

# From Euphoria to Atrophy: The Politics of Recent Economic Reform in Korea

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## I. Background

In late February 1993, Korea set out a new journey toward "real" democracy. While the formal process of democratization began in 1987, when the Rho Tae Woo government was sworn in under the new, fairly democratic Constitution amended consensually by the ruling and the opposition parties without much fuss, though, the inauguration of the first "civilian" president Kim Young Sam in three decades was to mark a genuine beginning of the democratic era in Korea. The very characterization of new government as "civilian" and the somewhat overdrawn distinction between the Rho's and the Kim's government was nothing but the manifestation of the Korean people's strong desire to break with the deplorable past of the 32 years' authoritarian-military rule.

Although the people's expectations toward the new government were shot up high, it was far from certain, however, what they really wanted it to achieve. President Kim's election campaign slogan, "change and reform," had been so equivocal as not to indicate the degree and extent of reform that his government would undertake. Economic reform, in particular, of the new government was only in the making even at the time of transition.

Given economic difficulties confronting the new government, its approach to economic reform was extraordinary. First of all, the economy was slipping into deep recession due in part to the burst of the bubble economy of 1987-89. The growth rate declined significantly from above 9% during 1990-91 to 5.1% in 1992. Second, it was

widely believed that the weakening competitiveness of Korean industries was the underlying cause of the economic slowdown. Third, the perceived level of inequity and the sense of relative deprivation was considerably high and strong. Particularly the high level of inflation, triggered by high wage increases and real estate price hikes during 1988-92, aggrandized income disparity.

These figures and conditions might as well be regarded as some signs of economic crisis. But they were seen simply as of cyclical nature rather than structural. Pointing especially to the unacceptably high rate of wage increases in 1988-89, prompted by soaring labor disputes which, in turn, were aroused in the aftermath of the repeal and amendment of the repressive labor-related laws, technocrats and commentators alike held it accountable for the slackening economy, weakening competitiveness, and the social discontent. They tended to slight such more fundamental and structural causes as stagnating labor productivity, the slowness of technological advancement, and the maladjustment to the rapid globalization trend of the world economy.

The cure they proposed for the economic illness at the time was, therefore, to moderate as effectively as possible the speed and magnitude of wage increase and to provide financial support and other kinds of stimuli in an effort to boost investment and prop up the slackening economy. The "100 Days New Economy Plan," an interim plan announced right after the inauguration of President Kim, was exactly a package of short-term economic policies designed with such policy goals in mind. It not only mirrored the ill-definition of the government planners of the economic problems, but it also accompanied a large dose of political rhetoric of "mutually shared pains and sacrifices"(Hirschman, 1973: 270) in the national campaign to cure "Korean diseases" and build a "New Korea." The core message of this rhetoric was addressed to none but the labor and meant to ask for the restraint on wage increases in view of its debilitating effect on the international competitiveness in general and on the less competitive industrial sectors of the economy, in particular. It was a message difficult to put across, however, for the "assumed harmony" was simply questioned.

More importantly, even before this Plan came into full force, the whole nation began to be swept by an unprecedentedly harsh anti-corruption drive. Consequently, the issue of economic reform was put aside. In this regard, this paper will first pay attention to the sequence of and the interaction between the political and economic reform. In particular, it will seek to analyze why President Kim started with political reform and what kinds of political motivations were involved in his decision. Then, it will continue to probe the linkage between the economic and political reforms. We will later evaluate the consequences of President Kim's reform efforts based on the distinct characteristics of Korean politics, the prevalence of concern about chaebol, and the persistence of technocratic style of policymaking and the conspicuous lack of the role

played by the democratic institutions.

## **II. Setting the Stage for Reform:**

### **1. Primacy of Politics: Sharp Break with the Past**

If a government does not succeed to an ideal one, it is almost self-evident that it would try to improve its political legitimacy and economic efficiency(Linz, 1978). As the first civilian government in three decades, the current Kim Young Sam government started its reform in an effort to mark a sharp break with the past; by cleansing the legacies of authoritarian rule, getting rid of "militaristic" practices, and undertaking anti-corruption drive. In fact, President Kim's reform was far more dramatic and drastic than was generally expected. Only after a rush of reform initiatives unfolded incessantly in the first few months, the Korean people began to understand what his presidential election campaign pledges meant that he would cure once and for all the "Korean diseases" and build a "new Korea." The Economist's description that "Korea has not got the president it expected" was only apt. In short, he was an adroit performer of "voodoo politics."(Williamson and Haggard, 1994)

President Kim's anti-corruption drive was particularly dramatic. First of all, he disclosed his wealth as an expression of his strong resolve to put into practice the Korean adage, "Upstream Clean First." His initiative was immediately followed first by the members of the National Assembly, and then the cabinet and sub-cabinet level civil servants both in the central and local governments, local legislatures, and finally by the high-level prosecutors and judges. As expected, the public outraged at the magnitude of wealth owned by such people. Under the consequent public pressure, several MP's including the president of the National Assembly, high-level officials, prosecutors and judges whose source of wealth were suspicious or whose methods of amassing and managing wealth were considered to be immoral or unethical were forced to leave their offices. Even the suspect decisions of the former two presidents, Chun Doo Hwan and Rho Tae Woo, and the Offices of the Blue House and the Prime Minister were subjected to investigations by the Inspection Board. In short, there seemed to be virtually no 'sacred cows' before the President Kim's anti-corruption drive.

Although President Kim's unflinching anti-corruption drive was hailed by the general public, it was soon subject to cynicism by the opposition quarters and the press. It reflected partially their fear of being victimized. Nonetheless, their charges that President Kim's drive was not rule-based and hence applied selectively and arbitrarily, leaving so many things unpredictable, often seemed to be borne out. In particular, it

was widely suspected that those whose political home base were either Taegu City or North Kyungsang Province(nicknamed as TK according to the regional acronyms) and core ruling elites in the previous two governments were prejudiced. Probably this is why the popularity of President Kim rose extraordinarily among those who live in Cholla Provinces and had rallied almost unanimously behind Kim Dae Jung, President Kim's life-long rival, in the presidential election. But it would be prudent to say that President Kim, through his strong anti-corruption drive, wished to prop up his political legitimacy and muster political capital to the extent possible and tried to demonstrate that he was not beholden to the elites of the ruling party or the bureaucracy.

Nonetheless, the anti-corruption drive under President's predominant influence exacted political price. First of all, it proceeded in so much haphazard a fashion that it failed to come to its full fruition: the institutional reform. For example, the amendment of the 'Ethics in Government Law,' which required tens of thousand public officials to register their wealth and thousands to disclose it through the public register was made only after the anti-corruption purge was almost over and the public's interest began to wane. Second, President Kim's anti-corruption drive produced an ironic twist with immense political implications. Among others, it put the National Assembly wholly on the defensive. Even the opposition Democratic Party presented no real or effective opposition to President Kim. Even the Courts quailed. By contrast, however, the press avoided the anti-corruption storm and exerted even greater influence thereafter. It still remains unclear whether these consequences were intended with political motivations. But it would be fair to say that the situation simply unfolded in that direction. Nonetheless, the President Kim's rule tended to be disparaged as 'populist dictatorship.'

The neglect of institutional reform was also evident in other areas. For example, many repressive laws and regulations, enacted by the supra-constitutional legislative bodies established during the revolutionary periods of the early 1960s, 1970s, and the early 1980s, which had obstructed the access of the weak and the poor to the policymaking process, have not been properly amended or abolished. Although the promulgation of the Freedom of Information Law and the Administrative Procedure Law was strongly proposed by the Presidential Commission on Administrative Innovation(PCAI), their legislation was again postponed without convincing reasons(Choi, 1994a). The newly introduced Ombudsman system failed to receive sufficient funding or personnel.

## 2. Directions of Economic Reform: The New Economy Plan

While the anti-corruption drive swept the whole nation, the much-needed economic reform was effectively relegated to the sidelines for the first several months since the inauguration of President Kim. First, he appeared to believe that "economic revitalization and reform(anti-corruption drive) are two sides of the same coin." But the economy defied his hopeful belief. It had an inevitable effect of freezing the already cool economy, making the timing for structural economic reform rather more inopportune(Asher, 1984). Second, it seemed that President Kim believe as if the anti-corruption drive and the purge of illicit wealth amassers could serve for the purpose of going around, rather than tackling directly, the thorny issue of alleviating income disparity. Whatever was his belief at the time, however, it was quite clear that concern for structural economic reform with distributional and redistribution objectives was largely missing.

In fact, President Kim's economic reform package was set out in the "New Economy Plan(1993-97)," prepared in three months' time by the cabinet and released at the end of June 1993, four months after his inauguration. The skeletal idea of the New Economy Plan had been known through Kim Young Sam's keynote address at his party's "Debate on Economic Reform," held in November 1992. He spoke, "Through a bold reform, I will make Korea the most convenient place on earth to run business in. At the same time, I will ensure that economic justice be guaranteed in the fashion that everyone is rewarded according to his sweat...To reduce government regulations and interventions, and to secure economic justice, I will undertake a whole array of reforms ranging from administrative to fiscal and financial."(Kim, 1992)

In his special Presidential address on March 19, 1993 to the nation occasioning the announcement of the "100 Days New Economy Plan," an interim plan to be bridged eventually to the New Economy Plan, he defined New Economy once again as "the economy in which business activities are freed from regulations, one can harvest according to his sweat, and social justice is realized." In principle, the New Economy Plan espoused what Williamson called "Washington Consensus"(1993). Its commitment to shift the nation's economic development gear from government initiatives to private sector's vigor, autonomy, and creativity was spectacular. But it revealed many shortcomings in terms of setting priority clearly among proposed economic reform policy measures, and giving coherence to them. For example, whereas stressing the importance of deregulation and private sector autonomy on one hand, it still proposes on the other to force chaebol to specialize in core business lines and to pursue "consciousness reform." While it emphasized the use of the market principle in fiscal reform, it did not intend to eliminate direct price controls which were in widespread

use by the government without clear legal foundations. It also lacked concrete time schedules or mechanisms to put into practice the major elements of the Plan such as deregulation and privatization.

In almost all these respects, the New Economy Plan was in fact not very much different from the 7th Economic and Social Development Plan it replaced. As will be analyzed in detail in the following section, the focus of economic reform was still placed more on revitalizing investment and economic activities than on changing economic institutions and the rules of the game fundamentally. Above all, it did not intend to remodel the relationship between the state and the society in the direction of reducing the scope of intervention of the state, while enhancing the private sector autonomy and increasing reliance on the market. It is also notable that the Plan did not envisage any fundamental change in dealing with business-labor relations.

### **III. Economic Reform Agendas and Implementation**

#### **1. Severing the Politics-Business Nexus and the Adoption of the Real Name System**

In Korea, as in other authoritarian states, the politics-business nexus has long been considered a root evil. It has not only hindered efficient allocation of resources and equitable distribution of income, but constituted the root cause of political and bureaucratic corruption and favoritism. Taking so much pride in the political legitimacy upheld by the democratic institution of the civilian government, President Kim solemnly declared in his inaugural address that he would not receive a won as "political fund" throughout his term, and thereby sever the nexus, an inveterate "Korean disease," once and for all. In this spirit, he not only disclosed voluntarily his wealth right after his inauguration, but ordered his party leaders to initiate the amendment of four major Election Laws and the Law Concerning Political Fund in the earlier months of 1994, in anticipation of the nation-wide local elections in June 1995. He exhibited a reluctance to holding private meetings with any of chaebol owners, even though he could not continue as long as he wished in fear of "investment strike."

The most severe blow to the nexus between politics and business was dealt, however, by the adoption of the 'real name system' in all financial transactions. Under the previous non-real name system, one could keep such illicit monies as unearned income, bribes, and political funds in fake or borrowed accounts, thereby avoiding taxation and, more importantly, tracking. Despite extremely strong public demand for the adoption of the system since 1982, the previous two governments had twice postponed it in 1982 and 1987 respectively, pleading its negative impact on growth,

balance of payments (due to capital flight), stock market, and real estate speculation. Hence the adoption of the real-name system has long been regarded as the "reform among reforms," which would contribute not only to a more equitable taxation, but to cleaner election, less corruption, and a smaller "underground" economy.

By the time when President Kim inaugurated, the adoption of the real name system was a decade-long issue with immense political implications as always. But given the continued economic downturn, a dark shadow was cast over the possibility whether President Kim would really dare to implement the system at the possible expense of the economic recovery. As if to prove these doubts and counter-guesses a nonsense, on August 12, 1993 President Kim took the nation by surprise by announcing that he decided to take the risk for the benefit of building a "just society."

As expected, turmoil ensued for 2-3 months, but not in a proportion as great as was worried. Although many small and medium-sized firms and the self-employed suffered from a sudden crash of curb loan markets, the economy successfully absorbed the shock, due in part to the timely increase of the money supply. In two months after the implementation of the system (as of October 12, 1993), 2,760 billion won (97.4%) in fake accounts and 3,478 billion won in borrowed accounts were turned into real name accounts. By June 30, 1995, the former increased slightly to 2,791 billion won (98.5%) and the latter to 3,505 billion won (Prime Minister's Office, 1995: 131). In all respects, this reform seems to have completed its mission. For example, it is generally believed that without the system in place, former President Rho's \$650 million slush fund case would never be exposed.

With respect to the background against which President Kim took a bold step, however, a variety of explanations has been supplied. In the first place, it was noted that the real name system aimed more at the break-up of the politics-business nexus than building of a just society through ensuring, most importantly, equitable taxation. Second, the change in power relationships between social groups, after President Kim was sworn in and pushed successfully the anti-corruption drive far enough, was so favorable as to widen the spectrum of possible policy actions he could take. And the real name system, which would complement the anti-corruption drive by preventing conversion of illicit assets possessed by the accused public office holders, was already on the books in most handy form. The only thing that President Kim had to do was to choose the time to enforce it. A third explanation, rather more conjectural, is that President Kim used the nationally-televised ceremony for the declaration of the Presidential Emergency Decree concerning the adoption of the real name system as an excellent occasion to stage a political breakthrough in the wake of the ruling party's defeat in the supplementary election held only a few days ago.

Another reform, undertaken in a similar vein in early 1995, is the real-name system

of land holdings. Korea has been noted for its exceptionally high land prices: the ratio of total land price to GNP reached 7.7 in 1993, compared to 0.7 for the USA(1988) and 5.0 for Japan(1988). Such high a land price has been cited as the single most important source of unearned income and a significant element of Korean companies' comparative disadvantage. The most important loophole permitting speculation has been the practices of registering land holdings in other person's name, dispensing with registration until resale, and the resale without registration. In view of the nation-wide local elections in June 1995(which might cause inflation) and the reaction of those who held large financial assets to be taxed more heavily from 1996 on, the government, so much worried about the possible resurgence of land speculation, enacted a law which, with a minimal number of exceptions, prohibited those practices mentioned above and required a real land holder to register in his own name or sell in a year. Instead, the government has since ameliorated the strictness of other more intrusive regulations aimed at combatting land speculation.

## **2. Deregulation**

Attempts at deregulation in Korea had started in the early 1980s. But they were sporadic and intermittent with little impact on the structure and the operational style of the economy. As never before, the Kim Yong Sam government, from its start, accentuated deregulation. For the first time in the history of economic planning in Korea, it exalted deregulation as main pillar and the backbone of the New Economy Plan. And President Kim has personally pressed it hard ahead, and made it a recurrent theme in his speeches. On the surface, at least, a remarkable outcome seems to have been achieved. The Presidential Commission on Administrative Innovation (PCAI) has devoted most of its time and attention to deregulation, albeit most of issues it dealt with being petty. The Committee for Economic Deregulation(CED), consisted of economic ministers, has focused on eliminating and ameliorating anti-competitive regulations. Among others, these two committees handled thousands and hundreds of regulatory reform measures, respectively(Lee and Han, 1995).

Unfortunately, however, the deregulation move of the current government has never overcome its innate limitations and shortcomings. In the first place, to the contrary to its stated intent, the focus of deregulation move has been too diffused to bring forth major and palpable changes in the regulatory framework. The most frequent criticism levelled against the government by the business has invariably been that the whole enterprise of the government's deregulation has been trivial(Kim and Hong, 1994). They pointed out that the most heavily regulated areas such as finance, land use, labor-related, and price control, which require major reform efforts, remain largely



intact, while some progresses made in less important areas tend to have been compromised by inaction, delay, and confusion on the part of the concerned implementing agencies.

The tendency to dichotomize regulatory issues into two categories, namely regulation versus policy or institutions, highlights the strictly circumscribed nature of the deregulatory move in the current government. Of course, the reduction of paperwork, processing time, and the removal of overlapping and duplicative regulations are respectable goals. But it is certain that the concentration on this has caused a misdirection of deregulatory efforts. Under the dichotomization, regulation only refers to onerous procedural requirements and administrative burdens, while policy refers to a set of major regulatory measures found in such sectors and areas as finance, chaebol, labor, land, small and medium-sized firms, price control, and environmental and consumer protection, eliminating effectively those major regulations from the deregulation target list. Needless to say, this tendency grew in part out of the shallow understanding of the meaning and the goal of deregulation. But this may have been a manifestation of desire of the strong ministries and agencies such as the Ministry of Finance(now the Ministry of Finance and Economy) that they would brook no interference from outsiders such as the PCAI and CED. Whenever challenged, they contended that each of these areas merited separate, comprehensive, and political consideration.

As a result, major entry regulations were only slightly eased in the fashion in which licensing system was turned into certification or notice system, with little effect in increasing the degree of market competition. Price regulations remained almost sacrosanct, as the government clung stubbornly to curb the rate of inflation at the planned level. Other types of economic regulations received a little more attention than entry or price regulations. Nonetheless, they failed to reduce regulatory burdens or costs significantly.

The government's vacillation during 1994-95 concerning the entry of Samsung into the passenger car market exemplified how shallow the understanding and the conception of deregulation of President Kim, the government, industry, the press, and the general public. From earlier on, the Ministry of International Trade and Industry(MOTI) expressed its concern about the Samsung's intention to move in the market. As Samsung actually submitted its plan to the chagrin of the MOTI, it made it clear that it would not allow its diversification into the passenger car industry for the reason that it ran counter to the government's policy of inducing specialization of business lines of chaebol. In addition, the MOTI argued that it would bring about excess production capacity, deter and delay technology development, and destabilize existing supplier and labor relations. Flanked by the existing car manufacturers

(Hyundai, Daewoo, and Kia) and their trade unions, and the press, the Korea Institute of Industry and Technology(KIET), a government-sponsored research institute under its direction, among others, the MOTI decided to decline the Samsung's request.

Upon the release of the MOTI's final decision, however, the issue began to be fought now on the political arena. After another round of wrangle between the related ministries, political parties, Presidential secretaries and Ministers especially in the wake of street demonstrations erupted in Pusan, the political support base of President Kim Young Sam and where Samsung's plant is to be located, President Kim stepped in and decided to overturn the MOTI's decision. If the government had seen deregulation as an effective means to restructure the economy and to enhance industrial competitiveness, it may have been able to take full advantage of the Samsung's case in advancing the cause of deregulation in Korea. In reality, however, the government even failed to present to the public that the issue was not so much concerned with industrial policy as deregulation.

The dichotomization of regulatory problems has also contributed to turn deregulation simply into part of a short-term policy package to help the economy out of recession by relieving onerous administrative burdens and getting rid of minor bureaucratic interventions. In some sense, the government has given attention to the fact that deregulation can be an effective and almost costless policy instrument in the light of budget constraints. It is also in this setting in which the ironic fact can make sense that in Korea the main advocate of deregulation has been the business itself. Indeed, taking into account the economic recession and the strong complaints about too onerous regulations by the business, the ruling Democratic Liberal Party hurriedly initiated the special legislation of the "Law Concerning Regulating Business Activities" in early 1993 in the face of considerable opposition on the part of the opposition parties, environmental and consumer protection groups.

Deregulation aimed mainly at speedier economic revitalization has exacted a high price, however. Above all, it played havoc with the fundamental notion that deregulation is a vehicle to transform the operational mode of the economy and society structurally by relying more on the market forces and less on the government directives, to change the gear of development from government initiatives to private sector creativity and autonomy, to reduce corruption, and to adjust speedily to the open and competitive world market. Second, it has brought about a dualism where the principle diverges sharply from practice. Take financial sector deregulation for instance. Based on the four-step interest rate liberalization plan set in 1991, the new government continued to free interest rates in five episodes from November 1993 to November 1995, with the result that almost all lending and deposit interest rates have been decontrolled except for demand deposits and less-than 3 months-old deposits.

With respect to "policy funds," the government devised a plan in March 1994 to reduce them gradually and turn part of them into fiscal assistance. In addition, it abolished the credit management system which required major banks to review the soundness of the 30 largest chaebol's investment in new business lines or in real estates. Other regulations on the asset management of banks were also eliminated. The most significant decision that President Kim made in regard to financial sector deregulation must be his declaration not to intervene in the process of selecting bank presidents. For this purpose the government prepared a scheme according to which each bank must establish a president nomination and selection committee. Despite all these efforts, however, banking sector still remains as the most heavily regulated industry in Korea; The interest rate is still at below-market level. Policy funds remain. Intervention continues in more variegated and surreptitious ways. The same assessment can also apply to foreign exchange and capital market liberalization.

Third, it is noteworthy that small and medium-sized firms reproached that the government's deregulatory move proceeded in the direction of favoring big business at their expense(Yoo, 1995b). On the other hand, the public revealed a tendency to place part of the blame for the recent wave of man-made disasters, such as the fall-down of one of Han-River bridges and Sampoong department store, on haphazard deregulation.

In sum, deregulation, in its real sense of the term, has barely reached a threshold yet in Korea. Lacking generally the faith in the market mechanism, public officials are antagonistic to the idea of deregulation itself. They tend to regard deregulation as an abdication of government's responsibility for the "orderly" economic and social development. The public cast a suspicious eye to the government's deregulation drive. They tend to regard deregulation simply as a measure to relieve the business of onerous burden to the detriment of the public interest. The press has maintained this stance, and characterized the government's deregulation effort as pro-business. For these reasons, the protected industries have had easy time in enlisting support for anti-deregulation, as exemplified in the Samsung's case.

### **3. Chaebol Policies**

Policy toward chaebol groups can serve as a touchstone with which one can measure the extent and the consistency of the Korean government's free market reform. It is noteworthy that in Korea the intriguing "chaebol issue" has persistently come in the way of deregulation, privatization, and other similar market-oriented reform attempts. Underlying this phenomenon is the widespread antagonism against chaebol and economic concentration in the hands of a number of chaebol. Whether it is correctly perceived or not, chaebol has frequently been accused of abusing their

market power, monopolizing bank credits, engaging in real estate speculation, and over-diversifying into the sectors which may well be left for small and medium-sized enterprises. In particular, their seemingly insatiable penchant for diversification has led them to be caricatured as an "octopus." At the same time, it has provided the government the rationale according to which it would/could continue its intervention, on one hand, in the financial market to prevent their monopolization and misuse of financial resources and intervention in industrial markets, on the other, to prevent their over-diversification for the sake of protecting small and medium-sized firms and improving industrial competitiveness. Over time, the government's interventions and regulations, instituted to curb chaebol's economic and, concomitantly, political power, continued to snowball to such an extent that they may now well be characterized as correspondingly "octopus-like."

With all these octopus-like regulations, however, the ratios of economic concentration stand at almost the same level, and the charges mentioned above persist. Some more recent studies, however, produced new, startling findings, the implications of which are revealing if seen, in particular, in its connection with free-market economic reform(Yoo, 1995c).

First of all, anti-competitive effects of business conduct by chaebol such as mutual loan guarantees, reciprocal dealings, and intra-group transactions of commodities and financial resources are not yet well substantiated. Second, the chaebol concentration ratios (measured by the share of the 30 largest chaebol in terms of shipments, value-added, fixed assets, and employment) have continued to decline from its peak in 1984(40.3%, 33.5%, and 40.3%, and 18.1% respectively). Third, no one can deny that chaebol in Korea are highly diversified: The five largest chaebol(Hyundai, Samsung, Daewoo, LG, and Sunkyung) have, on average, 42 subsidiaries (including 4 financial companies) and run business in 30.4 industries.

But after having observed that the most successful chaebol are those highly diversified, while many of those more specialized chaebol of the 1960s and 1970s went out of business, some of recent studies contended that there is no empirical evidence that the traditional association of diversification with inefficiency holds(Jwa, 1994; Kim, 1994; Yoo, 1994a). Rather, these studies stressed that diversification has been a logical and optimal strategy of chaebol to take full advantage of new markets, which continued to emerge in the process of rapid industrial restructuring, characterizing the high growth economy and guaranteed high rates of return for investments, since the markets have been protected from foreign as well as domestic competition(Yoo, 1994).

Despite these findings, however, the current government was determined to regulate chaebol's diversification activities. It was in response to the general belief at the time that the economic recession in 1989-1993 and the so-called 'competitiveness crisis'

confronting the Korean industries was the direct and indirect result of chaebol's 'excessive' diversification into a variety of seemingly unrelated business lines. Initially, the rumor was around that the government would break up major chaebol to effectively moderate their seemingly limitless diversification fervor and to make the streamlined chaebol be able to gain the first-rate competitiveness in the globalizing world market. Indeed, the new government leaders may have considered such a drastic move for political reasons. At the time, President Kim's anti-corruption drive was at its height and the chaebol, which had been widely suspected as accomplices, emerged as the natural target, and it thus seemed quite plausible that President Kim, with his enormous political capital accumulated so far, might be able and willing to undertake such a radical move to consolidate his firm control over chaebol and the business in general. In fact, chaebols were extremely startled and tended to stop implementing their investment plans.

What the government actually came up with after a heated debate over the issue, however, was a policy of forced 'specialization.' It purported to stop the 30 largest chaebol groups from further diversifying into new -- "unrelated" to their major -- lines of business. In accomplishing this policy objective, the government suggested that it would not intervene directly, but honor chaebol's self-determination. And it would eliminate credit limits and thereby make greater amount of funds available to such streamlined chaebol businesses, while it would strengthen fair trade regulations on new investment or loan guarantee by un-streamlined chaebol for their "family" businesses. Needless to say, and as the new findings stated above implies clearly, the specialization policy was the very kind of policy that the new government, which espoused the free-market system and launched a deregulation move, should be strongly against. It was only natural to expect that the policy, which amounts in fact to bringing in a new entry barrier, would compromise market competition, restrict creative ability for chaebol to respond rapidly changing world market conditions, and necessitate a more stronger government intervention in order to keep and change business boundaries allotted to each chaebol accordingly. In addition, it was inevitable in the process that the politics-business nexus would be strengthened rather than weakened. In this respect, it is noteworthy that the Ministry of Trade and Industry and the Ministry of Finance fought a jurisdictional battle in their quest for a secure and stronger control over chaebol.

Indeed, its aim's 'nobleness' notwithstanding, the policy failed to achieve its stated aims. In fact, some chaebol insisted their right to those business lines they had recently gained a foothold, while others selected those with the greatest investment requirements. Above all, it has been proved over time that the policy only served for the purpose --which has in fact often been suspected as its innermost and genuine

goal -- to get rid of credit limits for major chaebol while not risking popular criticism against chaebol favoritism. The follow-up policy measures undertaken by the Office of Fair Trade seemed to vindicate this conjecture. It amended the Anti-trust and Fair Trade Law and imposed a stricter limit on the 30 largest chaebol groups' equity investment in their "family" enterprises. At the same time, however, it exempted from this new regulation those firms that have a wider equity ownership and healthier financial structure in an effort to induce others to move in this direction.

#### **4. Privatization and Chaebol**

The most characteristic aspect of privatization in Korea has been the way in which the government selected public enterprises to be privatized. The prime target has invariably been those enterprises that are relatively huge in size, stable, and have recorded above-than-average rate of return. Two factors can be adduced for such choice. First, in light of the stringent limit to the budget growth, the government has aimed at maximizing receipts from the sale of government-owned shares. Second, it has had to take into consideration the impact of privatizing huge-size public enterprises on the stock market which is yet to grow but suffers from a high level of instability and the consequent shortage of public confidence. The predominance of these considerations has often relegated the legitimate concern for improving efficiency of public enterprises to the sidelines. Moreover, it has made the privatization process unnecessarily complicated and intermittent.

Especially, the selection of profitable enterprises as the prime target of privatization helped heighten a controversy over the issue as to whether it is legitimate and desirable to allow chaebol to participate in the competitive bidding at all. It has been generally believed that it would probably result in intensifying the already high-level of economic concentration and enlarging the 'problematic' chaebol-managerial practices, while weakening their financial structure further. At the same time, the "typically Korean" concern that the investors ought to be able to make profits in the stock market has led the government to be highly attentive to the stock market price movements. The government has invariably stopped implementing privatization plans whenever they noticed a downward pressure on the stock prices.

The most recent privatization plan, which was prepared boldly in December 1993 by the Kim Young Sam government but implemented only partially in 1994 and has since then been deadlocked, exemplified most vividly the contradictions of privatization in Korea. Among 58 public enterprises planned to be sold entirely or partially in 1994, only 19 firms were partly privatized as of the end of May 1995. Among 10 public enterprises planned to be merged or liquidated, only 3 firms have been consolidated so far. The government explains that the delay has been due mainly to aborted

bidding in some cases, and to the general lack of vigor in the stock market(Prime Minister's Office, 1995). But the most important barrier was the public criticism that the privatization process was subject to 'money game' played by major chaebol. In fact, the most distinct aspect of this privatization consisted in the fact that the government embraced almost unconditionally the property-right argument of privatization; that is, privatization per se would enhance the efficiency of the privatized firms. In this sense, it went so far as to ensure that a particular owner should exist and take a managerial control of the newly privatized firm. Given that only chaebol could acquire a secure ownership status of privatized firms of huge size, it was axiomatic that the issue of economic concentration would be inevitably engaged(Yoo, 1995a). But the government seemed to stick to the notion, and believed that it could safely ignore this critical issue. In addition to this highly complicated and thorny issue, the depressed stock market in the wake of the listing of privatized firms of huge-size also kept the government from pushing the plan any further.

### **5. Internationalization/Globalization**

It is well known that the active participation and involvement in international trade talks and negotiations can serve as a useful vehicle to divert or turn back the domestic pressures for trade protection(Destler, 1995) and, for that matter, resistance to reform. In this sense, the conclusion of the Uruguay Round(UR) and the establishment of the WTO could have been unique opportunities for the new government to push free-market reform far ahead. But President Kim tumbled and stumbled in his management of the nexus of international and domestic politics.

When the new government was embarked upon, the UR negotiations were resumed and proceeded in full steam for its successful conclusion. In Korea, among others, whether or not to open agricultural products and rice market, in particular, had long been singled out as the foremost important issue. From earlier on, President Kim arrogantly promised to the nation that he would allow in no case the opening-up of rice market. He even suggested that he would be willing to stick his neck(as the president) out. Despite the Korean government's some "successful" last-minute negotiations with the US. delegations to Geneva, among others, to save the rice producers from harsh import competition, however, Korea could not but make some concessions, albeit milder than other importing countries. This development imposed a tremendous political burden on President Kim Young Sam at the end of 1993. To prevent a political fiasco, he promptly deposed Prime Minister and the Agriculture Minister.

In these circumstances, it was only natural that President Kim's new political motto in 1994 that "internationalization of the Korean economy is inexorable" sounded hollow.

Although he ordered the cabinet to prepare swiftly and implement as the first priority a new "Plan for the Internationalization of Korean Economy," it could not get rid of its political taint. Moreover, the government's emphasis on the need for change in "national consciousness," euphemism for protectionist sentiment, tended to backfire, even though most of the Korean people recognized the absolute necessity of opening up Korean market. In short, the "internationalization" did not serve as a crowbar for national reform, and was over time depreciated just as a political rhetoric.

President Kim's political symbolism was again pitched even higher in late 1994, right after his participation in the APEC Summit held in Bogor, Indonesia. This time, in a different name: "globalization." What he meant by globalization remained unclear, however. It sounded quite different from what it refers to the global integration of the world market which has been accelerated since, in particular, the fall of the socialist regimes and the end of cold war in the late 1980s. Indeed, the Korean government denied globalization as its proper English translation, in favor of using "segzewha," just a Romanization of the term. Its intent was clear: It did not want to be misinterpreted or misunderstood by foreign governments and businesses as if Korea would open its market further or wider. As it unfolded itself, what President wished to impart to the nation was simply that "Korea is better regarded without than within. It can and ought to be a central nation in the 21st century, and that for the purpose of preparing itself actively for the new wave of changes in the world, it should undertake reform even more actively in all the spheres ranging from political to economic, social, and cultural."

Since late 1994, President Kim began to recast his reform agenda under such quixotic slogans as "segzewha" of politics and political parties, the legislature, government, the courts, the press, the educational system, and the legal service system, just to name a few. Take some instances. In the name of "segzewha" of the ruling party, President Kim ousted Mr. Kim Jong Pil, the second man in his party. In the name of "segzewha" of government, he undertook swiftly and boldly government reorganization plan, which included, among others, a merger of the Economic Planning Board (EPB) and the Ministry of Finance into the Ministry of Finance and Economy, and the Ministry of Construction and the Ministry of Transportation into the Ministry of Construction and Transportation. Reform of the educational and legal service systems are now underway, albeit almost deadlocked for being confronted with a strong resistance. In some of these "segzewha" reform efforts, new principles such as consumer-orientedness, use of market forces and competition are espoused. Unlike what can be implied by the reform motto, however, they tend to produce a new set of regulations, without much direct relevance to the challenges posed by the rapidly globalizing world market.



## 6. Tax Reform

Probably the most conspicuous lacuna of economic reform in Korea may be the lack of efforts directly concerned with ameliorating inequities of income and wealth. Of course, the adoption of real name system in financial and real estate transactions has enormous distributional implications. Greater transparency in holding and transacting financial assets and real estates would certainly make for more equitable taxation. But the government has given the firm establishment, as early as possible, of the system itself a precedence over more equitable taxation. Being so much concerned about tax revolt, it took great pains in setting, for example, the lower limit of the amount of interest income to be taxed together with income from other sources.

As a result, the steps taken by the government to improve income distribution are limited to relatively minor ones. First, in light of the fact that wage earners have borne a disproportionate tax burden, it reduced the tax rate applied to the highest income bracket from 50% down to 40% and allowed greater tax deductions. But the actual benefit to an individual with moderate level of income is thought to be negligible. Second, it adopted a system providing a 20% special income and corporate tax reduction to small and medium-sized enterprises, and at the same time raised the value-added tax exemption point from 4 to 12 million won, with the result that 70% of businesses would not have to pay business income tax, and about 40% value-added tax. One additional rationale for reducing tax burden on businesses was to induce and encourage honest tax returns. But the granting of tax exemption status to too many businesses and people was subject to severe criticism in that it would only exacerbate the distortion of the tax system, without much impact on equity.

## IV. Linkages between Political and Economic Reforms

Politics in capitalist democratic societies can be subdivided into three: the rule of the people, the rule of the state, and the rule of capital (Przeworski, 1990). People want to correct inequity through political means which results from economic freedom. Capitalists want to secure economic freedom as much as possible by keeping the state, pressured by "excessive" demands of citizens (esp. labor) from intervening in the market and implementing distributive (and redistributive) policies, while wishing to maintain leverage to prevent potential rivals from entering sectors on which they have a foothold. Freed from group interests of capitalists or labor, the state wants to realize its own collective interests, while maintaining the existing social relations on the basis of the political support of the majority. In short, politics in such societies can be summarized as power struggle in which these three actors representing respectively

popular demand for equity, efficiency via market, and relative autonomy from classes and sectors strive for supremacy.

In this triangular relationship, the best interest of the state, represented by the government, is to garner maximum political support by combining appropriately popular demand for equity with desire of capitalist groups for profit maximization, while securing and maintaining its relative autonomy. In Linz's words, what all political factions pursue in the end is to take power and maintain it by securing maximum votes on the basis of legitimacy and efficiency(1978). Viewed in this rather theoretical context, the Kim Young Sam government was placed in a unique and most favorable position in which it could relatively easily legitimate the regime. First of all, he was the first civilian President in three decades, elected through democratic procedures. Second, by virtue of the state autonomy vis-a-vis capital, he could satisfy popular demand for equity without unduly compromising efficiency. Although the power of chaebol vis-a-vis the state has recently grown quite rapidly, the state has enjoyed as much autonomy as needed to keep control and punish individual capitalist, if not the capitalist class as a whole, through a variety of policy instruments ranging from economic and social regulation to government assistance(Haggard and Kaufman, 1992).

Despite a notable progress made in respects of functional-pluralist democracy, however, Korea has still failed to solve legitimation problem by securing all major social groups the right to political organization and guaranteeing them free participation and competition. Among others, the labor, one of the most important social groups, is not only prohibited from organizing themselves politically and engaging in political activities, but all sorts of political activities including the participation in elections and the provision of financial support for certain political parties are strictly prohibited. Hence they cannot secure their group interests through any normal political processes. The system forces them to identify themselves not as a class, but as a citizen or a resident in a particular locality, and to reveal their political preferences accordingly. Curiously enough, in a political season, they as a group continue to languish and remain impotent. This represents the limit to democratization in Korea. It also explains why, even though it can be compared favorably to that of other developing countries, the equity issue continues to remain as the keenest political-economic conflict in Korea.

The tactics with which President Kim chose to resolve conflict of group interests was to adopt a policy of "pseudo-redistribution," through which he believed he could easily alleviate the sense of relative deprivation of the non-ruling class without disrupting the existing system of political exclusion and distributional mechanism. This strategy was seen most suitable in view of the political and economic situation in earlier period. In

addition, it was thought to be entailing a lower level of uncertainty. Accordingly, President Kim, under the banner of "change and reform," started to try out such policy by undertaking a harsh anti-corruption drive. He may have thought that he could safely substitute sharp break with the authoritarian past for the popular demand for equity. The adoption of the real name system in financial transactions also contributed greatly to exposing immorality of main political and economic elites(including chaebol) who had occupied the high echelons of the society under the previous authoritarian regimes. But the problem consisted in the fact that they constituted the upper part of the dominant coalition. Consequently, it was inevitable that the purge was undertaken in rather more selective and arbitrary manner than through normal, institutional approaches or procedures.

The first target of reform was those who had been deeply involved in the authoritarian rule in the previous regimes, contended against the core ruling elites, and would pose potential threat in the future. The punishment and purge centered on them satisfied partially the pseudo-redistribution psychology of the middle and lower class. The outcome was the extraordinarily high approval rating, close to 90%, for President Kim in his first several months. But this kind of pseudo-satisfaction did not last long for the following three reasons, interacting with one another.

First, the policy prescribed on the basis of ill-definition of the structural economic problems at the time could not meet the desires of the non-dominant groups of society. The government tried to get out of economic slump through short-term economic policy measures. The problem was caused to a large measure by the lack of technological advancement and productivity growth. In addition, the Korean economy was faced with the task to smooth out the transition of the declining sectors by facilitating their exit through provision of appropriate assistance. Instead, the government gave focus to providing stimulus to big businesses and chaebol and to sustaining already slackening competitiveness by strengthening control over the labor. This produced some short-term results. But the net effect turned out to be rather regressive. The rate of bankruptcy among small and medium-sized firms has ever since recorded an unprecedentedly high level.

Second, the people began to cast serious doubts over time about the managerial capacity of the government. In particular, a series of catastrophes and disasters such as the falling-down of Sungsu bridge, LNG explosion in the inner Seoul City and in the subway construction lot in Taegu City, and the breakdown of Sampoong department store damaged the public confidence in the current government led by Kim Young Sam. At the beginning, the public tended to admit the apology of the government that they were the manifestations of the legacies conceived during the previous authoritarian regimes. But they began to second-guess and turned a deaf ear to such

pleadings.

Third, the seeming selectivity and arbitrariness of the reform tended to lead the Korean people to become cynical and doubt the integrity of the "government will" to reform. As President Kim's peculiar style and approach to anti-corruption drive and purge divulged some degree of selectivity, unfairness, and arbitrariness, the popular support and credibility began to slip, and the upper social class became so frightened, unsettled, and antagonistic as to move out of and turn against the ruling coalition. The blatant defeat in the nation-wide local election on June 27, 1995 of the ruling Democratic-Liberal Party can be properly understood in this light. The hardest blow was dealt by Mr. Kim Jong Pil, who had been ousted from the ruling party and later founded his own party, the Federation for Freedom and Democracy, made up of his old regional political backers and, more importantly, the remnants of the previous authoritarian regimes. More importantly, Mr. Kim Dae Joong returned to politics after two years of "retirement," and formed his own party, the National Conference for New Politics, by surmoning his followers out from the Democratic Party. As a result, after the election, the traditional local factional politics, which had long characterized the highly divisive and the most emotional and thus irrational facet of Korean politics, revived in the fashion exactly as it stood in 1987-90.

The reaction of state officials to economic reform also merits attention, since "the biggest, and certainly the most articulate and politically influential losers from transition to a more market-oriented economy are government officials."(Geddes, 1995) In addition to a seemingly unbounded and protracted anti-corruption drive, the pursuit of deregulation, privatization, liberalization, and globalization, which all tended to reduce their access to rents generated in the process of intervening the economy and the market, have led them to be sceptical about President Kim's approach to reform. Of course, they tended to justify their strong resistance to reform on the basis of a well-known counter-argument against "state minimalism" embedded in the neo-liberalism(Streeten, 1993). In addition, from the start, the bureaucracy has maintained a cool and critical attitude toward President Kim, since, in their view, he often bungled in making appointments of key personnel in the government, displayed a tendency to exclude and ignore their "legitimate voice," and sometimes even sacrificed them for his own sake. The abrupt pursuit of government reorganization in late 1994 dealt another fatal blow to their already diminishing confidence in the President Kim's leadership.

In terms of institutional mechanism for economic reform, it is also noteworthy how the dissolution of the EPB has affected the course and the progress of economic reform in Korea. For three decades, it served extremely well as the bastion of reform by virtue of its two unique institutional characteristics(Choi, 1987): One was its

institutional autonomy. Being subjected to no particular interest group pressures, the EPB could develop and maintain relatively neutral policy positions. The other was its wider scope of institutional mission. Being charged with unlimited responsibility for the economy's overall performance, it under the leadership of Deputy Prime Minister(DPM) tended to view and analyze economic problems at hand from a wider perspective and propose coherent solutions in the light of the national interest. These two institutional characteristics combined to make the EPB most suitable organization to carry out economic reform. Unfortunately, the new Ministry of Finance and Economy, a merger of the EPB and the Ministry of Finance, has resembled more of the latter than the former, losing the reformist spirit.

## V. Conclusion

If we admit the transitional incompatibility(Armijo, Biersteker, and Lowenthal, 1995), the strategy of reform in Korea since 1993 can be characterized as "democracy-first," whereas that of the previous decade(1981-92), under authoritarian regimes, as "economic reform first." Indeed, economic liberalization in the 1980s helped set the stage for political democratization in the next decade, softening authoritarianism in the way(Fei, 1995). And at least from the functional-pluralist perspective, Korea may well be said to become a country that has passed the threshold of becoming a democratic nation. About at the mid-term point of President Kim's tenure, the state of the economy was in far better shape than at the start of the current government. Whether or not the economic reform package of the current government worked is not yet certain. Nonetheless, traditional growth trend returned, inflation has been curbed within set limits, and productivity continue to grow.

Ironically, however, Korea is now in extreme political confusion and turmoil, allowing no prediction at all. Since the nation-wide local elections on June 1995, in which the President Kim's ruling party was met with a shocking defeat, the political situation has undergone a continuing turbulence. The ongoing, additional round of "anti-corruption and de-authoritarianization drive," which went so far as to prosecuting former two Presidents, may in part reflect the failure of the realignment strategy that the ruling party pursued in the aftermath of the defeat in local elections. The current political clean-up can thus be understood as part of his master plan to form a new ruling coalition. In the meantime, however, the public expectations toward effective reform by the current government diminished sharply. Many knowledgeable people in the country say that the time for reform has already been over, especially in view of the upcoming general elections in April 1996 and the presidential election in 1997.

In addition to the return of Korean politics to its bedrock of maintaining and

consolidating the ruling coalition in the face of the fully resuscitated local factional politics, the public's diminishing expectations toward reform seems to make any of further reform efforts by the current government a remote possibility. The building of a "positive consensus" regarding the principles, which are critically important to push the later stage of reform successfully, seems really hard to come by (Nelson, 1995). In short, the forces that debunked and derailed the former President Rho's reform (Park, 1993) seems again to be working in the current President Kim's reform. It may exemplify how difficult it is to form and maintain a stable ruling coalition and thereby undertake a democratic reform successfully in a country which allows only a narrow band of ideological spectrum and has for more than two decades been inflicted by irrational local factional politics championed by three Kim's. In addition, the issue of chaebol, largely discredited, duly or unduly, by politicians, bureaucrats, and the public alike, has persistently distorted the course of reform. All these peculiar aspects of Korean political economy have over time led the ruling political elites in Korea to stick to technocratic style of policymaking, while disallowing a more constructive role for the democratic institutions (Przeworski, 1995).

## Notes

- 1) The economy recorded a 3.8% growth rate in the first half of 1993, while inflationary pressure mounted. The growth rate for the whole year reached 5.8%. This rate cannot be belittled when compared to international standards. But it should be noted that the sudden economic slump leads inevitably to the increase in unemployment rate and, more importantly, a greater degree of uncertainty (Przeworski, 1994).
- 2) The average rate of inflation (in terms of consumer prices) during 1988-92 was 7.4%. In the same period, the rate of wage increase in manufacturing sector reached 18%, while the real estate price rose by 32% in 1989, slowing down to 20.6% in 1990 and to 12.8% in 1990-91 (Bank of Korea, 1995).
- 3) President Kim's effort to mark a sharp break with the past authoritarian-military regimes was wide-ranged from symbolic to structural: abolition of secret Presidential meeting places used for illicit purposes, sanctification of the April 1960 Student Revolution Memorial Cemetery, exclusion of ex-military people from cabinet posts (except defense minister), dissolution of inner circle, called hanahoi, the faction led by former President Chun Doo Hwan and Rho Tae Woo, in the army, investigations into the equipment procurement and bribery scandals in the military, and the prohibition of political maneuvering by the National Security Planning Agency (formerly, KCIA).
- 4) President Kim's rating of popularity (in terms of approval for his general performance) rose from 68.8% in March, 1993, the time of his inauguration, to 73.8% in April, and to 81.7% in May. It reached its peak level of 83.6% in June. Thereafter it declined to 75.1% in August, to 66.9% in December, and to 62.3% in March, a year after the inauguration (Jungang Ilbo, Feb.

24, 1994). Another survey revealed a similar trend: His approval rating reached 80.8% for the first 100 days. But that for a year went down to 50.1%(Donga Ilbo, Feb. 25, 1994).

- 5) For example, Park pointed out that the "political considerations" made use of in several criminal adjudications in the earlier months of the new government exemplified the true state of purge in the name of reform and the degree of "inequality" before law(1994).
- 6) It should be noted that the new plan was to replace the 7th Economic and Social Development Plan (1992-96), which was prepared by the previous Rho Tae Woo government.
- 7) As briefly mentioned above, reflecting the ill-definition by government planners of the economic problems they inherited from the past several years, the "100 Days New Economy Plan" was almost fully devoted to boosting the investment and the slackening economy through the provision of financial support and fiscal assistance.
- 8) It may well be reminded that two former Presidents, Chun Doo Hwa and Rho Tae Woo, were present at the ceremony and, at the time of this writing, that Rho has already been put in jail for his amassing and mismanagement of \$650 million slush fund, while Chun is under investigation for similar accusation.
- 9) For the purpose of realizing "clean and less costly election," the former put extremely strict limits to election campaign monies(to such an extent that the faithful compliance with the law may well be questioned), while the latter expanded the allocation of national budget grant to parties and improved the transparency of political donation.
- 10) The total amount in fake name accounts was estimated, as of Dec. 12, 1993, to be around 2,834 billion won. But that amount in borrowed name accounts could not be estimated. The owners of such accounts did not have to confirm their account as theirs, for there was no penalty and the interest income would start to be included only from 1996 for the purpose of implementing comprehensive income taxation. One indirect measure of the size of funds in borrowed names is the amount of not-yet confirmed funds in real name accounts, which amounted to 9,100 billion won as of June 30, 1995.
- 11) Some criticized that by limiting too strictly the condition under which disclosure of information about financial transactions can be made, the system might over-protect the secrecy or privacy, belying true intent of the system. In particular, some scepticals worried that because the access to information about financial transactions is strictly circumscribed to some government agencies, it may fall prey to political maneuvering. In addition, the form that the reform took, namely the Presidential emergency decree, was also reproved. Critics argued that the concern for secrecy to prevent the massive outflow of suspicious funds from the financial institutions rendered the preparation for the system incomplete and, in the process of adding modifications to it, made it less effective than it otherwise would.
- 12) In this sense, we can apply the concept of "substitution of one problem by another," developed by A. O. Hirschman(1973: 265). In other words, one problem(in this case, the break-up of the politics-economy nexus) was seen to be interrelated with other(building a just society) so that to solve or attenuate one is expected to improve the other.
- 13) It is also an idea suggested by Hirschman(1973: 233) in explaining the reform in Latin American countries,
- 14) It was widely believed at the time that the the purpose of mandatory asset disclosure by public office holders may be impaired if it was not combined with the implementation of the

real name system, since some of them can hoard part of their assets in the form of deposits or money certificates in borrowed or false names.

- 15) Incidentally it may well be noted that chaebol and large businesses in general made use of appreciated value of land holdings for compensating much of the operating losses as well.
- 16) Such use of deregulation as a means to revitalize the economy predated the current government. In 1990, for example, the Rho government adopted deregulation as an element of the economic policy package. In 1991, it established the 'Private Sector Economic Deregulation Committee," which was supported by the Federation of Korean Industries(FKI).
- 17) Due to the interministerial conflicts, the public outcry, and the antagonistic press, the activities of the Committee on Business Regulation, established in the Ministry of International Trade and Industry according to the Special Law mentioned above has been limited and that the massive and radical reform proposals it prepared were aborted.
- 18) They range from industrial policy instruments (such as entry regulations) to credit control systems (such as total ceilings of credit, prior approval requirement for investment, purchase of land, entry into a new line of business), to prohibition of entry into some industries designated as the small and medium-sized industrial sectors, and to fair trade regulations (such as the restrictions on mutual forbearance, and equity investment ceilings).
- 19) Incidentally, the same ratios for the 100 largest firms in Korea(1990) are not at remarkably higher level, when compared to Japan(1984), U.S.A.(1985), West Germany(1984), and Canada(1983).(Yoo, 1995: 14). This trend has not been much influenced by the government's mitigation policies. Instead, a robust finding that the ratios tend to decrease in the period of economic growth and increase in the period of recession has been submitted(Yoo, 1994a).
- 20) The 30 largest chaebol have, on average, 20.9 subsidiaries (including 2.1 financial companies) and run business in 19.1 industries.
- 21) It was in this climate that President Kim started to invite and have private meeting with chaebol owners for the first time since his inauguration. He had declared that he would not accept any political fund. And partly as an expression of his resolve and in view of public criticism for the previous government's pro-business stance, he continued until then to keep distance with them.
- 22) The specialization policy was first introduced by the Ministry of Finance under the 6th Republic in 1991, and a different version of the same policy, slightly reinforced, was reintroduced by the Ministry of International Trade and Industry under the current government in 1993.
- 23) Those fully privatized include Korea Tungsten Corp. and Korea Fertilizer Corp., and those partially privatized include Citizen's Bank, Foreign Exchange Bank, and National Textbook Corp.
- 24) Pointing out that there is a "logical confusion," Jaehong Kim(a Korean expert on privatization) argues that what is important is the very transfer of ownership and management to whomever in the private sector it may be. Hence he contends, to the effect, that as far as the goal of privatization is set at enhancing the efficiency of the privatized firms by ensuring that a particular owner take a managerial control of the newly privatized firm, the issue of economic concentration in the hands of chaebol would emerge inevitably and the privatization could not but come to a halt, and that it is thus desirable to give up the notion of 'principal



- owner.'(1995). In disparate context, there are some who are suspicious of the hidden possibility of raising political fund in the wheeling and dealing of privatization.
- 25) The so-called "Korea clause" provided for an exception of the application of the general tariffication rule to Korea and, instead, it requested Korea to increase the amount of "minimum market access" from 1% in 1995 up to 10% in 2004 of domestic rice consumption.
  - 26) Incidentally it should be reminded that at the Bogor Summit, which produced a timetable for trade and investment liberalization of 2,010 for advanced member countries and 2,020 for developing member countries, President did his utmost to persuade political leaders of other countries that Korea should belong to the latter category. His effort was much hyped domestically, and touted as a diplomatic victory!
  - 27) It was no surprise, therefore, that since then such quixotic terms as "segyewha" of politics and political parties, government, courts, the press, education, and law began to be in fashion.
  - 28) In this struggle it may be possible that the bureaucracy either takes advantage of popular demands in advancing its collective interest or offers privilege to major capitalist groups in the name of enhancing efficiency.
  - 29) According to Przeworski, the state can secure its autonomy if the capitalist class and the labor attain a balance of power(1990).
  - 30) Przeworski(1988, 1991) defines democracy as a system in which 1) major social groups are allowed to organize politically and to be engaged in political activities freely, 2) free competition among them is guaranteed so that they admit the political rules and process as legitimate, and 3) they participate in the competition and abide by the results voluntarily.
  - 31) As will be made clear, it is owing most importantly to their "local" political identification.
  - 32) There existed two alternative strategies: One was the orthodox approach by which the government would have allowed the labor to organize politically. But it was not selected in view of high uncertainty and riskiness. The other was to adopt a more active redistributive policy, thereby minimizing complaints of the non-dominant class, while continuing to prohibit the labor from organizing politically. Despite its merit of lower level of uncertainty, this course was also avoided because it would impose unbearable burden on the middle class, which constitutes a absolute majority of the people. When compared with these two, the strategy that he chose was advantageous in that, in view of a relatively fairer distribution of income in Korea, it would enable him to exclude structural uncertainty and to form and maintain supra-class ruling coalition. But it was without its problem. That is, it would probably cause fear and uncertainty among the ruling class, and thereby reduce economic efficiency.
  - 33) The economic situation at the time of President Kim's inauguration was far from a state of economic crisis. Nonetheless, problems of inflation, weakening competitiveness and the declining rate of growth of exports, and the increasing number of small and medium-sized firms at the brink of bankruptcy were thought to require urgent policy responses which could not successfully met by short-term economic policy measures.
  - 34) He might have judged that he, by virtue of his relatively strong political legitimacy, did not have to worry much about equity and incur unwarranted political risk by undertaking a reform with explicit distributional motive, which are more structural, long-term, and socially

more disruptive. In this sense, Korea's experience is in contrast with some of Eastern European countries (Bulgaria, Poland, Lithuania, Slovakia, Hungary) in which communist party forces in disguise of Western social democrats resurged for the sake of equity. It has been also true for most of Latin American countries.

- 35) It was because Kim Young Sam, then president of the Unification and Democracy Party, formed a "grand three-parties alliance" in 1990 with President Rho Tae Woo's ruling Democratic Justice Party and Kim Jong Pil's New Democratic Republican Party, and became the Presidential nominee in 1992 and won the election.
- 36) When he came to office in 1993, President Kim had decided to duck the touchiest political issue like Kwangju massacre perpetrated in 1980 by military coup leaders including Chun Doo Hwan and Rho Tae Woo, among others, for fear of alienating his conservative allies. But the sudden breakout of Rho's \$650 million slush-fund scandal and the wave of public anger that ensued it made President Kim's protection of his predecessors untenable. This twists and turns of situation led him to make it inevitable for him to reversal his position sharply and dissociate himself from his predecessors.
- 37) One significantly important cause for the fading of reform in the Rho Tae Woo government was the structural constraint of the Korean economy. As a small economy depending for its stable growth so crucially on its ability to sustain competitiveness in the world market, it could not afford a sudden wage increase exceeding the level of productivity growth(Choi, 1994b).

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