businesses such that the Yulsan group went under in April 1979. One of the last acts of the Park regime was an industrial reorganization-merger program designed to relieve overinvestment pressures. The aforementioned power-generating equipment industry was a major target. But government failed in the face of strong *chaebol* opposition to the merger plan and the *Yushin* state, this time, did not have the funds needed to effect a bail out.[60]

The *Yushin* state disintegrated with Park's assassination in October 1979. When the interim government withdrew from the above-mentioned merger program, the problems of overinvestment and excess capacity in the HCI industries were passed on to the Chun Doo-Hwan government.

Post-Park Developments

The two regimes after Park appear to have reiterated a similar pattern of "initial anti-big-business-cleansing-subsequent-compromise-eventual bail out." Space limitations prevent us from discussing each of these regimes in detail as we have done with the Park regime. If one accepts that the Park regime is the strongest and most insulated vis-a-vis the *chaebols*, then we could expect a further tilt in the balance of power between the post-Park regimes and big business in favor of the latter.

A review of relevant sources[61] affirm such a conclusion. Consider the following:

1. In response to a predictable anti-illicit wealth campaign in late 1979, the Federation of Korean Industries (FKI) responded with a pledge of support to the politically illegitimate Chun regime in early 1980. Like his predecessor, Chun accepted the pledges of loyalty to strengthen his political position in return for backing off from the anti-corruption, anti-illicit wealth campaign against the *chaebols*.[62] Nonetheless, to regulate the economic concentration of assets on the *chaebols* and to distance itself from the Park regime, the Chun government, subsequently, initiated other anti-*chaebol* campaigns. Shortly after his inauguration, Chun proclaimed a series of measures requiring 26 groups holding a total of 631 subsidiaries to sell off certain subsidiaries and "unproductive", real-estate investments that were supposedly unrelated to their main business lines. Although the government threatened that continued availability of credits was dependent upon compliance, this attempt failed to produce visible results.[63] In addition, the Monopoly Regulation and Fair Trade Law was enacted in April 1981, the aim of which was to erode the dominant economic position the *chaebol* enjoys.

The Chun government tried reducing the flow of preferential credit to particular industries but later relented. The ratio of preferential finance to total domestic credit was cut to 40 percent in 1982 to 1984 from the 1978 figure of 51 percent. However, the ratio of preferential credits to total bank loans exhibited a different growth pattern. While it decreased by 6 percent in 1982 from the 1980 level, it increased to 68 percent in 1983 and 70 percent in 1984. Ultimately, the Chun government "bound by prior commitments, the weak financial structures of the largest firms, and a set of development goals that demanded the private sector's cooperation" reverted to the provision of policy loans. The beneficiary of the new policy loans was big business once more. In 1983, the 30 largest groups received 48 percent of total bank loans with the top five *chaebols* accounting for 24 percent.[64] A see-saw pattern with respect to private sector demands for government credit emerged. After initially resisting such demands, it relented in 1982 and 1983 with a new series of loans and bail outs. The Chun government also issued the August 3rd Emergency Measure of 1982, which froze curb market loans worth 350 billion *won* to help reduce high-corporate interest costs. The cycle began again in 1984 with credit frozen at 1983 levels. In 1985, the government established 1.5 trillion bail out fund after the inadequacy of earlier *ad hoc* efforts was clearly demonstrated.[65]

Other measures adopted had unintended effects. To promote competition in the banking sector and strengthen its links to international financial markets, entry barriers were significantly lowered since 1981. While several new commercial banks were set up, the state also allowed the establishment of non-bank financial intermediaries (NBFIs). Most of the NBFIs were either owned or controlled by major *chaebols* and they served as major pipelines for financing big business.[66] According to Moon,[67] the internationalization of the financial system, together with the growth of NBFIs, provided the *chaebols* with alternative fund sources and lessened their dependence on the state. In effect, while the Chun government exhibited basic policy continuities with the Park period, it also revealed clearer limits to state power.

2. The democratically-installed government of Roh Tae Woo did not fare any better. Again, Roh initially tried to distance himself from his predecessor and to squeeze big business through similar anti-*chaebol* campaigns to limit land ownership, reduce business concentration, and limit credit flows. He also promised to introduce the earlier

abandoned "real-name" financial transaction system to check abuses related to political contributions of business. But the anti-business campaign did not last long. The *chaebol* counter-offensive took the form of an unprecedented public threat to provide donations only to supportive politicians. Faced by tough big-business response, a faltering economy, and increased industrial tensions in 1989, Roh formed a grand conservative ruling coalition with two opposition parties (Kim Young Sam's Reunification Democratic Party and Kim Jong Pil's New Democratic Republican Party) and filled economic ministerial positions with pro-business figures. By April 1990, the government announced a number of pro-business measures: eased credit controls, money supply expansion, pro-business labor laws, postponement of the 'real-name' financial system, scrapping proposed limitations of land ownership by big business, and easier tax laws.[68]

The Roh government also continued to provide bail out funds to business. It sustained a major rescue operation started by the previous Chun government. This restructuring effort took place in six episodes, between May 1986 and February 1988, involving 11,418 billion *won* (about $14.27 billion at prevailing exchange rate) worth of assistance.[69] The availability of new funds to render business more independent of state resources may have continued in the Roh period. Total foreign direct investments increased to $2.76 billion in the 1987 to 1991 period from about $687 million in the previous 1982 to 1986 span.[70]

The "attack-retreat-compromise-support-bail out" pattern appears to have caused the breakdown of the government of Kim Young Sam, South Korea's first civilian leader in 32 years. Immediately after his inauguration in February 1993, he made public his financial assets and urged everybody in his government to do the same. Several top officials, including the Speaker of the House, the Supreme Court chief justice, the prosecutor general, proved to be too wealthy, and the head of the National Police had to resign. Within months after the inauguration, nearly 1,500 public officials were arrested, fired or reprimanded. He also announced the enforcement of the "real-name" financial transaction system in August 1993 and declared that he will not accept political donations from business. The said system covered all financial transactions including bank deposits, cash deposit certificates, stocks and bonds. All accounts under aliases had to be converted to "real names" within a designated period with the risk of severe penalties. The system will adversely affect the many who had stashed away illicit funds, either in tax-evading profits or bribes. While some alleged that Kim's sudden move was politically motivated because it could destroy the power base of his erstwhile allies in the Chun and Roh regimes, there had been a long clamor for this change for other reasons. The enforcement of the system, proposed as early as 1980 but unimplemented by the previous governments, will cut off the route of illegal donation of political funds by businessmen.[71]

The implementation of the above system was followed up by the passage of new electoral laws in March 1994. The new electoral campaign law increased government subsidies to political parties and candidates at all levels. If the legal limit for campaign funds was violated, the candidate is to forfeit victory even if relatives or staff members were responsible for the infraction. Meanwhile, the Law on Political Funds greatly improved the chances of opposition candidates to collect donations by ensuring the anonymity of recipients. The "real name' system, coupled with the provision in the campaign law permitting public inspection of candidates' bank accounts, made it very difficult to exceed campaign expenditure limits. Nonetheless, a loophole is provided by the absence of limits on the expenses of party headquarters on a candidate's behalf.[72]

Among Kim's earliest political reforms was directed at cleansing the South Korean military. An illegal private clique, the *Hanahoe*, within the army was discovered and dismantled. This group had been organized in the 1970s with Park's tacit approval, and both Chun and Roh belonged to it. Several top military officials were also prosecuted amid strong allegations of corruption in the purchase of billion-dollar worth of combat aircraft and other war materials.[73] An arms-length relationship with big business was also developed steadily. Kim's first economic package had a pro-small business bias; some $1.3 billion in low-interest loans were made available for small companies who were also given preferential treatment in issuing corporate bonds.[74] Apart from refusing to accept contributions from *chaebols*, Kim also moved against several tycoons, though these could be seen as politically motivated. In April 1994, former Daewoo chairman and one of Kim's rivals in the 1992 presidential elections Chung Chu-young was sentenced to a three-year jail term. Prior to this incident, Kim Sung-yon of Korea Explosive had been convicted for illegal foreign exchange salting, while Pak Tae-chun, ex-chairman of the Pohang Steel Corporation (POSCO), was indicted for accepting a bribe. Both were politically opposed to Kim Young Sam within the Democratic Liberal Party.[75]

All of these thrusts came to a head with the trial and sentencing of former presidents Chun and Roh and several *chaebol* tycoons for charges connected with Chun's capture of power through a 1979 coup, the 1980 Kwangju massacre, graft and bribery. In late August 1996, Chun was sentenced to death for masterminding the 1979 coup and the 1980 massacre of pro-democracy supporters in Kwangju, while Roh was to be jailed 22.5 years also for mutiny and treason. Both were also fined $628 million, equal to the amount they were convicted of illegally pocketing while in office. Nine of the country's top tycoons were found guilty of bribing the former presidents. Four of them — Choi Won-suk, head of Dong-Ah; Kim Woo-choong, Daewoo chair; Chang Jin-ho, Jinro group head; and Chung Tae-soo of Hanbo — were ordered jailed. Five others — Lee Kun-hee, Samsung chair; Lee Joon-young of Daelim; Kim Joon-ki of Dongbu; and Lee Kyung-hoon and Lee Kun, both Daewoo executives —were given suspended sentences. Several other co-defendants were given lighter sentences.[76] Even before the August 1996 court ruling, Hanbo group chairman Chung Tae-soo was jailed for bribing Roh in 1990.[77]

Samsung chair Lee was given a suspended sentence by virtue of his recent election to the International Olympic Committee (IOC). There is a strong and widespread belief, however, that the tycoons who received suspended sentences were Kim Young Sam supporters. Daewoo chair Kim and construction giant Dong-Ah head Choi were apparent recidivists; both already got suspended sentences in 1994 for bribing government officials in connection with multi-billion dollar nuclear plant projects.[78]

Chun and Roh immediately appealed their sentences. Most South Koreans are convinced that President Kim will either pardon Chun and Roh or commute their sentences in the run-up to the 1997 presidential elections. Notwithstanding the outcome, the August 1996 sentence represents a very clear turning point in the Kim government's relations with big business as well as with previous regimes.

Conclusion

Over three decades, from the 1960s to the 1980s, successive South Korean regimes from Park to Roh used finance as a major industrial policy tool. The mechanism to induce big business to invest in sectors that government considered strategic or important was selective credit allocation

■ While the *chaebols* became dependent and receptive to state initiatives, the state in turn became part hostage to them. As these business grew further in size and political strength, thanks to state's nurturing, their size has now become a liability as their continued viability has turned into a matter of great significance to the country's economic and political stability.

— a massive case of state assignment of rents. The South Korean state was able to assign largesse through its control of finance. While this grip on finance may represent the epitome of state strength, it likewise, betrays the weakness of state power. While the *chaebols* became dependent and receptive to state initiatives, the state, in turn, became part hostage to them. As these business grew further in size and political strength, thanks to state's nurturing, their size has now become a liability as their continued viability has turned into a matter of great significance to the country's economic and political stability. The state had to stand ready to bail them out as a group even as individual firms were allowed to go under on occasion.[79]

In truth, the resoluteness of the Park regime in establishing close cooperative relations with big business masked its own weakness right from the start. Lacking internal capability as well as deterred by ideological reasons to ape the centrally planned economies, the Park regime had to enlist the help of the *chaebol* to ensure rapid industrialization. Similar to the Soviet-type polities, Park opted for hot-house industrialization for political and national security considerations. As Jungja Lee[80] points out in an excellent comparative study of industrialization and political institutionalization in South Korea and Taiwan, the less gradual and more *dirigiste* direction that South Korean industrialization took relative to the Taiwanese path is a mere reflection of lower level political institutionalization in South Korea. To illustrate, contrast the relative longevity of the Kuomintang and less troublesome Taiwanese transition to democracy to the short shelf lives of ruling political parties (contemporaneous with incumbent presidents)[81] and rougher democratic transition in South Korea.

While changes were underway during the Roh regime, the Kim Young Sam administration represents a clear end of an era of close state-big business relations. Growth of the *chaebol* paralleled the growth and the maturation of the South Korean economy. The end of the era represents the maturation of the economy with South Korea recently welcomed as the 29th member of the exclusive industrial club, the Organization of Economic Cooperation and Development (OECD). With a population of 44.5 million and a 1995 GDP of $455.5 billion, South Korea is the ninth largest OECD economy.[82] The terms of the sword-*won* alliance had to be redrawn. The maturation of the economy also meant the maturation of the *chaebol*. Big business is no longer as dependent on the state for finance as before. The lessening of dependence by the *chaebol* on state finance started in the late 1980s and has reached a new height as South Korean capital, rather than just manufactured goods, are now being exported to many parts of the globe. In the first eight months of 1996, approved offshore investment by South Korean firms totaled to $3.7 billion, a hefty 48 percent rise from a year earlier.[83] While Asia (with $1.96 billion) remained the favored destination, North America, Europe, and Latin America were not immune.[84]

The contours of the new and emerging South Korean state-big business relation will have to be unearthed by future researches. Nonetheless, this quest is best served by a realization that a chapter has been closed and a new connection is unfolding.

Notes

1 Jung-En Woo, *Race to the Swift: State and Finance in Korean Industrialization*, (New York: Columbia University Press, 1990).

2 Byung Sun Choi, "Financial Policy and Big Business in Korea: The Perils of Financial Regulation," in Stephen Haggard, Chung Lee and Sylvia Maxfield (eds.) *The Politics of Finance in Developing Countries* (Cornell University Press, 1993), p. 23.

3 Chung-in Moon, "Changing Patterns of Business-Government Relations in South Korea," in Andrew MacIntyre (ed.) *Business and Government in Industrializing Asia* (Allen & Unwin, 1994).

4 Ibid.

5 Kyong Dong Kim, "Political Factors in the Formation of the Entrepreneurial Elite in South Korea," *Asian Survey* 16 (5) [1976].

6 Hagen Koo and Eun Mee Kim, "The Developmental State and Capital Accumulation in South Korea," in Richard Applebaum and Jeffrey Anderson (eds.) *States and Development in the Asian Pacific Rim* (Sage Publications, 1992).

7 B.S. Choi, 1993.

8 Filipino observers need only to recall the massive bail outs of troubled crony firms by the Marcos government in 1981 for a local parallel – an operation which elicited the "Capitalism *Daw*, Cronyism *Pala!*" quip from the first post-Marcos finance minister, Jaime Ongpin. The bail outs largely took the form of converting state-provided loans into equity. When government financial institutions (GFIs) such as the Philippine National Bank (PNB), Development Bank of the Philippines (DBP), and the Government Service Insurance System (GSIS) were being dragged down by these non-performing assets, the bail outs were continued by the government of President Corazon Aquino. The outstanding liabilities were moved from the GFIs' balance sheets and transferred to the national government's account, while the remaining assets were resold with big discounts back to the private sector. The behavior of the Aquino government vis-a-vis these crony liabilities illustrates further the perversities of state-subsidized credits. To the extent that governments are ultimately responsible for the accumulation of bad debts in the financial system, they could not avoid rescue-extending operations.

9 Hilton Root, *Small Countries, Big Lessons: Governance and Rise of East Asia* (Hong Kong: Oxford University Press, 1996), p. 166.

10 Moon, 1994.

11 Seok-Choon Lew, "The Structure of Domination and Capital Accumulation in Contemporary Korea," [Yonsei University, 1996] (Typewritten).

12 Lew (1996) further explains that a prebend, not a fief, was the dominant feature in the patrimonial reward system. To exercise greater control over his administrative officials, the patrimonial ruler usually granted privileges only in exchange for the duties he imposed. As their prerogatives were always at stake, relying on the confidence of the ruler individually, patrimonial officials were always under pressure for atomized competition. It was this competition that prevented patrimonial officials from being independent of the ruler. As individuals, Korean officials were freely removable. In contrast, the Western European feudal systems afforded greater power to the fief-holding nobility who managed to appropriate their prerogatives and pass them on to their heirs to form an independent power base. Once the fief became hereditary, the incumbent became largely immune from his obligations to the state (king or overlord). As discussed by Weiss and Hobson, the feudal state, which was little more than a ruler in his household, had only nominal political power. Since real political power was held by the nobility, political power is therefore parcellized. The feudal king was dependent on his warrior-vassals and one of his greatest worries was whether or not the latter will make themselves (and their retainers) available on the battlefield when necessary. Linda Weiss and John Hobson, *States and Economic Development* (Cambridge: Polity Press, 1995), pp. 18-27.

13 Gregory Henderson, *Korea: The Politics of the Vortex*, (Cambridge: Harvard University Press, 1968), p. 57.

14 Clive Hamilton, *Capitalist Industrialization in Korea*, (Boulder: Westview Press, 1986), p. 29.

15 Leroy Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Harvard University Press, 1980), p. 35.

16 David Cole and Princeton Lyman, *Korean Development: The Interplay of Politics and Economics* (Harvard University Press, 1971), p. 17.

17 Kyong Dong Kim, 1976: 468.

18 J. Kim reports that by 1960, the controller of President Syngman Rhee's Liberal Party had large interests in 29 projects and the party itself was believed to have a large interest in at least half of all private projects receiving American aid. See Joungwon Kim, *Divided Korea: The Politics of Development, 1945-1972* (Cambridge: Harvard University Press, 1975).

19 For instance, in 1952, the Rhee administration illegally allocated $3 million earned through tungsten exports to 40 private firms for the import of grains and fertilizers which when sold at monopoly prices and given at prevailing exchange rate, resulted in enormous profits. A part of these profits flowed back to Rhee's party to finance, a campaign for a constitutional amendment that permitted Rhee's reelection to the presidency. See K.D. Kim, 1976: 468.

20 A spinning mill was reportedly sold at one-tenth of its actual market price in 1954. In addition, the purchase price was to be paid on installment basis over a 15-year period and was financed by low-interest bank loans. During the subsequent 15-year period, the market value of the mill increased by almost 280 times, "making the factory a virtual gift." See Jones and Sakong, 1980: 272.

21 Prior to the 1956 elections, the Commercial Bank of Korea made loans of 17 billion *hwan* (the pre-1961 currency unit) to 12 industries which then kicked back as much as 100 percent of the loans to the Liberal Party campaign coffers. See J. Kim, 1975: 157.

22 K. D. Kim, (1976: 464) explains the important role that non-competitive bidding for government and US military contracts played in the emergence of the "Five Men" of the construction industry.

23 Hamilton, p. 35.

24 According to Jones and Sakong (1980: 281), the matter was closed in December 1964 with most paying their fines in cash. In all, government collected about 4 billion won ($16 million). K. D. Kim (1976) reports that some of the businessmen were already in severe financial trouble and persuaded government to actually help them build the new factories under the long-range development plans. Instead of turning over the new factories to government as provided for by the compromise agreement, most of them decided to pay cash, putting the control of the firms in their hands. Kim is of the opinion that the program initiated by the Park regime to correct the past wrongs of the entrepreneurial elite turned out to help many of them not only to survive but to prosper and grow to become the huge *chaebols*.

25 Jones and Sakong, 1980: 280-281.

26 K.D. Kim, 1976.

27 A "temporary" law was introduced in 1961 to limit private shareholders' voting rights so the government could exercise control even without owning majority shares. See Il Sakong, *Korea in the World Economy* (Washington, DC: Institute for International Economics, 1993), p. 33.

28 Chung H. Lee, "The Government Financial System, and Large Private Enterprises in the Economic Development of South Korea," *World Development* 20 (2): 190.

29 Hamilton, p. 37.

30 B. S. Choi, 1993: 26-28.

31 With the amendment, the structure of the Monetary Board, the supreme authority on monetary policies, and the management and administration of the BOK, and the management and operation of the entire banking system were altered drastically. The power of the Finance Minister, the chair of the board, was expanded such that the minister could request the board to reconsider a resolution previously passed or could take an issue to a cabinet meeting if a request was turned by the board. This meant that the Central Bank became an agency of the Ministry of Finance. (C. H. Lee 1992: 189-190).

32 Hamilton,pp. 46-47.

33 Jones and Sakong, pp. 101-102.

34 Jones and Sakong, pp. 104-105; Sakong, p. 33-35.

35 Sakong, pp. 33-36.

36 Cole and Park [See David Cole and Yung Chul Park, *Financial Development in Korea*, 1945-1978 (Harvard University Press, 1983), p. 110-133] use the term "unregulated financial market" and observe that it may be subsidivided into five sub-markets in terms of the characteristics of intermediaries, borrowers and lenders in each market. These submarkets include: (a) rudimentary private credit market; (b) the *kye* (a traditional rotating credit association) market; (c) the informal commercial paper market; (d) the curb, or large-scale informal credit brokers' market; and (e) the private financial companies. According to an estimate, at the end of 1964 the unregulated money market held 43 billion *won* of outstanding transactions compared to total bank loans of 53 billion *won* and a money supply of 49 billion *won*. (Hamilton 1986: 47)

37 Hamilton,pp. 46-47.

38 B. S. Choi, 1993: 28-29.

39 Cole and Park, 1983: 61.

40 Hamilton, 1986: 47.

41 B. S. Choi, 1993: 29.

42 B. S. Choi, 1993; Hamilton,1986: and Cole and Park, 1983.

43 About one third of the total informal loans, or 113.7 billion *won* were of this nature.

44 Cole and Park, 1983: 162-163.

45 B. S. Choi, 1993: 31.

46 Sakong, 1993: 33-35.

47 B. S. Choi, 1993: 35.

48 Dai-Seok Choi, "The Limits of State Strength in South Korea: The Case of the Heavy and Chemical Industrialization Plan," *Korea Observer* 26(1): 70.

49 D. S. Choi, 1995: 71-72.

50 According to Sakong (1993: 56), the effective marginal corporate tax rate of HCI firms was about a third of the rate applied to other firms.

51 Sakong, 1993: 56; D. S. Choi, 1995: 73-74.

52 Sakong, 1993: 57; D. S. Choi, 1995: 74; and Lee 1992: 189.

53 D. S. Choi, 1995: 75.

54 Woo, p. 450.

55 D.S. Choi, 1995: 75; Stephen Haggard and Chung-in Moon, "Institutions and Economic Policy: Theory and a Korean Case Study," *World Politics*, 12 (1990): 218.

56 Haggard and Moon, 1990: 216-217; Sakong, 1993: 58-59.

57 D.S. Choi, 1995: 79-90.

58 Ibid, pp. 84-85.

59 To be sure, the diversification of textile and apparel exporters into semi-conductor manufacturing was an attempt to make up their loss in exports due to increased protectionism and labor costs.

60 In 1979, the financial requirements of the HCI projects reached 1,907 billion *won*, while domestic loans available amounted only to 308 billion *won* (D. S. Choi 1995: 86-87).

61 Haggard and Moon, 1990: Moon, 1994, B. S. Choi, 1993; Yeam-Hong Choi and Lee Yeam-Ho, "Political Reform and the Government-Business (Chaebol) Relationship in South Korea," *Korea Observer* 26 (1) [1990].

62 Moon 1994: 146-147.

63 Haggard and Moon, 1990: 227; B. S. Choi, 1995: 41.

64 Haggard and Moon, 1990: 225-226.

65 Moon and Haggard, 1990: 228-229; Sakong, 1993: 72.

66 Haggard and Moon 1990: 228; B. S. Choi, 1993: 45-46.

67 Moon,1994: 152.

68 Moon, 1994: 153-157.

69 B. S. Choi, 1993: 52-53.

70 Sakong, 1993: 267.

71 Chong-sik Lee and Hyuk-Sang Sohn, 'South Korea in 1993: The Year of the Great Reform," *Asian Survey* 34 (1) [1994]: 31-36; Yeam-Hong Choi and Yearn-Ho Lee, pp., 44-45.

72 Chong-sik Lee and Hyuk-Snag Sohn. "South Korea in 1994: A Year of Trial," *Asian Survey* 35 (1) [1995]: 30.

73 Lee and Sohn, 1994: 3-4.

74 Lee and Sohn, 1994: 5.

75 Choi and Lee, 1995:47.

76 PDI (1996a). "Ex-Korea president sentenced to death; Roh, 4 tycoons ordered jailed," *Philippine Daily Inquirer*, 27 August 1996.

77 PDI (1996b). "Key dates in the fall of Chun, Roh," *Philippine Daily Inquirer*, 27 August 1996.

78 PDI (1996c)."South Korea trial shakes business-political links," *Philippine Daily Inquirer,* 28 August 1996.

79 D. S. Choi, 1995: 89-90; B. S. Choi, 1993: 53-54.

80 Jungja Lee, "Institution Building and Democratic Transition: A Comparative Study of Korea and Taiwan," *Korea Observer* 26(3) [1995].

81 In November 1995, Kim ordered the change of name of the ruling Democratic Liberal Party to the New Korea Party to sever ties with his scandal-ridden predecessor Roh (PDI 1996b).

82 PDI (1996g). "South Korean offshore investments rise 48 %," *Philippine Daily Inquirer*, 14 October 1996.

83 The *chaebol* is at the forefront in the export of South Korean capital. For example, Daewoo intends to invest $1.5 billion to make electronic parts in France (PDI 1996h).

84 PDI (1996d). "Korean firms in frontline of Sri Lankan investments," *Philippine Daily Inquirer*, 23 September 1996; PDI (1996e). "South Korea's car makers scramble for Russian mart," *Philippine Daily Inquirer*, 23 September 1996; PDI (1996f). "South Korean offshore investments rise 48%," *Philippine Daily Inquirer*, 5 October 1996; PDI (1996h), "Daewoo sets $1.5-B investment, " *Philippine Daily Inquirer*, 18 October 1996.

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