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## **Transitions to Good Governance: A Case Study of South Korea**

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## Transitions to good governance and the political economy of South Korea

*“...meaningful crackdowns were not possible until the first civilian government of Kim Young Sam.”*

(Yoon, 2010:66, Law and Democracy in South Korea)

*“...since the late 1980s, and especially under Mr Kim Young-Sam, cronyistic relationships have spread into some key manufacturing sectors.”*

(Jwa and Lee, 2004:47, Competition and Corporate Governance in South Korea)

As the above quotes show, authors disagree widely on the role of democracy in the fight against corruption and on the evaluation of corruption in the different periods of Korea's history. Based on various studies of corruption, political economy analyses and sociology, this paper tries to substantiate this relationship with quantitative as well as qualitative evidence. Before analyzing the development of political rents, norms of impartiality, the influence of different political actors and the incentives that drive their actions, this paper will take a broader look at the history of transition in South Korea.

Korea differs quite strongly from most other developing countries in that it managed to strongly redistribute wealth following the Korean War, to build a strong and effective executive despite authoritarianism, to obtain universal literacy and an autonomous middle-class despite state capture, and by having a culture of public responsibility and frugal elites. These rather unique developments are partly but not exclusively explained by the strong pressure of the communist North, the Korean war and the strong influence from both the US and Japan. The paper argues that apart from transitions to good governance, there are at least two others that are not always separated clearly in literature and that South Korea is a perfect example to illustrate all three and to make clear their distinction.

# 1. Transitions revisited

## From agriculture to industry

The traditional works of political economy describe the transition from agricultural, often monarchical or feudal societies to more complex, industrial societies. The main adaptive pressure there came from the increasing complexity of societies and new interest groups such as labor unions. According to John Lie (1998), South Korea entered the industrial age with inherited knowledge from the Japanese occupation and under very drastic and unique conditions in the 1950s. Between 1950 and 1953, the Korean War killed 10% of South Korea's population and destroyed most of the assets („we've all been poor once"). In these circumstances, strong public pressure and the fear of popular reforms in North Korea lead the government under Rhee and the US administration to introduce land reforms somewhat against their will. In consequence, in 1956 the 6% richest Koreans only owned 18% of the land, compared to 3% owning 64% of the land in 1944. According to both Lie and You (2005), this redistribution laid the ground for growth and contestation in the years to follow. Next to land reform, different authors find many different reasons for the successful economic development, ranging from government led discrimination and development policy (Jwa and Lee, 2006) to the Japanese investments and marketing networks (Kim and Kim, 2006). High growth and industrialization in turn increased the complexity of the society which decreased the efficiency of state-led development.

## From authoritarianism to democracy

A more recent perspective on transition looks at the shift from communism/authoritarianism to democracy following the end of Cold War. According to Horowitz (2002) South Korea went through a similar development starting in 1987, triggered by popular unrest (that was growing since the 1950s) combined with the decreasing appeal of Japanese-style, state-led development (following the burst of the Japanese bubble, the growing weakness of the North Korean state and the end of Cold War) and the increasing appeal of the US. In line with these findings, Ahn (2003) in his investigations of the Korean political elite over the last century finds a shift from Japanese educated personnel to US education. For example while there was still a significant part of Japanese educated judges in the 5th Republic (1979 -1987) they completely disappeared till 1997 and the share of US graduates increased significantly among the other professions.

## **From particularism to universalism**

The transition that shall be the focus of this paper, concerns the transition from corruption to impartiality and from particularistic privileges to universalism. Such a transition usually entails overcoming privileges of the ruling class (as happened in Korea in the 1950s) and is often but not always associated to democracy and free markets (1987). At the same time it entails the establishment of rule of law and of state autonomy that enable the state to intervene as a regulating and redistributing force in favor of universalism. Recent economic analysis shows that highly developed representative democracies with complex markets facilitate lobbying for particularistic subsidies and policies, where individual gains are high and costs are socialized (the collective action problem)<sup>1</sup>. Further, wealthy individuals often manage to establish the privilege of earning interests beyond risk premiums and the rise of productivity and therefore wealth as much as power is accumulating in the absence of substantial wealth taxes.

Korea today shares many of the problems known from the USA, Germany and elsewhere, where lobbying, corporate party financing, capture by sophistication or by the too big too fail phenomenon lead to particularistic policies. You (2005) describes the creation of a strong and successful bureaucracy in the 60s and 70s under authoritarian rule, and Lie (1998) confirms that ever increasing shares of public expenditure came along with efforts of efficiency reforms and output legitimacy<sup>2</sup>. In contrast, Yanagamichi (2003) finds that the liberalization of the 80s and 90s has weakened this bureaucracy and, with the absence of shareholder or market control, has led to increasing dominance of big corporations, the so-called Chaebol. The (private) privilege arising from flawed privatization and quasi monopolies was not only a major source of corruption (e.g. president Roh's slush funds, the fur-gate scandal of 1999 or the Samsung scandal of 2007). But even journalists report that instead of being influenced by the government (only 0,1%) they feel influenced by companies such as Samsung that control up to 30% of their advertising budgets (TI, 2006: 58).

## **2. The development of rents and pluralism**

Over the last 70 years, the nature of rents as well as the governance mode in Korea have changed various times. Korea developed from a former colony to a predatory state under Rhee, was destroyed and dependent on US aid following the war of the 1950s, became a strong developmental

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<sup>1</sup> See for example: Rajan and Zingalis (2003): "Saving capitalism from the capitalists", or Friedman (1980): "Free to choose".

<sup>2</sup> Park (2004) calls this: "state capture under good governance."

state under Park, saw the rise of the Chaebol, the shift to democracy in 1987, and increased efforts to fight corruption after the Asian crisis of 1997.

## Comparing Korea and Asia

You (2005) uses the Philippines and Taiwan to explore South Korea's development and fight against corruption in a regional context. Like Taiwan, Korea has achieved comparatively high GDP and education building on low inequality after the land reform of the 50s. At the same time corruption in Korea stays comparatively high given its economic development due to its reliance on big corporations. With less democracy and higher reliance on small and medium sized enterprises, Taiwan seems to have fared better.

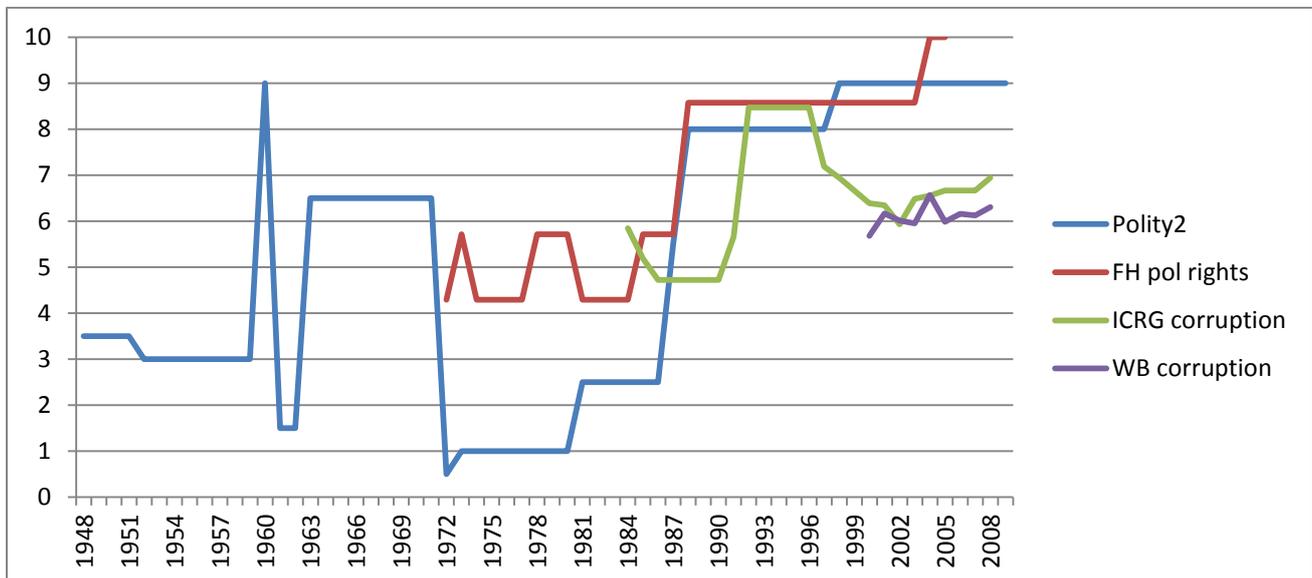
**Table 1: Determinants of Corruption in Korea and Asia**

Indicator	South Korea (2008)	Average (SE) - all Asia
WGI corruption	0,45	-0,22 (1)
WGI stability	0,17	0,05 (1)
WGI voice	0,59	-0,24 (1)
GDP p.c.	13593	4555 (8200)
Education	77	45,48 (19,8)
Gini	31,6	36,48 (6,5)
Regulation (FI)	5,78	5,98 (1)
Press freedom	30	49,58 (24,15)
Trade freedom	64,2	62,53 (17,8)
Political control	0,71	0,56 (0,29)
Ethnic fragm.	0,001	0,35 (0,25)

## Development of pluralism and rents – an overview

Graph 1 below shows the development of pluralism since independence (blue and red lines) compared to the latest available data on overall corruption perception (green and purple).

**Figure 1: Pluralism and rents 1945-2009 (recoded, from 0 to 10 being more democratic/less corrupt)**



The major developments are:

- The replacement of Rhee following population wide demonstrations and the election of the People's Republic in 1960,
- The coup d'état by Park in 1961 followed by his confirmation in the elections of 1963 that were held mainly as a consequence of US pressure,
- The application of martial law following the economic crisis of 1972 (the shift of power from Park to Chu in 1979 doesn't change the pluralism score),
- Democratic elections in 1987 and the first non-military president in 1992 followed by a honeymoon phase in the perception of corruption,
- The consolidation of democracy and slow increases in corruption perception from 1999 (2 years after the financial crisis) onwards, under two presidents from the opposition parties.

Building upon this general overview, we'll now look for evidence on the development of corruption beyond perception and based on budget data, estimates of political finance, as well as the development of market concentration. Rather than equating big budgets, high corporate party

financing or monopolies with rents the paper tries to weigh those potential sources of bad governance with evidence from governance outcomes (e.g. aid and economic subsidies can be used for cronyism or to support the development of education and pluralism, political finance can be considered as a quasi-tax if it's universal or cronyism if it's linked to concrete favors, big corporations can exercise economic and political power but might also be necessary as market makers in international competition<sup>3</sup>).

## US aid and the Korean budget

Following independence and in the decade following the Korean War, US civil and military aid played a major role, amounting up to 4,5% of GDP and mainly focusing on import subsidies for food, petrol, and military supplies. According to Mason (2008:196) “both US and Korean officials (were) heavily involved in the distribution of the coveted raw materials”.

**Table 2: US aid to Korea (Source: Mason (1980:182))**

	<i>1946-52</i>	<i>1953-61</i>	<i>1962-69</i>	<i>1970-76</i>	<i>Total</i>
<b>Economic assistance</b>	666.8	2,579.2	1,658.2	963.6	5,745.4
<b>Military assistance</b>	12.3	1,560.7	2,501.3	2,797.4	6,847.3
<b>TOTAL</b>	679.1	4,139.9	4,159.5	3,761.0	12,592.7

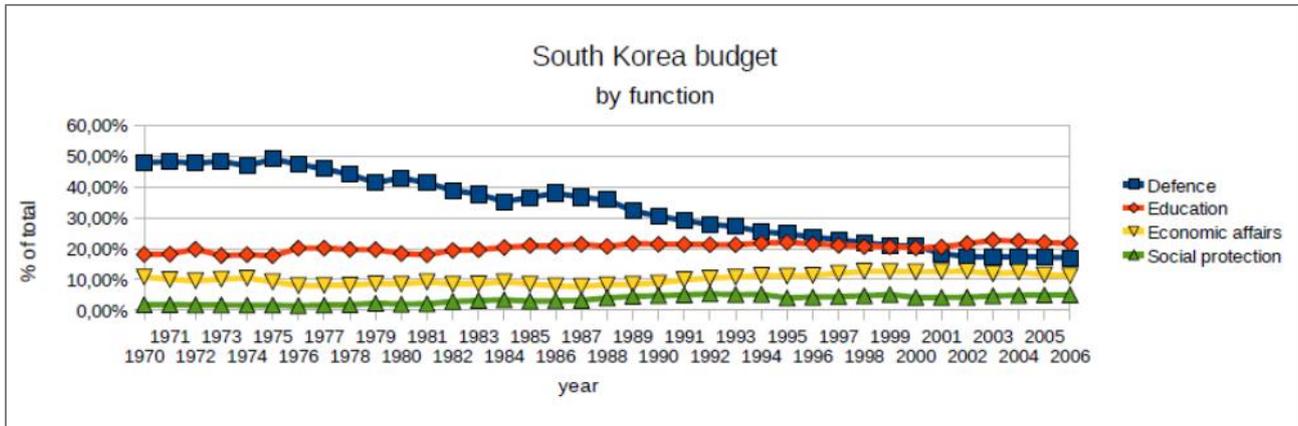
*Source: U.S. Government, Agency for International Development, "U.S. Overseas Loans and Grants and Assistance from International Organizations," Washington D.C., July 1, 1945-September 30, 1976.*

According to Ahn (2003), budgets increased by a factor of 40 under Park (between 1961 and 1976) while civil service increased from 240,000 to 520,000. Nevertheless the budget from 1970 to 2005 shows a consistently high and increasing share of expenditure devoted to education. Data on education outcomes, economic growth and the value of investments seem to indicate that a big part of these resources has been put to good use. Till today, Korea's military budget is increasing at constantly high rates but its overall share in expenditure has declined due to fast economic growth.

<sup>3</sup> For a discussion of this issue, see Kim and Kim (2006).

Again this could be a sign of high but decreasing influence of the military on the government or of decreasing economic and military power of North Korea.

**Figure 2: Selected expenditure categories of the Korean budget (Source: UN national accounts)**



### Economic policies and market domination through the Chaebol

Economic and political power of Korea’s big corporations (the Chaebol) and their owner-families are both a major result and a source for rent-seeking. Nevertheless, both their importance and the exercise of their power have changed over time. The history of the major corporations in South Korea goes back to the Japanese occupation when most of the so-called Chaebol were founded. Privatization and re-nationalization of the Japanese companies was a major source of corruption under Rhee. Most analysts argue that economic policies following Rhee were rather universalistic with “explicit and clear performance criteria” (Jwa and Lee (2004:12) and the rise of the Chaebol only started with the focus on capital-intensive industries and the emergency decree for economic stability and growth in the 1970s. Lee Kyu-Uck (1995) confirms this finding of increasing market concentration in Korea’s manufacturing industry in the 70s. According to Kang (2002: 198), democratization and liberalization of the 1980s and 90s lead to further increasing market power of the Chaebols.

**Table 9. Trends in Chaebol Concentration, 1985-95**  
(Cumulative percent for manufacturing industry)

(unit: %)

# of chaebol	# of employees			sales			value added			assets		
	1985	1990	1995	1985	1990	1995	1985	1990	1995	1985	1990	1995
4	6.5	6.9	8.1	21.9	23.4	27.3	11.7	17	27.2	23.6	26	28
10	8.2	9	10.7	33.5	32.6	37.2	16.5	22.8	29.3	33.3	36.5	39.5
30	11.6	11.7	13.1	43.1	40.6	44.9	22.2	29	41	45.6	46.8	50.2

Source: Cho (1997)

Comparable figures for the years after the Asian crisis of 1997 are hard to find as corporation-wide reporting was only introduced in 2009. The KFTC instead uses simple concentration ratios that measure the market share of the 3 biggest firms in all markets identified according to the standard industrial classification (see Graph 5 in chapter 4).

In line with the development of market power of the largely family-owned conglomerates, inequality increased from very low values following the land reform of the 1950s with a Gini of 26.3 till 1969, to 30.6 till 1989, 32.7 till 1997 and 35.6 in 2000<sup>4</sup> while recent data shows some decline.

## Democracy, parties and political finance

Kang (2002) and You (2005) find that already during Park's dictatorship and partly due to the elections of 1963 imposed by international pressure, a huge party machinery with up to 3,9 million members had to be built up in very short time. They further find some evidence of punishments for business supporting the opposition and a continuous increase in political finance in line with the growing economic power of Chaebols. At the return to democracy in 1987 the need for political finance seem to have increased drastically again and the illegal slush funds of the first democratic presidents seem to confirm this story. On the other hand, Kim Dae-Jung and Roh Moo-Hyun have managed to be elected against the candidate supported by big Chaebols (see Samsung scandal of 2008). Interestingly, while Kang finds some evidence of personal enrichment during Park's regime, the Korean elite till today leads a more frugal life than is known from other countries.

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<sup>4</sup> Source: You (2005: 19, 33). Some caution is necessary in the interpretation of this data, since non-income related preferential tradings of land and stocks significantly increase inequality.

**Table 3: Development of political finance (Source: You (2005:14))**

President	Period	Top-level political donations (1990 constant billion won)
Rhee Syngman	1948-1960	1.5-3.5 (five chaebol)
Park Chung-Hee	1961-1972	5-10 (estimated)
Park Chung-Hee	1972-1979	7-10 (estimated)
Chun Doo-Whan	1980-1987	16-24 (four chaebol)
Roh Tae-Woo	1988-1992	21-25 (four chaebol)
Kim Young-Sam	1993-1997	56 (Hanbo)
Kim Dae-Jung	1998-2002	8 to Lee (Samsung)
Roh Moo-Hyun	2003-2004	22 to Lee (Samsung)

### **Connecting rents and pluralism**

In conclusion, there is no clear evidence on the connection between rents and pluralism, while there is some evidence of increasing need for spoils at transitory periods (elections of 1963 and 1987) and a shift from public to private privilege with minor improvements following the Asian crisis in 1997. Based on the five categories suggested in Mungiu-Pippidi (2006: 94), Korea remains at the stage of competitive particularism with political access still limited by high costs to establish a party and the big dependence on the big corporations, but state capture under good governance (Park, 2004) might describe the situation better.

Regime type	Power distribution/access	Rents and state 'ownership'	Distribution of public goods	Legitimacy/ Social acceptability of corruption	Distinction public/private
State-capture under good governance	<ul style="list-style-type: none"> <li>Government has changed three times through democratic elections</li> <li>Business friendly party has lost despite illegal party funding but business exerts a strong influence on public opinion</li> <li>Elites are selected among SKY universities that have competitive entry exams</li> <li>Ex-presidents, business leaders and high officials are repeatedly sued but receive low punishments [TI, NIS:61]</li> <li>Presidential powers are very high, ministers' tenure very low</li> <li>Ombudsman, whistleblowers, media and civil society are working fairly well</li> </ul>	<ul style="list-style-type: none"> <li>Size of the Chaebol provides privileged access to loans but debt/equity ratios are decreasing since the Asian crisis</li> <li>Bail-outs for Chaebol (1974, 1987, 1997)</li> <li>Increasing cronyism in return for political party finance (e.g. Samsung scandal)</li> <li>Public Procurement amounts to 10% of GDP, 92% of it is done through GePS [TI, NIS]</li> </ul>	<ul style="list-style-type: none"> <li>Promotions are competitive and apolitical but major criterion is personal connection to the boss</li> <li>Petty corruption is very low [TI, Corruption Barometer]</li> <li>Favoritism in decisions of government officials is high (rank 86 of 139) [WEF, Global Competitiveness Report]</li> <li>In PISA 2006 (Science) Korea scored above average and socio-economic background was less important than in OECD average</li> </ul>	<ul style="list-style-type: none"> <li>Low trust in government, business and internationals (2,94; 2,74; 2,71 with 4 meaning no trust) [Asia Barometer, 2003]</li> <li>Low belief in government doing a good job in the fight against corruption (3,37 of 4) [Asia Barometer 2003]</li> <li>Prestige of ex-presidents is very low (assassination, imprisonments, suicide, low approval rates except for Park) [Ahn 2003:131ff]</li> </ul>	<ul style="list-style-type: none"> <li>Chaebols still employ family members but the influence of the owner-families seems to be decreasing [Ahn 2003: 343]</li> <li>The majority of Koreans believe that company profits belong to society rather than shareholders, Chaebol's are perceived as social entities [Jwa and Lee, 2004: 49]</li> <li>Korean elite displays comparative frugality</li> </ul>

### 3. Actors and drivers for change

The Korean **president** is directly elected and yields very strong power both over the appointment of key personnel in the executive (ministers have an average tenure below one year), administration and judiciary. Nevertheless, Byong-Man Ahn finds that Korean presidents from the 1950s till now suffer from consistently low approval rates, imprisonment following their demise, family scandals involving their sons, and strong pressure for fulfilling the public good that even lead to president Roh (2002) committing suicide following corruption investigations against him. Furthermore hardly any president (or dictator) came from influential families or inherited the office instead a refugee from Japan (Park), from China (Chun), a former clerk of a Japanese company (Dae-Jung), the son of an unimportant provincial clan (Lee) made it to the highest position. An exception to this rule is Mr Rhee who was an aristocrat and came to power with the support of the USA in 1946. Of the famous opposition leaders from various democratic movements that presided over big anti-corruption efforts, Youn Po Sun (1960) graduated in Edinburgh, Kim Dae-Jung (1997) got wealthy due to his collaboration with Japanese occupation and suffered various arrests, exiles and assassination attempts till he made it into government after 40 years of opposition, Kim Young-Sam (1993) had a long history in the national assembly, and finally Roh Moo-hyun (2002) previously worked as a human rights lawyer and political activist. Nevertheless, none of these histories prevented them and their family from involvement in some sort of corruption scandal.

Korean **civil society** grew strong during its turbulent and often authoritarian history despite repression that often made use of anti-communist legislation and sentiments. It includes:

- the so-called 518 generation of students and professors that experienced the Gwangju massacre of 1980 and the revolutionary protests in 1987 and that founded the Citizen Commission for Economic Justice
- the association of Catholic Priests for Economic Justice that was formed in 1979 following the arrest of a bishop, includes about 90% of the Korean priests, and is active in election campaigns against corrupt politicians as well as in supporting court cases started by various whistleblowers
- the internet platform „ohmynews“ that publishes citizens' reports and had up to 15 million clicks per day
- small shareholder groups that lost out in the underperformance of Chaebols following the financial crisis and that are therefore increasingly using shareholder meetings to press for good corporate governance

- together with 5556 other civil society organizations monitoring the government, and a public that according to AsiaBarometer (2003) stays very critical of its government's effort to fight corruption.

**Table 4: Trust and values (Source: Asia Barometer)**

<b>Results AsiaBarometer 2003, n=800</b>	
Happy (1 happy-4)	2,51
Son as politician (0 no/1)	0,05
Son as scholar	0,21
Trust in central government (1 trust – 4)	2,94
Trust in local government	2,90
Trust in legal system	2,64
Trust in domestic companies	2,74
Trust in multinationals	2,71
Government dealing with corruption (1 very well-4)	3,37

While Koreans seem to become more and more critical of their government and against corruption, participation in the presidential elections of 2008 went down to a historically low 63%.

Korean **civil servants** have life long tenure, comparatively good salaries and, apart from the 3 highest grades, promotions are done independently by the Civil Service Commission while selection is competitive and meritocratic<sup>5</sup>. According to TI's Corruption Barometer, petty bribes are very rare (even less than in New Zealand, Singapore, or Australia). The biggest share of civil servants comes from the Seoul National University with regional ties and discrimination playing a role, but recently variation has increased. Finally, Korean administration has been lauded various times to be an OECD pioneer in eGovernance, most notably in the introduction of their eProcurement system in 2002 that handles more than 92% of government contracts and significantly increased transparency.

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<sup>5</sup> According to various surveys presented in Ahn (2003: 63f) personal credentials were the major reason for promotion in 1972, whereas harmonious relationship with the superior and personal connections topped the list in 1987 and 2001 respectively.

The **political opposition and political parties** in Korea have changed a lot and Lie (1998) finds a tendency for new parties and new coalitions to spring up like „young bamboos“ before elections. Elections of the National Assembly and of the president are held separately and in the few years in between party landscape changes significantly. Starting from the People's Republic in 1960, opposition continued with strong support (about 40% of the electorate) throughout the military regime and created strong pressure for the government to legitimize its actions through successfully increasing GDP. Opposition was also strong at the return of free elections in 1987 but failed to win the government due to disunity. The only stable party, the Grand Nationalist Party, wins a consistent share of the votes of around 40% and is strongly connected to economic growth and the Chaebol, whereas the various democratic movements were the source of most anti-corruption efforts as far back as 1960.

**The military** continues to receive very high (but decreasing) shares of the government's budget in line with the continuing threat from North Korea. Graduates from the military academy have continued to be over-represented among the country's elite, but this has significantly decreased. Lie (1998) attest them with little understanding of political, administrative, and economic challenges but high discipline and the rhetoric of a small and lenient state.

**External and particular US influence** in South Korea has been historically strong but controversial. On the one hand the US supported the predatory regime of Rhee as well as the coup d'etat and the military dictatorship of Park. On the other hand they forced Park to hold elections in 1963 and according to Kang (2002) issued (inconsequential) warnings of the potential danger of overleveraged, politically supported Chaebols as early as 1971. Mason (1980) further describes the relationship between USAID and the various Korean governments as a conflictual one. He finds some positive impact of the US on land reform (1940s) and on devaluation, lower deficits, control of inflation and maintenance of democratic elections under the new Park regime (1963 and 1964). Nevertheless he concludes that „attempts to use aid to bring about significant social and political changes have not been very successful“ (p.204). Starting in the late 60s Japanese aid and investment outgrew US engagement and by 2003 China has replaced the US as the biggest trading partner but the influence of private companies as well as US-educated Koreans was doubtlessly strong. The influence of US companies on the South Korean stock market and the banking sector increased significantly with the IMF-led reforms in 1997 (international firms then owned 40% of stocks and one third of the banks).

## 4. Reducing the market power of the Chaebol

Big Chaebols already failed various times, for example in the 1971 crisis and the 1987 recession, but the business association (KFI) successfully lobbied for government bail-outs on a platform of loyalty and national interest<sup>6</sup>. Fighting against the growing Chaebol influence has been part of the governments' platform at least since 1980. Chu introduced various regulations aimed at limiting the number of subsidiaries and cross-shareholdings as well as land tenure in conglomerates to reduce monopoly powers. Nevertheless those efforts failed for various reasons among them the fact that they were only followed on paper and concentrated too much on limiting the power of the big Chaebol rather than promoting competition. According to Yanagimachi (2004), serious efforts to replace state-control with regulation and shareholder controls only took off in the wake of the Asian crisis in 1997. As a sign of changing perceptions on the viability of industrial policy in the mass electorate, Kim Dae-Jung, opposition candidate since 1954, was elected without the support of the big Chaebol (Horowitz 2002). Together with IMF pressure (Korea accepted a \$58 billion loan) he designed 5 principles to weaken the Chaebols (including reduction of cross shareholdings, introduction of external managers beyond the owner family), he abolished nearly 50% of business regulations (including the liberalization of interest rate policies and the access of foreign banks) and strengthened the Korean Free Trade Commission. According to Kalinowski (2009), this policy was supported by a broad coalition of civil society, labor unions, foreign investors and small shareholders with widely diverging interests. As a consequence of these initiatives, regulation ratings by the Fraser Institute increased significantly (Graph 3), the KFTC significantly increased the costs of unfair business practices (Graph 4), and market concentration went down (Graph 5).

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<sup>6</sup> For more information on the Emergency decree for economic stability and growth see for example You (2005:29ff).

Figure 3: Deregulation (Source: Fraser Institute, economic freedom of the world)

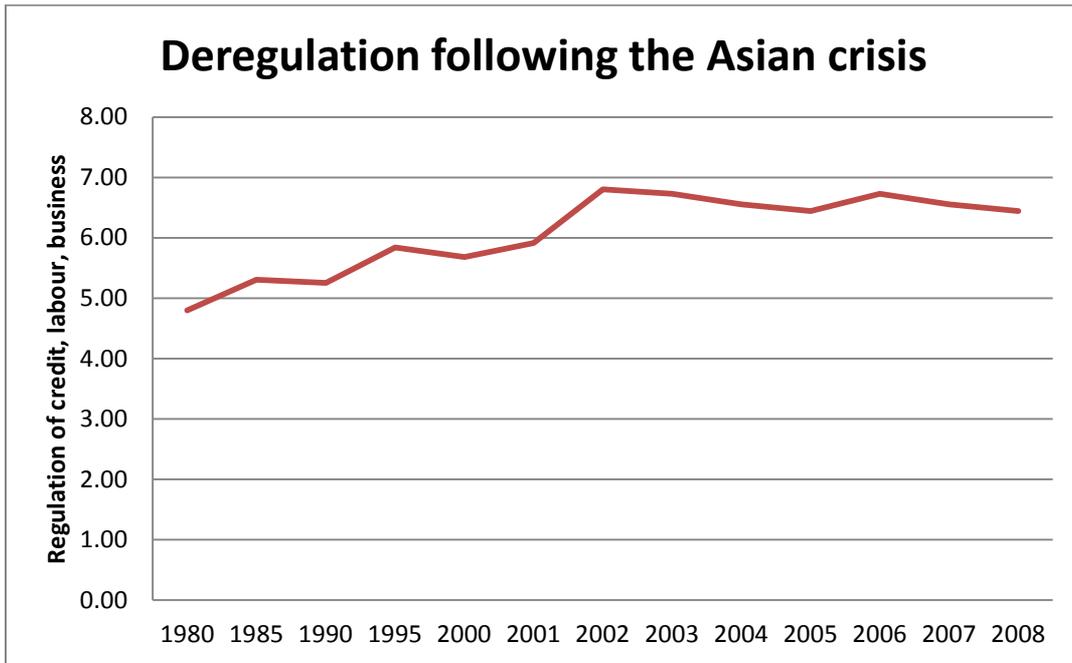


Figure 4: Activating the KFTC (Source: KFTC, statistical yearbook 2009)

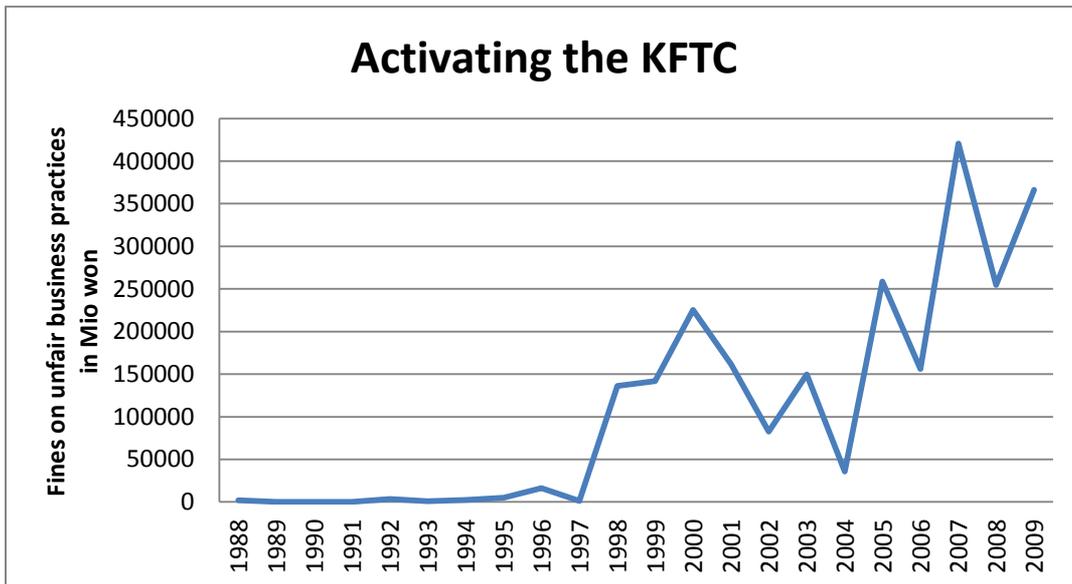
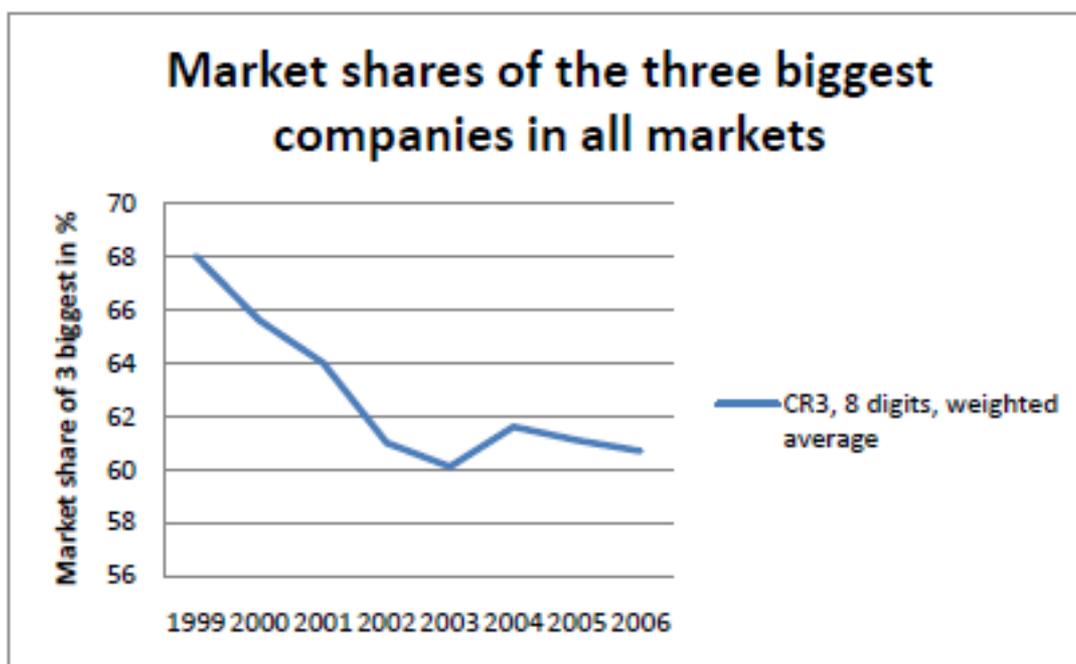


Figure 5: Source: KFTC, statistical yearbook 2010



In his analysis, Kalinowski (2009) comes to the conclusion that “it is still too early for a final judgment on the market reforms” (ibid: 296) but finds some evidence that they might have even “strengthened the Chaebol after they adapted to the new environment” (ibid: 297). While deregulation of the labor market and various management reforms made the Chaebols more profitable, it weakened the political support of the Democratic Party that promised to reduce social injustice and only achieved small increases in social security expenditure. Furthermore the importance of the Chaebol’s export earnings to repay the international loans as well as the worsening reputation of foreign investors due to their short term speculation, shady deals and allegations of tax evasion played into the hands of the Grand National Party and the re-emergence of a former CEO of Hyundai as president in the 2008 elections.

## 5. Conclusion

Transitions to good governance are very complex and take very long. While this study has therefore tried to trace transition all the way back to the land reform of the 50s and the economic development of the 60s-80s it is still impossible to fully judge the impact of a rather young wave of democratization. Throughout its history, Korea provides evidence for very different claims, ranging from the importance of US influence, to the success of Japanese-style state-centered development and from short term costs and long term benefits of liberal democracy to state capture under good

governance. In comparison to other countries in the region (e.g. the Philippines) South Korea, like Taiwan, managed to reform land ownership, redistribute wealth and foster education as well as economic growth. But with a focus on SMEs Taiwan achieved better governance than South Korea, where a few families and enterprises managed to establish a degree of economic power that makes it hard to reduce their influence on politics.

Given the importance of the Chaebol, their involvement in scandals of political finance, their influence on policy making, and on public opinion, policies to reduce their power and influence are crucial to fight corruption. This involved making use of the policy window that opened with the Asian crisis and with the support of the IMF that seems ideally suited for such a task. It further built upon empowering the existing anti-trust office with quasi-judicial power, a president from the opposition party that traditionally receives less political funds from the Chaebol, labor unions that were brought on board with the help of increasing social security expenditure, as well as pressure from international investors and small shareholders that suffer from corrupt dealings in the interest of the owner-families. On a more pessimistic note, the presidential elections of 2008 brought to power the former CEO of Hyundai (one of the Chaebols) from the Grand Nationalist Party that traditionally equates big business interest with economic growth in the public interest.

Apart from the reduction of market concentration and economic power that was the focus of this paper, Korea can provide interesting lessons on the interplay between economic development, education, the role of the state and corruption. More recently the protection and payment of whistleblowers or the effects of increasing decentralization without sufficient checks for corruption, are other interesting fields for further study.

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