

The Media and Economic Crisis in Korea circa 1993 to 2003

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Acknowledgement

The last five years during which I have attempted to investigate the causes of crisis in the Korean society from the perspective of communications and media studies have been a series of frustration and aspiration. Relentless trends of globalisation, the consolidated control of economic powers over the Korean society, and the paucity of relevant research literature, all of these have kept me frustrated, while the increasing anxiety to complete this research without any further delay has always inspired me. The fact that most Korean people have been suffering in the wake of the economic crisis of the late 1990's without knowing the causes therefor has been another source of such mixed feelings.

When the existence of hundreds of cassette tapes which recorded the illegal bugging operations conducted by the intelligence service under the previous governments was revealed last summer by a retired secret agent, the news came as a profound shock for Koreans. However, it was all the more so for me because one of the tapes contained a conversation between the top level executive of Samsung and the owner of its affiliate newspaper company *JoongAng*. It is vivid evidence demonstrating how media power in alliance with economic power has been attempting to put the Korean society under their full control well before the currency crisis of 1997. While this goes to prove one of the main points of this dissertation, it is frustrating to see that only a tiny part of the collusion among politics-business-media came to light and those who are privy to this collusive practice are exerting a sustained influence to cover it up. I do hope that this dissertation will contribute to a proper understanding of this sensational episode so that it will not go into oblivion but provide an impetus to genuine reform of economic, media and governance systems in Korea.

In retrospect, I realise how lucky I have been in my research. The encouragement and advice I have received from numerous people have been the driving forces transforming my frustrations, which could have been destructive, into strong aspirations without which this dissertation would not have been completed. In fact, I would not have even begun this research without my friends in Korean media circles, and Professor Shim Jaechul in media studies and Professor Kim Kyun in economics who persuaded me that this kind of research could only be done by an economic journalist who was familiar with the mechanism of collaboration between the media and economic powers. I should say, however, that I have often had hard feelings against these friends who had never bothered to tell me how difficult a research student's life would be. Perhaps, they could not have known how much worse it would be to start a doctoral research in one's late forties.

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Abstract

This thesis aims to investigate the relationship between the media and economic change in Korea. The main claim is that the press played an important role in creating the economic crisis. The Korean press's excessive swing to the right contributed remarkably to positioning neo-liberalism as the mainstream ideology of the society. In particular, their discourse practices for 'Globalisation' accelerated the trend of 'retreating state and expanding market'. They hampered rational public debates, distorted economic policies and ultimately led to the crisis.

The Korean press neglected to watch the problems of the chaebol (Korean conglomerates) and even encouraged the chaebol's over-investment. They failed to warn against the imminent currency crisis, partly due to their patriotic stance. By contrast, some influential members of the foreign press, particularly based on Wall Street, carried many critical reports reflecting the interests of international financial capitals. Their exaggerated reports enabled them to exert self-fulfilling effects. When the currency crisis arrived in Korea, both the domestic and foreign press played a considerable role in aggravating and transforming it into a chronic economic crisis, by supporting the IMF's mistaken prescriptions such as belt-tightening policies and selling companies abroad.

The Korean case suggests that when the media abandon their obligation as a warning system and offer misleading views on socio-economic realities, the public sphere can be damaged. In a severely damaged 'public sphere', it was very difficult for many important decisions such as company decisions, government policies and IMF prescriptions to secure rationality. In short, the Korean case shows that the media can deform the public sphere and thereby have negative effects on the economy, contributing to a crisis. From this perspective, two traditions of media studies - the public sphere and media influence - can be combined. The existing studies on media influence tend to favour a rather limited model of influence. However, given that the deformation of public sphere is one form of media influence, the limitation of this model is clear.

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List of Abbreviations

AMF:	Asia Monetary Fund
APEC:	Asia-Pacific Economic Cooperation (Conference)
ATKEs:	American Trained Korean Economists
BOK:	Bank of Korea
CCEJ:	Citizens' Coalition for Economic Justice
DPM:	Deputy Prime Minister
FKI:	Federation of Korean Industries
FSC:	Financial Supervisory Commission
HIT:	Hyundai Investment and Trust
IBRD:	International Bank for Reconstruction and Development (World Bank)
IEO:	Independent Evaluation Office (Attached to the IMF)
IMD:	International Institute for Management Development
IMF:	International Monetary Fund
JCIF:	Japan Center for International Finance
KCCI:	Korea Chamber of Commerce and Industry
KCFE:	Korea Center for Free Enterprise
KCIA:	Korea Central Intelligence Agency (until 1981)
→ NSP:	Agency for National Security Planning (1981~1998)
KDI:	Korea Development Institute
KEF:	Korea Employers Federation
KERI:	Korea Economics Research Institute
KIET:	Korea Institute for Industrial Economics & Trade
KINDS:	Korean Integrated News Database System
KSJCS:	Korean Society for Journalism and Communication Studies
MOCI:	Ministry of Commerce and Industry (until 1994)
→ MOTIE:	Ministry of Trade, Industry and Energy (1994~1997)
→ MOCIE:	Ministry of Commerce, Industry and Energy (from 1998)
MOFE:	Ministry of Finance and Economy
OECD:	Organization for Economic Cooperation and Development
POSCO:	Pohang Steel Company
RCP:	Royal Commission on the Press (in Britain)
SERI:	Samsung Economic Research Institute

Note

* While the British spelling system is adopted in this thesis, the US standard is used for numbers. For instance, one billion means 1,000,000,000. As for currency units, both Korean won and US dollar are used depending on the context, and the currency conversion is made based on the exchange rate of 1,000 won per dollar.

* In Korea, the surname comes before the given name, and some surnames such as Kim and Lee are shared by many Koreans. If necessary to avoid confusion, both the surname and the initial of the given name are mentioned for quotations and references in the main text while full names are given in the bibliography.

Introduction

Almost no country has attracted as much interest in its spectacular economic growth as South Korea. In a report published in 1993, the World Bank noted that the eight countries¹ in East Asia have achieved impressive economic growth rates during 1965~1990. In particular, a great deal of praise was showered upon South Korea, which had continued to record annual economic growth rates of about 9% for 30 years (IBRD 1993).² Four years later, the Korean economy attracted the attention of the world once again, but for the opposite reason. What used to be the showcase of economic success was now meeting with the crisis of total insolvency. What was wrong?

When the financial crisis hit Asia in 1997, economists busied themselves with high-profile activities in diagnosing problems and offering numerous prescriptions. However, such an impressive move was in sharp contrast with the marked lack of analysis of non-economic factors. Particularly in terms of communication, hardly anyone was investigating why such activities by economists had not been carried out before the crisis, why critical public debates on single-minded neo-liberal economic policies had been so sparse.

According to normative media models, the media are expected to detect new problems in a society and to invite or organise public debate. Economic problems cannot be an exception to this. If the media contribute to hiding the economic reality rather than investigating the problems, and distorting economic policies, a big national economic loss would be incurred. In light of this, economic news reports in Korea for about ten years before and after the economic crisis of 1997 provide one of the most striking examples. However, hardly anyone has discussed the media's share in causing and aggravating the crisis in Korea. Economists have devoted little attention to the role of the media as an institution that can have an impact on the economy. Media specialists too have left this

¹ The eight countries refer to Japan, South Korea, Taiwan, Singapore, Hong Kong, Malaysia, Thailand and Indonesia. They were known as HPAEs (High Performing Asian Economies).

² The GDP annual growth rates for Korea were 8.6% in 1960-70, 9.5% in 1970-80 and 9.4% in 1980-90, often recording the highest rate in the world (Source: IBRD 1993).

area largely unexamined.

The main objective of this research is to investigate the relation between the media and economic change, focusing on how the press has contributed to the precipitation of the Korean economic crisis. In order to do so, the real causes of the economic crisis and the problems within the media system in Korea will be analysed and the interactions between these two will be explained.

The key word underlying this interdisciplinary research which covers both economics and media studies is 'neo-liberalism'. In this research how neo-liberalism in Korea functioned as the ideology that not only brought about the economic crisis but also crucially influenced the behaviour of the press will be examined. It has been widely observed that neo-liberal ideology drove the state to dismantle its institutional role as the 'guardian' of a developing state. The 'free market', occupied by the chaebol³ – all-powerful Korean conglomerates – also could not properly function as a coordinating mechanism.

The state and the market, however, were not the only suspect institutions on the scene. The press is another institution of equal importance. To substantiate this point, this thesis will scrutinise what role the Korean press played in propagating the neo-liberal ideology. The analysis of press practices concerning ruling discourses at that time will be essential in understanding how neo-liberalism was disseminated and gained 'citizenship' in Korean society. The most conspicuous example was the discourse of 'Globalisation', which played a role as a catchall phrase in introducing a number of neo-liberal policies. Through analysing the texts of the media, the distortion of language will be revealed.

It is often said that the media, which are left to the free market, can never be free. In Korea where 'economic power' exerts an extraordinary influence on 'media power' as well as 'political power', the events leading to the economic crisis offer a vivid case. It is not realistic to expect the press in Korea to reveal this collusive relationship as they are fully aware of its self-destructive consequences. Therefore the symbiosis between the press and the chaebol needs to be scrutinised through the pursuance of studies, especially concerning issues of how market forces can distort the roles of the press and how the press

³ The term of 'chaebol' is included in the *Oxford Dictionary of English* (2003, 2nd edition by Catherine Soanes and Angus Stevenson). The 'chaebol' came from the pre-war Japanese term for a conglomerate, 'zaibatsu'. The 'chaebol' has a rather negative connotation. A Korean 'chaebol' is usually controlled by the chairman's family, not by professional management. The word of 'chaebol' is universally used as a singular noun or a collective noun in Korea. In this thesis, the 'chaebol' refers to both singular and plural.

can help the chaebol to increase their dominance in an already distorted market.

This study aims to contribute to filling a gaping hole in media studies and economics. This is also a trial to revive the ‘public sphere’ in Korea – which is regarded as being traditionally undermined by the government and, in recent years, savagely mangled by conglomerates of an unusual kind, and ultimately, by the media themselves. This study examines how the media, which is aligned with ‘economic power’, damaged the public sphere. Also, it will investigate why, in a damaged public sphere, the rationality of economic policies is difficult to secure and the possibility of policy failures – even economic crisis – is higher. By doing so, this thesis carries out a comprehensive inquiry into the causes of the crisis and then reviews the relevance of existing debates on media influence. Although most media academics support a rather limited model of influence, this popular model will be re-examined by assessing the media influence in terms of deformation of the public sphere.

This chapter⁴ will critically review, for a start, Korean literature concerning media influence on economic change. Then it will move to the issues of professionalism and autonomy in economic journalism, which will be followed by an evaluation of the Habermasian public sphere and communication theory, and debates on the media influence, in relation to economic change. Based on these reviews, this chapter will put forward a revisionist hypothesis that provides a perspective of media studies on the causes of economic crisis.

Chapter 2 will examine the relationships among market-state-media, and the role of neo-liberalism in shaping such relationships. With regard to the causes of the economic crisis in Korea, debates among economic academics, which are based largely on different views of the roles of the market and the state, will also be reviewed.

Chapter 3 will in turn investigate what kinds of role the media have played in disseminating neo-liberalism as the mainstream ideology in Korean society. This will be done through analysing discursive discourse practices.

Chapters 4, 5 and 6 will move to look at more concrete examples that show the relationship between economic journalism and economic change. Various cases in which the media actually exercised their influence over economic policies will be examined.

⁴ As this study adopts comprehensive and multi-dimensional approaches to identify the causes of economic crisis, it is inevitable that various theories and methodologies will be examined. This chapter is an overall review, while leaving specific concerns (including conceptual definitions) to individual chapters.

Chapter 4 will show what types of relationship the media have developed and maintained with the chaebol, which are, in fact, important news resources as well. This chapter will also investigate how industrial policies have been distorted due to such particular relationships between the media and the chaebol.

Chapter 5 will analyse the ways in which the media dealt with a series of events leading to the financial crisis (e.g. early entry into OECD and financial liberalisation) and how the domestic and foreign media, which tended to show conflicting views regarding the imminent economic crisis, contributed to making the crisis even worse.

Chapter 6 will examine the reporting patterns of the media at the time of the negotiation over the IMF bail-out programme. As will be shown, the new government that was elected just after the outbreak of the economic crisis missed a good opportunity to reform the overall economic system and thereby made the financial crisis a chronic one. The role of the media in this process will also be scrutinised. Chapter 7 will summarise and conclude.

Leanings of Media Studies in Korea

It is not easy to find theses which look at the relationship between the media and economic change from the perspective of critical communication research, particularly with regard to the question of, beyond how capitals influence the media, how the media contributes to causing economic crises. The paucity of such research in Korea is striking given the fact that debates on economic crisis have been under way since the financial crisis of 1997. How can we explain the lack of interest in such an important issue? In order to address this question, we need to pay attention to the Korean tradition of media studies.

Like other academic disciplines in Korea, media studies have been strongly influenced by the US. The critical communication research or political economic approach, which has been particularly strong in Europe, could not be openly attempted until the early 1980's when the military political regime displayed their almighty power.⁵ Even after

⁵ Park Chunghee seized power through a coup d'état in 1961 and maintained a developmental dictatorship

then, this line of research has largely remained non-mainstream.

This situation can be also attributed to the conservative tradition of Korean media studies. In addition, it is noteworthy that media-related academic institutes in Korea have been occupied mainly by those scholars who were trained in the US where, as Robert McChesney worryingly noted, the political economic approach to media studies is apparently lacking.⁶

However, critical communication studies attracted a wider audience behind closed doors as authoritarian control and press oppression by the military regime was strengthened. This is because the positivism and value-neutrality of mainstream media studies was seen to contribute to ‘justifying the unacceptable harsh reality’ and ‘maintaining the current political system’. The mid-1980’s and the early 1990’s witnessed increasing interest in European theories.⁷ The number of interested researchers increased and new academic courses covering these studies were started (Kim and Lee 1991: 11; Im 1993: 110; Kang 1993: 131).

Reflecting the growing interest in critical research, the Korean Society for Journalism and Communication Studies (KSJCS) organised a workshop on ‘Issues and Direction in Korean Media Studies’ in 1991 and another on ‘Exploring New Directions in Media Studies’ in 1992. However, the discussions between the two different approaches in two consecutive workshops were characterised by ‘opposition and hostility’ and ‘forcing and imposing their views’ (Kang 1993: 122), and ended up with a ‘compromise’ of ‘peaceful coexistence of different paradigms’ (124). The Korean paradigm controversies, particularly in 1992, had the unexpected effect of dwindling critical communication research by reaching an easy compromise rather than deepening their understanding of alternative approaches.⁸

This overall atmosphere was in line with the collapse of socialist regimes in East

for 18 years until his assassination by the then Head of the KCIA in 1979. However, General Chun Doo-hwan, Park’s right hand man, came to power through a counter-coup.

⁶ McChesney noted ‘If one is a scholar of communication, it strikes me as highly questionable not to have a working knowledge of political economy, in order to understand how capitalism works. To approach communication without political economy is similar to playing the piano wearing mittens’ (2000: 115).

⁷ See, for example, Lee, Sanghee (1983) (ed.) *Communication and Ideology*; Kang, Sangho and Lee, Wonrak (1986) (eds) *Modern Capitalism and Mass Media*; Park, Myung-jin (1989) *Outcomes and Issues of Critical Communication Research*; Kim, Seunghyun (1990) (ed.) *Political Economy in Information Society*.

⁸ As regards the premature retreat of the paradigm controversies, Kang Sanghyun noted that ‘the debates in the official platform became a drollery where they were extinguished as soon as they were ignited (1993: 145).

European countries and the resurgence of neo-conservatism. At that time in Korea, the political economic approaches in the social sciences were on the defensive, as the 'post syndrome' such as post-Marxism and post-history commanded great interest. 'New revisionism',⁹ which can be seen as evolving out of the critical research tradition, was often interpreted by Korean liberal-pluralists as 'surrender'.¹⁰

Quite often, the critical research camp in Korea 'borrowed' political economy as a tool for 'criticising' the government or the opposition camp, not as a 'discipline'. For Karl Marx, as most of his works have 'critique' in the title, the term 'critique' means both 'critique' and 'science'.¹¹

There are different schools within the same tradition of critical research, and each one has its own merits and disadvantages. However, some Korean critical academics pretended to represent the tradition of critical research, but neglected their academic duty to inspect the relevance of such theories in the Korean context. Not surprisingly, this invited criticism from the left as well as liberal-pluralists. For example, with regard to 'political economy of the media'¹² Chung Jinhong made the severe criticism that 'the analysis of balance sheets of newspaper companies, which obviously deviates from the core of political economy, is now presented as political economy in the Korean communication academic circle' (Chung 1991: 324).

While there have been numerous debates about the nature of Korean society, it is widely agreed that since the mid 1980's, namely after the two-decade long 'development dictatorship', Korean society has moved to a new era where economic power is able to control political power. However, the communication academics were largely disconnected from these debates, and media studies tended to concentrate on the relationship between the state (or political power) and the media rather than that between

⁹ James Curran, in his book *Media and Power*, proposed a revised list of characteristics of new revisionism as follows: 'a general shift away from the totalizing, explanatory frameworks of Marxism; a reconceptualisation of the media audience as creative and active; a spate of 'redemptive' studies of popular media; and a new emphasis on the media as a source of pleasure' (2002: 125).

¹⁰ For example, Yang Seungmok argued that 'revisionism denies large part of the core of the critical paradigm and accepts empiricist perspectives based on pluralism' (1992: 253).

¹¹ Kant, in his book *Critique of Pure Reason*, defined the 'critic' as follows: 'I do not mean by this a critique of books and systems, but of the faculty of reason in general, in respect of all knowledge after which it may strive independently of all experience' (Kant 1963: 9).

¹² The political economy of the media initiated by Murdock and Golding takes advantage of Marx's political economic perspectives on social relation of production and attempts to undertake an industry analysis focussing on issues such as ownership in the media industry. However, the term 'political economy' in this thesis has much broader meaning, not being confined to their usage.

capital and the media. Even when political economic studies were in fashion in Korea, most media studies, inspired by Marxist economism, were mainly interested in how dependent media organisations are on the state and capital and how this is reflected in their discourses and reporting patterns.

Such a research tradition largely explains why there are few studies about how media reports have affected economic changes in Korea. Although research about the relationship between media and economic crisis is scant, there have been notable research efforts to apply critical approaches. For example, Kang Myunggu applied Stuart Hall's 'theory of hegemonic articulation' to the Korean economy and attempted to explain how the structural problem of 'economic crisis' was articulated with public ethics. He found that the cause of the economic crisis tended to be shifted to consumers and workers when the discourse of 'economic crisis' was articulated with discourses concerning 'over-consumption' and 'industrial disputes' (Kang 1994). In another paper co-authored with Park Sanghoon, Kang analysed how political power utilised political symbols and what roles the media played in this process (Kang and Park 1997).

These papers can be considered as pioneering researches in textual analysis of discourse practices by Korean ruling bloc including the media, as they show how the ruling bloc secures public consent and maintains their dominance through discursive activities. Yet their shortcomings are also somewhat notable. Above all, as their papers carried out a qualitative textual analysis on one nationwide newspaper while ignoring another 15 newspapers,¹³ it was difficult to provide a comprehensive analysis of the Korean ruling structure. Moreover, these papers were written before the financial crisis in the winter of 1997, and the question of how the media contributed to economic crisis was beyond their interest.

In 1996, a three-day long seminar concerning economic journalism was held for the first time in Korea. Media and economic academics, economic editors of the press, and the Minister of Commerce and Industry were invited to discuss the desirable directions of economic news reports and commentaries. This type of seminar, which was held ten times up until 2004 thanks to financial support from the Samsung Press Foundation, was

¹³ The target of qualitative analysis was *Chosun*, the most conservative newspaper in Korea, and it is hard to say that their analysis gives a representative picture. In addition, they did not pay attention to *JoongAng*, a chaebol-affiliated newspaper, which had to be taken seriously when discussing the relationship between political and economic power in the context of 'withering state, expanding market'.

extended to include industrial editors and editorial writers after the 1997 financial crisis. Thus, discussions in a series of seminar gave useful insights on what problems were perceived as particularly problematic in economic reports in Korea.

In the first seminar entitled ‘Economic News and Economic Realities’¹⁴ in 1996, Kim Kyun pointed out various problems with economic news reports including logical flaws of the ‘economic crisis thesis’ that had been put forward in some newspapers.¹⁵ Na Sunclin and Lee Jaekyung, in their papers, enumerated the lack of expertise, impartiality, consistence, accountability and economic philosophy. They also identified sensationalism, encouraging speculation, confusions over reports and publicity, one-dimensional reports, and chauvinist reports (Kim, K. 1997; Na 1997; Lee, J. 1997).

With regard to the ‘desirable’ directions of economic news reports, Na Sunclin proposed promoting multi-dimensional reports, maintaining consistency, enhancing expertise and taking a national economic perspective (Na 1997). The view that economic journalists needed training to enhance their expertise in economic affairs was shared by other participants. Considering the complexity of economic affairs, economic reports require more enhanced expertise or professionalism. Also, given the practice of job rotation in Korean media organisations, these proposals have considerable relevance.

However, over-emphasis on the ‘lack of expertise’ needs to be reviewed. The ‘expertise thesis’ had been continuously emphasised in Samsung-sponsored seminars even after the outbreak of the financial crisis (Kim, T. 1998; Kim, K. 1998), and this problem was sometimes exaggerated as a key factor of economic crisis, along with ‘government regulation of the market’. In addition, the review of many discussion papers presented in these seminars reveals some common tendency, which to some extent reflects the interest of the sponsor, the Samsung Press Foundation. As regards economic crisis, most papers did not address the issues related to the chaebol and their responsibility for the unprecedented economic crisis, but stressed the role of the government as stipulating ‘the rules of the game’ (Yoo, J. 1998: 408-414) and the liberalist idea that ‘social development can be achieved only through establishing a competitive market system’ (Lee, T.

¹⁴ Shim Jaechul proposed a communication model concerning risk perception and impersonal effect and called for empirical studies in order to understand the social effects of economic news reports (Shim 1997:15-26).

¹⁵ Kim Kyun concluded that the ‘economic crisis thesis’ was exaggerated and tended to shift all the blame to high wages, thereby contributing to wage freezes.

1998:445).¹⁶

Many other papers (Lee, M. 1999; Seo, J. 1999; Lee, H. 1999; Kim, S. 2000; Yang, Y. 2003) and articles (Kang C. 2001 among many others) pouring out after the outbreak of the crisis also put emphasis on ‘expertise enhancement’ as the most important reform measure for economic news reports.

In media studies around the world, ‘enhancement of professionalism’ (including expertise) is indeed one of the customary prescriptions proposed by liberal pluralists to address various problems with news reports. This illustrates the innate bias in media studies in Korea. Moreover, a remarkable thing in Korea is that there is a tendency to emphasise the notion of ‘expertise’ rather than that of ‘professionalism’. The notion of ‘professionalism’, in Korean, has several components such as ‘expertise’, ‘professional spirit’ and ‘propensity to resist external interference’. In this context, we can see that ‘professional spirit’ or ‘propensity to resist external interference’ has been less emphasised.

One fundamental question, which needs to be asked here, is whether, and to what extent, improved expertise will address problems with economic news reports and contribute to prevent (rather than cause) economic crisis. It is entirely plausible that, when the media is biased toward particular views or ideology, their great expertise will simply be a ‘dangerous weapon’ at their disposal. At the same time, if the autonomy of the media and journalists were extremely limited, there would be very little room for improvement through greater expertise. This is why any discussions about media reports should go beyond the narrow territory of expertise to look at a broader media environment such as ideology and political-economic power relations.

¹⁶ Lee Kyung, one of the panellists, criticised these views, saying that ‘it is highly likely that the rules of the game can be set in favour of capital’ and ‘in establishing the rules of the game the voice of workers and civil society should be properly reflected’.

Professionalism and Press Environment

Autonomy vs. Economy

News organisations interact with their environment by, on one hand, contributing to maintaining or changing the larger social system and, on the other hand, gathering news items from and offering them back to the larger system. Their survival depends on these activities that secure them financial returns. The problem, however, is that news organisations have a tendency to take greater account of their own interests or the interests of the powerful organisations affecting their survival rather than the interests of the wider public. A body of research that concerns countervailing powers against this trend has been undertaken with a focus on the autonomy of media organisations and journalists.

There exist divergent views between the two traditions of media studies concerning this issue. Marxists 'regard media institutions as at best relatively and marginally autonomous', whereas liberal pluralists 'tend to emphasize the mutual dependence between media professionals and the representatives or spokesmen for other institutions' (Curran, Gurevitch and Woollacott 1995: 21).

Many revisionist Marxists such as Antonio Gramsci, Louis Althusser, and Raymond Williams criticised the economic determinism underlying Marx's theory and recognized 'relative autonomy'. However, when the media as part of the superstructure is argued to play a key role in establishing a dominant hegemony (Gramsci 1971)¹⁷ or ideological state apparatus (Althusser 1971, 1976), the meaning of autonomy should be clarified. The relative autonomy of a media organization does not necessarily mean that people within the organization secure individual autonomy. For example, if a media organization is enthusiastically pursuing an ideological goal, its employees are faced with the option of 'conform' or 'leave'.

According to Gramsci, people unconsciously conform to dominant social values and behavioural patterns by internalising dominant ideologies. As this certainly is the case for journalists, such a situation cannot be called 'autonomy'. Even if journalists feel they have secured autonomy, mostly, it may be the case that they have unconsciously considered the

¹⁷ Gramsci criticized the media as contributing to consolidating a dominant hegemony for the ruling classes, but also called for the media to serve a 'fortress' for 'resistance hegemony'.

requirements of organisational norms (Tunstall 1971) or 'self-censorship' has operated (Gans 1980: 251-253). This type of autonomy is in fact no more than what Curran calls 'licensed autonomy' (Curran 1990: 120).

Stuart Hall and associates point out that the representatives of the 'state apparatus' and 'well organized interests groups' play 'the primary definers of topics' in the 'routinised activity of news production' (Hall, Critchner, Jefferson, Clarke and Roberts 1978: 58). Therefore, the media 'play a secondary role in reproducing the definitions of those who have privileged access, as of right, to the media as accredited sources' (1978: 59). However, there are several weaknesses in Hall's theory: it does not consider 'inequalities of access' to media and 'contention between official sources' concerning how to interpret news; it also overstates the passivity of the media without taking into account its capability to challenge the so-called primary definers (Schlesinger 1990: 66-67); it did not pay attention to 'hierarchical controls within media organizations' (Curran 1990: 127). In short, primary definers play an important role as news sources but do not always serve to secure hegemony for the powerful.

As revisionist Marxists exclude 'economy' from their analytical framework, their views on the nature of late capitalist society are insufficient and limited. On the other hand, instrumentalists attempt to explain how dominant powers, including economic power, take advantage of the media. According to the 'propaganda model', the news organisations are no more than 'instruments' of propaganda and there is no room for journalistic autonomy.¹⁸ They claim that the owners of the news organisations, advertisers and key political figures use these organisations as instruments of class domination through selective advertising support and other means.

The propaganda model is also not free from criticism. While Golding and Murdock concede that the model is 'partly right', they argue that 'by focusing on these kinds of strategic interventions Herman and Chomsky overlook the contradiction in the system'. It is further explained that the powerful groups cannot always manipulate the news organisations as they want (Golding and Murdock 2000: 73-74). Works which have been done from the perspective of political economy go as far as referring to 'economic

¹⁸ The point is vividly made by Herman and Chomsky: If the powerful are able to fix the premises of discourse, to decide what the general populace is allowed to see, hear and think about, and to manage public opinion by regular propaganda campaigns, the standard view of how the system works is at serious odds with reality (1988: xi).

determinism' in explaining the mechanism through which the content of messages is decided. Structuralist views such as economic determinism, needless to say, were severely criticised by liberal pluralists who held the view of 'considerable autonomy'.

However, the relevance of past arguments relating to autonomy should be re-examined, taking into account the fact that economic power with a greater strength and influence can be a major obstacle against autonomy. In the so-called 'age of economy', the 'considerable autonomy thesis' sounds void, particularly in the field of economic journalism. Although revisionist Marxists make circumstantial judgements concerning 'relative autonomy' in a rather convenient term 'relative', the meaning of 'relative' should be interpreted in a more restrictive way. If the expansion of economic powers leads to a reduction in the autonomy of journalism, which in turn contributes to the further expansion of economic powers, such a relationship will provide an important clue in exploring the relationship between media and economic changes.

The Myth of the 'Expertise'

In contrast to those critical approaches, liberal pluralists generally believe that the media enjoy a high degree of freedom. Journalists within media organisations have a tendency and will to represent the consensus¹⁹ and core values based on their professional power and consciousness (Gans 1980) or an instinctive rapport with their audience (King 1967). Therefore, in the liberal tradition, the major method of media reform is to enhance 'professional responsibility' (Stepp 1990), or to establish 'professional rules of balance' (O'Neill 1990). As remarked by Curran, it is 'no coincidence' that both the Hutchins Commission (1947) in the United States and the Royal Commission on the Press (1949) in the United Kingdom proposed 'media professionalism' as the way forward to resolve a variety of problems facing the press (Curran 1996: 99).

However, a series of studies about American journalists show a substantial decline in job satisfaction, which is interpreted as reflecting diminished autonomy. Weaver and Wilhoit have for a long time monitored the backgrounds, professional values and ethics of

¹⁹ Stuart Hall pointed out the practice of the media 'no longer as the institutions which merely reflected and sustained the consensus, but as the institutions which helped to produce consensus and which manufactured consent' (1995: 86).

journalists in the United States. They concluded that ‘the professional culture of journalism remains quite weak compared to the more established professions of law and medicine’ (1991: 143). Hallin wrote that ‘many journalists would characterize their job as a craft rather than a profession’ (2000: 220).²⁰ There are many other studies that show the decay of professional power in the media organisations (e.g. McManus 1994).

Why has professional power weakened despite its alleged importance in relation to press independence or journalist autonomy? Numerous reasons for this have been suggested, but this thesis concentrates on economic powers that have expanded considerably. Along with the question of how the media influence economic changes, the influence of the economic powers on the media constitutes key pillars of this thesis. In later capitalist society, the media and economic powers have been seeking to increase their influence in an unhealthy symbiotic relationship and demonstrating their greater power over other social spheres.

Ownership and the market primarily concern the political economy of the media. Economic powers can exercise their influence over the media through owning media companies or intervening in the media market where news and advertisements are traded. Many studies have been undertaken on this issue²¹ and those on economic powers as news sources are of particular importance to this thesis. This topic needs to be discussed in relation to professional power or its autonomy as a countervailing power to economic powers. While Gans described source-journalist relationship as ‘a tug-of-war’ (1980: 117), such tension also exists between economic powers as sources and economic journalists.

When Paul Manning examined what role news sources play in producing general news, he argued that some powerful news sources ‘can exert effective control over the flow of information entering particular arenas of the public sphere’ (2001: 147). Today, such news sources are in fact economic news, and key players in the field are large conglomerates. The pursuits of commercial enterprises overlap with those of the news organisations in the sense that they both seek to gather, produce and disseminate economic information. Some larger conglomerates have a better ability to gather economic information than many news organisations. Global conglomerates, which are the

²⁰ However, Hallin noticed that journalistic professionalism itself, ‘for one thing, is far from dead, and in certain ways is stronger than ever’ (Hallin 2000: 229).

²¹ For example, James Curran examined how the *Sunday Times* had changed its tone with changes in the ownership (1990: 132), and Colin Sparks investigated how advertising had distorted the structure of the press (1999).

favourites of the globalisation era, often have more information than nation states or domestic media, even controlling the flow of information. Their ability is derived mainly from the economy of scale. Their control over the advertisement market also increases their voice as news sources.

As economic issues increasingly occupy the agenda, commercial enterprises have greater power to influence the agenda-setting process. Meeting the expenses of the production and diffusion of the news, commercial firms can have direct or indirect influence on the agenda setting. Parsons notes that ‘such developments have proved a subtle form of distorting economic news values and the economic agenda itself’ (1989: 209). Curran also points out that ‘sponsorship helps to set the editorial agenda of sponsored features and, perhaps more important, to define their intended audiences’ (1978: 240).

As the world is being integrated into one economic bloc, economic agendas tend to go beyond nation states and show a trend toward uniformity. The scope for independent national decisions by the state is now much more limited, because refusing to accept global standards would result in the ‘exodus’ of global capitals. As a consequence, the autonomy of the domestic media and journalists can be considerably reduced in economic news reporting. The most daunting force which threatens autonomy would be research institutes that have continued to create the logic of globalisation and monitor world economy from the perspective of neo-liberalism.

For example, it is almost impossible for an individual journalist, who is always under time pressure, to reverse the research findings of ‘authoritative’ institutes such as the International Institute for Management Development (IMD), which can mobilize hundreds of researchers for an extensive period of time. Even though it is suspected that the main goals of IMD annual reports such as the ‘World Competitiveness Yearbook’ are to promote international competition for economic advantages and to encourage deregulation, all individual journalists can do is often no more than deliver press releases. The World Economic Forum, which is organized in Davos in Switzerland by IMD every year, provides a platform for high-level government officials to compete for the attention of CEOs, and the economic issues mentioned in this competition always attract the media spotlight.

Financial experts have recently increased their voice at the expense of the declining

influence of the professional power of economic journalists. This reflects the fact that the influence of global financial capitals is ever growing and financial techniques are increasingly complex. In the late 1980's, some observers such as Roberts, Johnson and Parsons have noted the growing *involvement* of employees of Wall Street or the City in the production of news and comments. Roberts and Johnson mentioned that 'the news side of financial journalism is being controlled by the news producers rather than journalists' (1987: 79). In the case of the financial press, Parsons thus warns that they 'may become more participants and puffers than observers and more extensions of PR companies than independent commentators and reporters' (1989: 213).

In the mid 1990's, Doug Underwood pointed out that, as market-oriented or reader-driven news productions became common, 'marketing-minded editors... are cheerfully participating in the *corporate reshaping* of the news' (Underwood 1993: 147).

In the early 2000's, however, Aeron Davis confidently insisted that 'business news has been *captured* by financial elites', quoting a public relations practitioner's assertion that 'the national financial press are written for the City by the City' (2002: 76). For the last 15 years, during which the intervention of news sources in economic and financial news became more serious, the tones of scholars also became more critical, from '*involvement*' to '*corporate reshaping*' and then to '*capture*'.

In this regard, caveats should be made to the proposal that outside experts should be invited to contribute their articles or give technical advice to enhance expertise in economic reports. Considering that research institutes and economic experts tend to take a neo-liberal view, it may not be easy to ensure the impartiality of professional advice.

Even without the above explicit considerations of economic news, the market-driven trend in journalism is thought to have produced 'a considerable tension between the culture of journalism and marketing'. Pushed by the demands of the market, newspapers tend to discard their traditional agenda of 'public affairs' and move toward 'lifestyle features' and 'news you can use' (Hallin 2000: 221).

Only with such changes in the media environment will the issue of professionalism mentioned above have substantive grounds. For example, when expertise in economic matters is demonstrated within the so-called 'licensed autonomy', the effects of enhanced expertise would be rather limited. Similarly, if a particular ideology dominates the media, expertise might simply be used to disseminate and strengthen it. In short, what matters is

‘expertise for what’ or ‘directions of news reports’.

While some studies suggest that expertise in economic news reporting is not low in Korea (Shim 1999), such an ideological mechanism may be working behind the discourses about expertise. In fact, in a seminar for economic editors, Chang Hyun-Joon²² stressed that ‘economic journalists of high quality should have a solid understanding of fundamental principles of market economy’ (Chang 1998a: 25, 1998b: 19). This is consistent with the views of Walter Eucken, which imply that the argument of expertise enhancement is based on liberalism.²³ If news reports that are loyal to market principles are considered as displaying high expertise, the Samsung-affiliated *JoongAng*²⁴ would be the best newspaper in Korea.²⁵ Lee In-Kwon of the Samsung Economic Research Institute argued that ‘the media should put greater emphasis on promotional activities so as to enlighten the public to understand that all economic problems and interests should be addressed not based on political logics or state power but basically through market forces’ (Lee, I. 1998).

In fact, over-emphasis on professionalism may intensify the economic and ideological ‘monopoly control of the marketplace’ because it is used to boost audience trust in the commercial press (Soloski 1997: 311-312; Sammut 2004: 11-12). As the professionalized press (so-called ‘quality papers’) try to attract the intellectual or wealthy class as their main readership and are in turn supported by that class, the division of the news audience will be rapidly advanced. If so, it may result in, as Hallin pointed out, ‘a kind of differentiation that reinforces social barriers, in effect excluding working-class audiences from information about public affairs’ (Hallin 2000:234).

Given the ideological orientations and potentially negative functions of ‘professionalism’, where can we find a norm for desirable economic reports? In addressing this question, it is useful to revisit the Habermasian public sphere and communication theory as well as the revisionists’ media models.

²² Chang Hyun-Joon was a neo-liberalist economist and editorialist at *JoongAng*. He proposed that the former British Prime Minister, M. Thatcher, should be invited to become a presidential advisor to assist in overcoming the economic crisis.

²³ Eucken, the founder of Order Liberalism, argued that high-quality journalists are a necessary condition for a high-quality market economy (cited in Chang 1998b).

²⁴ One of *JoongAng*’s company slogans was ‘creating market economy’.

²⁵ This point will be discussed in detail in Chapter 4.

The Public Sphere and Economy

The Public Sphere and Economic Change

The environment in which the press operates nowadays can be characterised by the rise of neo-liberalism and de-regulation, which allow greater power to the enterprises, and the waning of the nation state ideology. The press accordingly takes the path of greater concentration through mergers, globalisation and commercialisation, and becomes less and less political. Against the backdrop of this trend, the concept of ‘public sphere’ proposed by Jürgen Habermas gains a greater relevance.

The liberal theory of the free press, as Nicholas Garnham criticised, ‘has simply assumed that the market will provide appropriate institutions and processes of public communication to support a democratic polity’ (Garnham 1992: 363). However, such an ‘assumption’ about a free press has turned out to be a ‘myth’, as the popularity of the very notion has also revealed undesirable aspects of ‘freedom’ which often threaten public communication, rather than facilitate it.

The concept of the Habermasian public sphere is closely connected to economic changes. His explanation of the ‘transformation’ of the public sphere is firmly anchored upon economic grounds. Between the 17th and 19th centuries, he argues, the ‘bourgeois public sphere’ had been responsible for creating public opinion and monitoring the government. Habermas sees it as located between the state and the private domain. As the state expanded and economic interests organised themselves, the public sphere began to be controlled by them. The interests of those who thus managed to form corporatist powers were greatly reflected and echoed in the bourgeois public sphere. However, the ‘public’ was gradually eliminated from that sphere (Habermas 1989). He continues his arguments relating to the development of the mass media:

The mass media have on the one hand attained an incomparably greater range and effectiveness - the sphere of the public realm itself has expanded correspondingly. On the other hand they have been moved ever further out of this sphere and reentered the once private sphere of commodity exchange (Habermas 1989: 188).

As the capitalist economy developed further, the power of the capitalists greatly increased. Big enterprises eventually took control of the press that had traditionally maintained a 'tense' relationship vis-à-vis the state. As the enterprises either own or befriend the press, they have become increasingly shielded from its criticism and the control of the state. As a result, there can no longer be a balance between what John K. Galbraith called the 'countervailing powers' of the tendencies toward a concentration of capital on one hand and a growing state interventionism on the other (Galbraith 1952).

Although the centres of discussion and debate moved out from the salons and coffee houses of London and developed into the globalised press, meaningful public discussions have not been facilitated correspondingly. This is certainly not to deny the values brought by the development of mass communication. Thompson, for example, does recognise that thanks to the advancement of technology, 'images and messages are made available to audiences which are greatly extended in time and space' (Thompson 1995: 75). This recognition leads to a criticism of the Habermasian theory as 'it tends to treat the recipients of media messages as passive consumers' (Thompson 1990: 116). While there are many other criticisms of the Habermasian theory, its merits are widely recognized as well. As Curran pointed out:

It offers nevertheless a powerful and arresting vision of the role of the media in a democratic society.... Within this public sphere, people collectively determine through the processes of rational argument the way in which they want to see society develop, and this shapes in turn the conduct of government policy (Curran 1996: 82).

Garnham also perceives that the 'first virtue' of Habermas's work is 'to focus upon the indissoluble link between the institutions and practices of mass public communication and the institution and practices of democratic politics' (1992: 360). The recognition of such a link is of essential importance in analysing how the public sphere was demolished in a certain country and how it has affected economic changes. It is expected that the Habermasian theory will be very useful for this kind of interdisciplinary research combining media studies and economics.²⁶

²⁶ Thomas McCarthy wrote in the introduction to the English translation (*The Structural Transformation of the Public Sphere*) of Habermas's seminal work as follows: 'It combines materials and methods from

Another merit of the Habermasian approach is that it contains important warnings against falling into ‘the simple dichotomy of free market versus state control’. It was succinctly explained by Garnham:

Habermas distinguishes the public sphere from both state and market and can thus pose the question of the threats to democracy and the public discourses upon which it depends coming both from the development of an oligopolistic capitalist market and from the development of the modern interventionist welfare state (Garnham 1992: 361).

For Habermas, the public sphere or communication system should secure autonomy from both the state and the market. An important issue in this regard is what this normative assertion means in today’s world where market power is much stronger. This question is critical because the assertion might be interpreted as the logic of status quo or ‘neutralism’ without taking into account the economic changes that have occurred. In fact, the era when Habermas’s welfare-state interventionism caused serious concerns is over, and instead there is a renewed interest in the state as being capable of representing public interests against market forces. The fact that the press is captured by capital implies the need for the press to establish an alliance with the state. While the public sphere should secure autonomy from the state and the market, it is the state, not the market, which makes this possible.

Communication Theory, Economic Power and Crisis

In response to criticism leveled at his concept of the public sphere, Habermas has elaborated his seminal work while accepting some of the criticism. With regard to the structure of the public sphere, he explained:

The communication structures of the public sphere are linked with the private life

sociology and economics, law and political science, and social and cultural history in an effort to grasp the preconditions, structures, functions, and inner tensions of this central domain of modern society’ (McCarthy 1989: xi).

spheres in a way that gives the civil-social periphery, in contrast to the political center, the advantage of greater sensitivity in detecting and identifying new problem situations (Habermas 1996: 381).²⁷

As he observed, those who can perceive various problems of society and present them as topics for public debate are not the ‘exponents of the state apparatus, large organizations, or functional systems’ but ‘intellectuals, concerned citizens, radical professionals, self-proclaimed advocates’ who are situated in the civil-social periphery. The upshot is that it is ‘only through their controversial presentation in the media’ that the topics thus formulated by them can hope to reach the larger public and become public agenda (Habermas 1996: 381).

However, if the press fails to achieve this role, he argues, ‘issues will tend to start in, be managed from, the center, rather than follow a spontaneous course originating in the periphery’ (1996: 380). Decisions made in such reversed processes are often faced with a legitimacy crisis because they violate democratic procedures. Habermas, on one hand, is worried about the disappearance of the public by the expansion of the media, namely, re-feudalisation of the public sphere; on the other, he expects the revitalisation of the public sphere by ‘a counterweight of emancipatory potential built in communication structure themselves’ (1987: 390).

His alternative proposals, based on a rather optimistic vision, have differentiated Habermas from the earlier generation of the Frankfurt School who remained intellectual pessimists. As the titles of his major publications show, ‘*The Theory of Communicative Action*’ (1981) is a social reform theory that aims to resolve gaps ‘*Between Facts and Norms*’ (1992) through communicative action. By turning our attention from labour as an interaction between nature and human beings to communication as an interaction between human beings, he effectively proposes social reform through communication, not a revolution by the working class.

In his later work, Habermas analyzed society within the conceptual framework of

²⁷ Habermas’s views concerning communication structure are indebted to Bernard Peter’s model. According to Peter, processes of communication and decision-making in constitutional systems display features in which they lie along a center-periphery axis. The political center is formed by the familiar institutional complexes of administration, judicial system, and democratic opinion formation (e.g. parliamentary bodies and political elections). The civil-social periphery comprises private organisations, business associations, labour unions, interest groups and so on (cited in Habermas 1996: 354-355).

‘life-world’ (*Lebenswelt*) and ‘system-world’ (*Systemwelt*). The ‘life-world’ is a realm where language-based communication between autonomous human beings can take place.²⁸ However, it is increasingly threatened in modern society. Individuals are caught in the oppressive communication mechanism of the ‘system’ where they are unable to express themselves. The ‘system’ is a realm where ‘money’ (*Geld*) and ‘power’ (*Macht*), rather than language, are the means of communication (1981: 476).

The so-called ‘colonisation of life-world’ could occur when the economy and the bureaucratic system, which follow the path of over-rationalisation in late capitalist society, control and manage society by means of ‘money’ and ‘power’.²⁹ In a so-called ‘administered society’ (*verwaltete Gesellschaft*) or ‘system-world’, it is difficult for individuals to make independent decisions concerning their lives.

His theory of communicative action also has many shortcomings. With the view that society is no more than a linguistic communication network, for example, he idealized communicative rationality, although the society is obviously more than the language (Castoriadis 1997). It is also questionable if a ‘life-world’ colonised by the ‘system’ could have an opposing power to the very ‘system’ (Kim, C. 1996). In addition, a variety of criticisms have pointed to its abstractness, eclecticism, tautology, eliticism and westernism (Wellmer 1991; Park 1994; Chung 1995; Cho 1998)

With regard to tensions between the market and the state, which will be discussed in detail in the next chapter, it is important to understand the hierarchical status between ‘money’ and ‘power’ which control communication in the ‘system-world’. Habermas suggests that economic power and administrative power be constrained through democratic procedures in order to prevent the colonisation of the ‘life-world’. What makes this possible are the forces generated by communicative actions, and these forces come from the opinion-making processes of numerous local public spheres (*Öffentlichkeiten*). Such a view raises the question of whether or not imposing the same restrictions on administrative power as on economic power would be helpful in strengthening democracy.

In the early 1980’s when Habermas proposed his theory of communicative action, it

²⁸ ‘Life-world’ is, according to Habermas, ‘the transcendental site where speaker and hearer meet, where they can reciprocally raise claims that their utterances fit the world, and where they can criticize and confirm those validity claims, settle their disagreements, and arrive at agreements’ (Habermas 1996: 126).

²⁹ Based on his ‘thesis of internal colonisation’, Habermas argued that Horkheimer and Adorno criticised ‘instrumental reason’ in their *Dialectic of Enlightenment* but failed to develop a new concept of rationality. Habermas proposed ‘communicative rationality’ as an alternative (Habermas 1987: 332-373).

was not easy to determine the relative significance of the problems of capital concentration and power concentration. In addition, his concept of 'system' relies on Parsons' work and, to a large extent, also on Weber's work on bureaucratisation. Accordingly, their views on the negative consequences of bureaucracy are similar. However, as we shall see in chapter 2, the need for controlling economic power is greater in the wake of globalisation and neo-liberalism, which have invoked the 'retreat of the state' and helped capital become more powerful. As briefly mentioned earlier, the problem is that controlling economic power is dependent on administrative power, which also needs to be controlled. Such difficulty is compounded by the fact that the controlling process should be based on democratic procedures, or what Habermas calls 'communicative action'

In providing a comprehensive explanation about causes of economic crisis which explicitly recognises the role of communicative factors, it is also essential to examine what Habermas calls the 'legitimacy crisis'. His view that late capitalist states are faced with a legitimacy deficiency (Habermas 1975) is associated with his evaluation of welfare state interventionism. Crises of the economic system can spread to a rationality crisis of the political system along a detonating fuse of state intervention, and it is very difficult to intervene in the market while not damaging the logic of capital. Even if the state system demonstrates its rationality in addressing such a daunting task, Habermas noted, the secondary crisis – legitimacy crisis – is still possible. For the logic of capital is in contradiction with that of democracy.

Given that these concerns about the legitimacy crisis were rooted in the era when state interventionism was widespread, what implications do they have for the era when the retreat of the state is common? From the perspective of neo-liberalism, there is little ground for state interventions, but, if attention is paid to the negative consequences of neo-liberalism, such interventions are to some degree justifiable. In the case of serious economic crisis, moreover, such intervention is seen as indispensable. Therefore, it is necessary to develop a new perspective on debates concerning legitimacy.

In highlighting the legitimacy crisis, Habermas tended to exclude the possibility of an economic crisis or believed that it could be easily addressed. For Habermas, a crisis of overproduction could be prevented through Keynesian state intervention, or even if a crisis occurred, the state would intervene, which in turn would lead to legitimacy crisis

(Habermas 1973).

However, considering the causes of recent economic crises and the increasing difficulties in taking Keynesian measures due to the retreat of the state, the legitimacy crisis arising out of state intervention should not be overemphasised. Asian economic crises in the 1990's also call for a new perspective on the legitimacy of state intervention.

If state intervention were undertaken in ways that served only the logic of capital accumulation, it certainly would be neither fair nor democratic. If this happened, as left-wing critics argued, Habermas's theory would contribute to the 'consolidation of bourgeois dominance' or the 'legitimisation of capitalist ideology' (Park 1994). As economic power has increased its status in late capitalist society, it is true that Habermas's early theory has gradually lost its relevance. Habermas came to the issue of economic power as he witnessed the difficulty in creating a public sphere within the political arena and the rapid differentiation of the economic arena from civil society. Yet he failed to predict that such a change would accelerate. As the material basis of the labour value theory was eroded due to the historical shift from labour – a key factor of surplus value production – to science and technology, the fate of a social and economic theory depends on socio-economic changes. A theory which cannot catch up with reality would simply disappear into the history of theory. However, the presence of shortcomings in the Habermasian communication theory does not mean that it has lost its relevance, because it is still true that enhancing communicative rationality will serve as a method of creating social agreements in controlling economic power.

Media Influence and Economy

Long-term Influence on Economic Thought

Theories about media influence have evolved over time and they differ from school to school. Within the tradition of empirical research, portrayal of the power of media has oscillated between 'powerful effect' and 'limited effect' theories. Denis McQuail distinguishes the following four phases in explaining the evolution of media effect theory

within this tradition: 1) all-powerful media; 2) theory of powerful media put to the test; 3) powerful media rediscovered; and 4) negotiated media influence (2000: 417-422).

Klapper has suggested that ‘mass communication does not ordinarily serve as a necessary and sufficient cause of audience effects, but rather functions through a nexus of mediating factors’ (Klapper 1960: 8). This forms the basis of the theory of ‘limited effect’.³⁰ The reason why many scholars suggested the ‘limited effect’ of the media is partly due to the fact that their research was limited to the short-term media effect. In the 70s, however, leading researchers in the field began to focus on the long-term media effect. McQuail noted:

The renewal of effect research was marked by a shift of attention towards long-term change, cognitions rather than attitude and affect, and towards collective phenomena such as climates of opinion, structure of belief, ideologies, cultural patterns and institutional forms of media provision (MaQuail 2000: 420).

While the media effect theories have had vicissitudes within the liberal-empirical tradition, scholars within the Marxist tradition have steadfastly adhered to their conclusion about media influence. Their view is in accordance with their claim that the media are the ‘ideological agencies of class domination’. Curran and his colleagues wrote that ‘research studies that denied media influence were so disabled in their theoretical approach as to be scarcely worth confronting’. They combine two traditions as follows:

[The classical empirical studies] revealed the central role of the media in consolidating and fortifying the values and attitudes of audience members.... Marxist and critical commentators have also argued that the mass media play a strategic role in reinforcing dominant social norms and values that legitimize the social system. There is thus no inconsistency, at an empirical level, in the two approaches (Curran, Gurevitch and Woollacott 1995: 14).

³⁰ Klapper and other scholars also accept a large number of exceptions where the media have a great impact. They allow exceptions such as ‘when the media may be or has been persuasive, when audience attention is causal, when information rather than attitude or opinion is involved, when the media source is prestigious, trusted or liked, when monopoly conditions are more complete...’(cited in Curran, Gurevitch and Woollacott 1995: 13).

These two research traditions are in agreement that the media contribute to the consolidation of the values and norms held by the audience. This common ground provides us with the starting point. One of the hypotheses of this thesis is that the press played a decisive role in turning neo-liberalism into the main-stream ideology in Korean society. From this is derived another hypothesis that rational public debate was hampered as a result of the one-sided thought and that economic policy-making process has also been distorted.

It usually takes a long time for the values and thoughts of an individual or the majority of the members of a society to change or to be reinforced. It is particularly difficult to change the overall trend of the main-stream ideology of a society. However, this is where the media can have an impact. As Tichenor and his Minnesota team (1980) have demonstrated, the media 'reinforce or operate to maintain the larger social system' and 'tend to reflect the perspectives of organisational power centres such as business and other power groups' (cited in Jeffres 1986: 272).

Economic organisations, in particular, will show resistance to economic thought which may hamper their pursuit of gains and protection of their vested interests. One of the reasons why neo-liberalism has become so fashionable is that it supports the activities of the winners of the market (conglomerates, for example). Under this ideology, market participants who already enjoy favourable entry conditions can further benefit from their relative advantages. Those who already suffer from unfavourable entry conditions will have to languish or sink. The media industry itself is made up of economic organisations. Moreover, the greater part of their income depends on advertisement of large corporations. The direction is thus set.

Economic thought, however, does not always move in the direction of reinforcing the existing values. As illustrated by Keynes and Friedman, when the economic conditions underwent radical changes calling for a new paradigm and when effective use of the media is persistently made to propagate new thought, the overall trend of main-stream economic thought can also be changed (cited in Parsons 1989). This is because economic thoughts reflect people's perceptions about economic reality; the perception cannot be free from long-term saturating by the media.

Short-term Influence on Economic Policy

Many scholars agree that short-term media effects are rather limited. Even studies that are designed to assess media effects in a sophisticated manner can at best produce ‘dusty’ results as described by Blumler and Gurevitch (1995: 237).

However, under some special circumstances, as mentioned above, short-term media influences may be sufficiently powerful. For example, when the information that is transmitted through the media is manipulated or exaggerated, the impact could be unusually powerful. Such a practice will inevitably damage the public sphere and this is why Habermas took the trouble to emphasise that the information transmitted by the media ‘must be truthful’ (cited in McNair 1999: 22).

Another example relevant to the powerful short-term media influence can be found in the practice of Korean journalism, which used to be satirised as ‘pan journalism’. Faced with an important event, the press heats up very rapidly and then cools down as rapidly as it has heated up. However, this has the effect of concentrating all the media resources to a single topic over a short span of time. The sheer amount of messages bombarded upon the audience may require a separate consideration, which may turn out to yield a different conclusion from the ‘limited’ short-term media effect theory.

It can be said that in a period of increased uncertainty and crisis, short-term media influences can be greater than usual. Faced with a rapidly changing situation, the audience cannot but greatly depend on the information supplied by the media. For Koreans, the economic crisis of 1997 was said to be the greatest crisis they have encountered since the Korean war of 1950-1953. Faced with such a shocking and unexpected economic crisis, the demand for economic information was inevitably greater.

The topic that requires a special attention in this study is how the press can influence economic policy decisions. This is a question of the interaction between economic journalism and the political-economic system in a country. Economic news reports and detailed comments and forecasts not only affect the economy but, to a certain extent, they dictate significant policy changes. The dynamism of the economy stems from the decisions of the three major players – household, enterprise and the government – and none of these players are free from the influence of the economic news. Neil Gavin summarises this point:

Economic news reports are becoming more important to the workings and functions of the economy itself... Impressions and perceptions are today central factors of the national economy (Gavin 1998: 131-132).

Some studies are concerned with showing the interaction of variables such as economic news, consumer sentiment, economic conditions (reality) and presidential popularity. For example, economic news could distort economic reality by adopting an unduly negative tone, which stirs up feelings of anxiety and malaise (Glassman 1993; Kim K. 1997). As a result, consumer sentiment as well as the market will lose buoyancy or sink more deeply into depression (Kurtz 1990; Graber 1993). This will also have an impact on presidential popularity (Blood & Phillips 1997).³¹

Economic news reports can bring about changes of economic policy by changing the thought of policy makers. Jeremy Tunstall briefly mentioned the British media's impact on exchange rate and interest rate policy-decisions when the media changed their traditionally held position on these matters. According to him, the newspapers 'have not only changed their own minds, but they have played an active part in changing the minds of the politicians and the Great British public' on matters of interest and exchange rates (Tunstall 1996: 370).

Economic policy making is after all a matter of choice. When the media show a clear preference for a certain policy alternative, it seems to be unavoidable that the policy makers' choice will be affected by it. On the other hand, policy-makers also make use of the press to justify their policy decisions and mobilize public support. As will be elaborated later in this thesis, both news making and policy-making are the products of the interaction between the two institutions – the media and the government.

Keynes and Friedman held the view that economists should play a leading role in setting the political agenda. They also put their convictions into practice. The 'agenda-setting effect model' which was first proposed by McCombs and Shaw starts with the assumption that even though media coverage may not easily bring about attitudinal or behavioural changes in the audience, this audience may actively seek solutions to the perceived problems, once they are convinced of the importance of the issues by extensive

³¹ Many scholars classify these kinds of media effects into long-term effects (e.g. Blood and Phillips 1997: 99), but, this thesis includes them in short-term influences as a relative concept of 'long-term influence on economic thought'.

news coverage (McCombs and Shaw 1972: 176-187).

This point is further developed as the 'priming effect'. Iyengar and Kinder (1987), on the basis of their research of television news, concluded that 'news not only increases the perceived salience of those issues that are covered most, but also works to prime viewers to give these issues more weight in their overall evaluation of political candidates and parties' (cited in Willnat 1997: 55).

In reference to the 'framing effect', Entman (1993: 51-58) suggests that 'framing involves selection and salience'. In other words, only a few themes or certain aspects of issues are placed in the frames of news production, while others are left out of the frames. Iyengar argues that since television news largely relies on an episodic frame, instead of a thematic one, 'its effect is generally to induce attributions of responsibility to individual victims or perpetrators rather than to broad societal forces, and hence the ultimate political impact of framing is pro-establishment' (Iyengar 1991: 16). This framing effect of television news can also be partly applicable to newspapers. Such defects of agenda set by the media may cause the distortion of public opinions and lead to wrong policy decisions.

There is no guarantee that the agenda set by media coverage will immediately be reflected in the policy-making process. However, the 'two-step flow model' proposed by Lazarsfeld and his research group (Katz and Lazarsfeld 1955) and the 'multi-step flow model' which can provide an insight into how the agenda set by the media can eventually be reflected in the policy making process. The policy-makers themselves may not necessarily be impressed by the agenda. However, opinion leaders (the President, for example) may be influenced, and through them, their followers (ministers and policy-makers) may be influenced. As the ability of the policy-makers will be evaluated by the evaluator's perception of how they have coped with the perceived prime issues, the policy-makers cannot lightly ignore the agenda that is largely set by the media coverage.

Another point, which deserves careful attention in studying the impact of the media on government policy-making, is the concept of 'the obstinate audience' (Bauer 1964), which posed a challenge to the theory of 'all-powerful effect'. This concept is based on the recognition that the audience is not a creature that can be easily swayed by the media messages. While it would be difficult to question this recognition, it should be noted that it would be wrong to put the government decision-makers in the category of 'obstinate audience'. This is because they operate, as McQuail noted, 'within the pre-existing

structure of social relationships' (2000: 419). As a result, factors such as human relationship within the bureaucratic hierarchy, desire for promotion, and alumni network can influence their opinions and behaviours.

Korean Society and Media Models

The word 'crisis' can be traced back to the Greek 'krinein' (to judge). 'Krisis' thus has the meaning of 'the time for judgment' or 'the decisive moment'. Likewise, crisis is closely connected to judgment and decision. For instance, if wrong decisions were made or rather if one decides to postpone the decision when a decision is needed, then a crisis might be approaching.

There were a number of critical moments for decision during the period leading up to the Korean economic crisis of 1997. Many decisions were made on the level of grandiose discourse which uses sound-bites such as 'Reforming the mentality', 'Internationalisation', 'Globalisation', 'Deregulation', 'Strengthening competitiveness', 'Liberalisation of the financial industry'. Also, government economic policy decisions for individual issues and companies' investment decisions to enter into a new area of business were the stages of decision-making which ultimately might lead to the economic crisis.

Then the question is: were those decisions taken in a manner which reflects the interests of the Korean people on the whole; or at least, were they in the interest of those directly involved in the affair; had conflicting interests been adequately resolved through a rational-critical debate in the 'public sphere'; had the debate been conducted with sufficient and accurate information; had the opportunity to participate in the debate been extended widely enough to give a legitimacy of the decisions taken?

An attempt to answer these questions will lead one to tackle a more fundamental question: is there a 'real democracy' in Korea? As is well known, democracy is best grasped as 'a system of procedural rules'. Of course, the results arising out of these democratic procedures are sometimes not the best. The superiority of democracy, as John Keane emphasised, is not to guarantee 'consensus and good decisions', but to provide citizens with 'the possibility of reconsidering their judgements about the quality' of the

decisions (Keane 1991: 177-178). In this way, the inertia of wrong decisions can be controlled and the legitimacy of decisions is secured. When Korean society is analysed from the perspective of democratic procedures, it will be revealed why wrong decisions have been so frequent and have persisted without being rectified, thereby causing significant damage to people. In this sense, it is possible to suggest that the decision-making processes of Korean society were marred by deep problems.

The above-mentioned discourses adopted by the government had far-reaching impacts on Korean society and the economy. Nevertheless, it is doubtful whether they were carefully adopted through democratic procedures. For example, the then President Kim Youngsam's decision to adopt the discourse of 'Globalisation' in 1994 provided the decisive momentum for the opening up of the domestic market and deregulation of the financial services industry. However, there appears to have never been consensus even within the government itself, let alone social consensus.³²

Nonetheless, the agenda, once decided even in this way, had the power to push Korean society in a particular direction, functioning as ruling discourses which the mainstream intellectuals, bureaucrats and the chaebol try to propagate into the society. Their ultimate goal is aptly summarised in a memorandum³³ of Kang Kyungsik, the then Deputy Prime Minister (DPM) of Economy: 'to eliminate all elements which may hinder the full functioning of the market' (Kang 1999a).

Their perception was already too hardened by ideology to accept their opponents' point of view. Keane has argued that democracy is against any such ideology. Instead, democracy requires acceptance of the 'indeterminacy, controversy and uncertainty' of human perceptions (Keane 1992: 96). He further argued that every decision and every ideal should be subjected to reconsideration. Democracy and the freedom of communication make it possible (Keane 1991).

In order to have a democratic scrutiny of the government's ruling discourses and policies, there should be agencies of reform which could rally forces with a comprehensive range of diverse interests. Labour unions and non-governmental

³² In a book, even his son wrote as follows: 'Regarding the globalisation policy, even the members of the secretariat of the President were hardly aware of its contents. A policy of such magnitude for the nation was therefore announced without any internal discussion. Such a style of statesmanship may need to be discussed.' (Kim, H. 2002).

³³ When Kang was later prosecuted for criminal negligence, some of his personal papers came into the prosecutor's custody. His memorandum came to light as a result.

organisations could be mentioned in this connection as the countervailing forces which stand against the alliance of discourse forged between the state and the chaebol. However, neither of these two had accumulated sufficient power in Korea at that time. Labour unions were overshadowed by the all-powerful chaebol and they had difficulties even in being accepted as a partner in the corporatism. Non-governmental organisations remained too diffuse and lacked the focus of power.

No doubt, the ruling class could itself be the agency of reform. However, at an early stage Kim Youngsam government became a partner in the state-chaebol alliance. It could not represent the interests of the people. The then government, according to Choi Jangjip, had superficial appeal for the masses, but it also had authoritarian tendencies. It needed strong support from the media to induce popular support (Choi, J. 1994).

Now we can consider the media as the final candidate for a countervailing agency. The Korean press, however, has a crucial limitation in that it is entirely left to a free market. It is widely recognised that the media in a free market have a tendency to over-represent right-wing interests. According to Curran, the free market, 'restricts the effective freedom to publish'; 'reduces the circulation of public information and renders people less well informed'; 'restricts participation in public debate'; 'undermines intelligent and rational debate' (Curran 2000: 128-129). It is therefore possible to entertain a hypothesis that the Korean media are hindering democracy.

At the meeting point between the theories of democracy and media studies, we may find the Habermasian public sphere and communication theory, and then as more concrete ideas, the public service media model or the democratic media model. These models can provide a path to a 'real democracy'. Those who have developed the 'public service' or 'democratic' media model are greatly influenced by Habermas. As we have already examined Habermasian concepts, it would be useful here to review media models. According to their models, the media should function as a forum for democratic negotiation and compromise between conflicting interests in a society. In order to achieve this, the media should provide a wide range of information and opinions and offer a forum for discussion. To encourage discussion, social groups should have an equal or equitable right of access to the media (Garnham 1986; Keane 1988, 1991; Curran 1991, 2002). As requirements for a democratic media system Curran has listed as follows:

[The media system] should empower people by enabling them to explore where their interest lies; it should support sectional group identities and assist the functioning of organizations necessary for the effective representation of group interests; it should sustain vigilant scrutiny of government and centres of power; it should provide a source of protection and redress for weak and unorganized interests; and it should create the conditions for real societal agreement or compromise based on an open discussion of differences rather than a contrived consensus based on elite dominance (Curran 2002: 247).

Although it has been developed with a specific reference to the broadcast media, Curran's 'working model' could perhaps be extended to a wider range of media including newspapers. It is composed of the core media sector as public service solutions, civic media sector, professional media sector, private enterprise sector and social market sector. Of particular importance to the Korean situation are the civic media sector and the social market sector.³⁴ These two, as mentioned above, appear to be the weakest sectors in Korea. As Curran emphasised, in order to establish meaningful connections between 'civic organizations' and 'the wider public', and also to promote minority media, the civic media sector and the social market sector need to be developed (Curran 2002: 241-244).

Keane has argued that in the hands of the liberalists, democracy was limited to the political sphere. As a result, economic power relationships in a civil society were largely ignored. He emphasised that the ideals of democracy must be extended to a wider range of civil society (Keane 1988, 1991: 170). His view has a particular relevance to the study of this topic. As we shall see in the following chapters, undemocratic decisions taken within a chaebol or other economic power (an over-investment decision, for example) do have far-reaching impacts on the life of citizens in general.

For the ideal type of 'public service' or 'democratic' media, Keane and Curran proposed the 'non-state and non-market media system' (Keane 1991: xii) 'which is controlled neither by the market nor the state' (Curran 2002: 247). Keane has pointed out that in order to increase the diversity of media, legislative measures are needed. Through

³⁴ Curran prescribes the functions of two sectors as follows: 'The civic media sector supports organizations (e.g. political parties, new social movements, interest groups, and sub-cultural networks) that are the life force of democracy; ... The social market sector takes the form of minority media operating within the market, which are supported by the state (Curran 2000: 144-147).

law, the state power should be regulated; through the state, the market should be regulated. He emphasises that 'public regulation of the market should seek the creation of a genuine variety of media which enable little people in big societies to send and receive a variety of opinions' (Keane 1991: 155).

Public opinion plays an important role in a democracy. However, when it ignores minority interests and over-represents special interests, the democracy is threatened. Curran pointed out that the media tend to support 'dominant power interests' and seven types of power could act countervailing pressures: cultural power; state empowerment; media regulation; source power; consumer power; producer power; and staff power (Curran 2002: 151-155). What kinds of interest the media support depends on how effectively these countervailing pressures act. The investigation of the countervailing powers, along with the requirements of the media models as mentioned above, within a country-specific media environment could serve as the yardstick to identify the undemocratic elements of the Korean press. This will give an opportunity to test whether or not the public sphere in a country is working properly, and more broadly if genuine democracy is in place.

Listing a variety of control mechanisms in the Constitution is no guarantee of democracy. The constitutional arrangement of the separation of powers may have the designed effect of checking various governmental organs. However, there is no mechanism of checking the ever-expanding economic powers. The press, no doubt, is a part of the power that needs to be checked, together with the chaebol. Although the press has established itself as the critical power vis-à-vis the government, their criticism is considerably softened vis-à-vis the chaebol. The press can be a means of promoting democracy. To the contrary, when it begins to 'manipulate' public opinion, it can hamper the democracy.

Herein it is possible to argue that the Korean economic crisis was partly due to the Korean press, the problems of decision-making and public opinion formation, going a step forward and the deficiencies of democracy in Korea. To give detailed examples, it may be true that as the Korean press failed to coordinate conflicting values, the potential for crisis was continually being accumulated. It may also be the case that when the crisis arrived, it was amplified by the defective decision-making mechanism of the government and the private sectors.

The quest for the true causes of the economic crisis might well lead to this awareness and, eventually, to these hypotheses. It may be possible to establish a meaningful connection between the economic crisis and the failure of democracy. From this perspective, one could argue that the economic crisis cannot be explained by economic causes alone. The topic must be approached and analysed as an issue of a malfunctioning communication mechanism as well.

Surveillance of the economic powers' attempts to distort the market and the abuse or abandonment of governmental powers is an important responsibility of the press. If the Korean press not only failed to discharge its responsibility, but also actively distorted the market and hampered the proper functioning of the government during the critical periods of crisis and transition, the responsibility of the Korean press in the economic crisis can indeed be a heavy one.

Outline of Text Analyses and Interviews

As has been set out previously, this study proposes to investigate the role of the press in giving rise to the Korean economic crisis. This requires an analysis of the formation of the overall 'discursive environment' during the period leading up to the outbreak of the crisis. In order to examine how the public sphere has been undermined and how that affected the economic changes, and more specifically, how the media exerted influence on the economy, this research relies mainly on two types of materials: media text analysis and interviews with policy makers, journalists, businessmen and PR staffs.

The period under intensive consideration is from 1993, the first year of Kim Youngsam government, when political debates began to be overwhelmed by economic issues, going through the control of the IMF, until 2002, the last year of Kim Daejung's government, when the economic crisis seemed to enter a chronic state.

Newspaper texts comprise economic news, commentaries, editorials and columns appearing in Korea and abroad. The editorials and columns are analysed more closely. Compared to factual coverage of events, these types of texts are believed to have greater influence on policy making or changes.

As one of the hypotheses of this study is that the press played a considerable role in promoting the neo-liberalism that became the mainstream economic thought in Korea, the reports relating to the overall formation of economic thought are touched upon. Certain themes proposed as new social and economic agendas (Globalisation, for example) and the coverage of important policy decisions receive particular attention. The discussion in this thesis is focused on the concrete economic issues that were highlighted during the period in question. They include the items such as: i) the entry of Samsung into and the bankruptcy of Kia in the car industry; ii) the insolvency of Hanbo and Hyundai's attempted entry into the steel industry; iii) the mushrooming of financial institutions and careless loan practices; and iv) the reckless expansion of Daewoo and Hyundai. In addition, they cover the investigations of the media's treatments relating to: v) foreign exchange control; vi) the negotiation with the IMF; vii) belt-tightening measures; and viii) the restructuring of industries.

How the newspapers reported these issues is analysed mainly by qualitative methods, but this is supplemented by quantitative methods. Combining the two approaches has a strong point, as David Deacon and his colleagues argued, 'in the interests of analytical enrichment and the triangulation of research findings' (Deacon, Pickering, Golding and Murdock 1999: 135). This method enables us to avoid fallacy in proving our hypotheses by quoting selectively certain sentences from certain articles. In particular, qualitative and quantitative analysis of ruling discourses can show mutual relations between texts, discourse practices and propagation of dominant ideology.

For general data collection, all 16 newspapers with nationwide circulation are consulted. The Korea Press Foundation is running a website known as KINDS (Korean Integrated News Database System: www.kinds.or.kr). The keyword search method offers a great deal of accessibility and convenience. However, the method should be used only as an auxiliary measure because there is the danger of omitting critically important texts. In particular, column titles often give out very little information about the contents of the column. It is essential to actually look over an enormous number of newspaper articles about important economic issues.

The main texts are *Chosun*, *JoongAng*, *DongA* and *Hankyoreh*, which are regarded as the leading papers in Korea. The first three of these papers enjoy an oligopolistic control of the market and the fourth one enjoys a somewhat special attention as it is

perceived as progressive.³⁵ The ‘leading people’ in the various fields of society, as Tunstall observed, almost all ‘read the same few leading newspapers’ (Tunstall 1996: 1). Occasional mentions, however, are made of minor newspapers, business newspapers, magazines as well as some of the special broadcast coverage of economic issues. Korea-related economic news coverage of influential foreign papers and news agencies must also be scrutinised, in order to assess their influence on a national economy in the era of globalisation.

One point, which needs to be discussed here, is whether focusing on newspapers among all the mass communication media can be justified when the aim is to study the role of the media in influencing the performance of the national economy. The question becomes more pertinent considering that some scholars such as Katz contend that newspapers are no longer the ‘first medium of national integration’ (cited in Curran 1998: 180).

However, it is expected that an analysis of newspapers alone will provide adequate insights or information when studying the relationship between economic news reporting and economic change in Korea. This is because of the overriding importance of the newspaper in Korea. The print media are likely to appear to have a far greater importance in countries with a Confucian tradition. This may not be unconnected to the precocious development of printing technology in Korea.³⁶

In Korea, it is true, ‘the influence of broadcasting on mass culture is immense’. However, newspapers are considered to have ‘quite a significant political value because of their function of leading public opinion’ (Park, Kim and Sohn 2000: 117). Park and his colleagues point out the unusually high rate of home-delivery subscription in Korea and the fact that a small number of newspapers enjoying an oligarchic domination of the media market lead the patterns of public discourse. Unlike the case of the US, the major newspapers in Korea have nationwide circulation and control the national media market.

Moreover, this study is focused on the media’s influence on economic policy-makers rather than the general audience. Because of this, newspapers need to be treated with

³⁵ The ideological leanings of the Korean press will be discussed in Chapter 2, in company with each newspaper’s ownership and market share.

³⁶ According to a chronology of media events drawn by J. Watson and A. Hill, ‘first printed book, the Dharani Sutra, created in Korea from woodblocks on a scroll in A.D. 704, and discovered... in 1966’ (Watson and Hill 2000: 339). And in the early thirteenth century, as John B. Thompson wrote, ‘Koreans were the first to develop a form of moveable type of made of metal’ (Thompson 1995: 54).

greater attention than broadcast media. It is generally accepted that newspapers have a greater impact on policy-makers and the 'elite' portion of the audience. The policy-makers in Korea often simply do not have time to watch prime-time news broadcasts. Instead, as described by Tunstall, 'when they arrive at the office, most top politicians and administrators are presented with press cuttings' (Tunstall 1996: 1).

Also, as at that time the major broadcast companies in Korea operated under the supervision of the government, government officials felt little need to watch the broadcast news. Yet another point to remember is that 'television carries little business-related news in any case' (Gans 1980: 255). On the other hand, newspapers are 'especially relevant' to economic journalism in terms of 'depth, detail, and numbers' (Tunstall 1996: 354).

Although newspapers' influence may be comparatively powerful, one cannot expect to reach a definitive conclusion about their influence on economic policy making. Even if there occurred a change of policy after a change of the media agenda or scathing news reports, the change may have been due to other intervening causes as well. McQuail agrees that 'the media are rarely likely to be the only necessary or sufficient cause and effect, and their relative contribution is extremely hard to access' (McQuail 2000: 416).

However, in-depth interviews with key policy-makers of the relevant period may provide a superior insight into the newspapers' influence on policy making. They might be influenced by the news reports in the planning, execution, alteration, cover-up and discarding of the policies. Such interviews will also provide the means of studying how the government as news sources influenced the news reporting as well. Not infrequently, the government resorts to intentional leaks about a policy to test the waters or makes informal requests to journalists to support the impending policies.

In order to collect meaningful information from the perspective of media or communication studies, the interviews with policy makers were undertaken with the focus on the following questions: was there sufficient related information with which public opinions could be formed; did the civil-social periphery have adequate means (e.g. civic media sector) of voicing their interests to policy-makers; if not, is it possible to say that 'the public opinion' was 'manipulated' by the chaebol or mainstream press; was there enough opportunity for meaningful debate to ensure the legitimacy of the decision-making; did the media play the role of coordinating and compromising the conflicts in a democratic way; if the decision was distorted, what were the causes; to what extent were

they influenced by the press; did the government have the power to correct failures of the market such as over-investment? Needless to say, actual questions will vary and will certainly have to be rephrased depending on issues and interviewees.

Interviews with reporters, desks and columnists who have addressed an important economic issue would provide useful information in understanding the overall problem with the media in Korea. It could also be expected that such interviews would help us identify their political orientations that influence their reports, as well as the obstacles to their autonomous reports. These interviews would also reveal how the market forces could incapacitate the role of the media as 'watchdog' and how the media helped the chaebol to be master of the distorted market.

Another important group for interviews was executives, managers and PR staffs in the chaebol. If duplication and over-investment by the chaebol is the main cause of the financial crisis in Korea, it is essential to understand how such decisions were made. This question is particularly important for the revisionist hypothesis mentioned above. What is crucial from the perspective of communication studies is communication within a company or internal democracy, because the rationality of decision-making is, to a large extent, reliant on the decision-making mechanism. The question of why rational investment decisions were not made will be addressed in in-depth interviews with top managers. In addition, interviews with PR staffs will show how the chaebol as news sources have influence on the media and if they have successfully changed government policies.

As a final result, a total of 44 interviews were used for this study. 19 out of these interviews were undertaken through personal communications when the present researcher was working as an economic journalist in Korea. The remaining 25 interviews were organized mainly as part of my research fieldwork during December 2002 to April 2003. Some follow-up interviews, when needed, were also conducted on the phone. As is shown in <Table 1-1>, interviewees include 11 government officials, 24 journalists, 7 businessmen and 2 researchers. With regard to government officials, the interviews were undertaken mainly with those who were believed to have exercised great influence on policy makings and to understand what pressures have been imposed from outside on this decision making process. As a result, most of the selected interviewees were high-level officials in the Ministry of Commerce and Industry, and the Ministry of Finance and

Economy. The journalists interviewed for this research included economic editors and economic journalists, and personal communications with them are also extensively used.

As those government officials and businessmen who were involved in policy-making or the negotiations with the IMF are still actively working, some of them demanded anonymity or refused to grant an interview. However, the interviews covered a sufficient number of people who occupied key positions so that it was possible to get a fairly detailed picture of policy distortions by the press and the chaebol. When interview requests were refused (about 10 cases), numerous materials such as records mentioned above turned out to be reliable alternative sources of information.

<Table 1-1> Interviews and Personal Communications³⁷

Government Officials and Politicians	11
Top grade (Minister, Vice Minister)	2
Higher grade (Deputy Minister)	3
Medium grade (Director General, Section Chief, Junior Secretary to the President)	4
Low grade (Executive officer)	1
Assemblyman (Chairman of Policy Planning Committee of the ruling party)	1
Journalists	24
Economic editors	3
Other editorial staff	2
Senior reporters and columnists	4
Junior reporters	15
Businessmen	7
Executives	3
Middle-level managers	4
Others	2
Scholar	1
Researcher	1
Grand Total	44

³⁷ This table is based on the professional position the interviewee held during which the events in question were unfolding, but if necessary, professional positions as of interview day or recent positions are mentioned.

Beyond methodological limitations

As I mentioned above, this study is largely based on qualitative methods although I did occasionally make use of quantitative methods. For an accurate understanding of how the government, the chaebol and the media interacted and influenced policy formation during the period leading to the crisis, a contextual approach is indispensable. Especially, in order to assess the media influence on economic change, textual content analysis of news reports of the period must be put in perspective by a contextual approach. At this point qualitative research is, as Jensen wrote, 'instrumental in extending the notion of 'text' to processes of intertextuality and of meaningful social interaction' (Jensen 2002: 244).

In fact, qualitative research is closely associated with the tradition of contextual interpretation in social sciences. The interpretation of textual output of the media would lead to a contextual understanding if not only the texts but also the journalists who produced the texts, and the media organisations in which journalists operate and the socio-economic environment of these media organisations are all studied in a comprehensive manner. For instance, when several columns appear in different newspapers regarding a chaebol's move into a new area of business, a text analysis of these columns would provide a deeper and richer understanding if one takes account of the context in which those columns appear; the outlook and the motives of the columnists in question; the political stance, organisational norms and financial situation of the newspaper companies; the influence of the chaebol as news sources; and government policies on the chaebol.

Participant observation is a very effective method for this type of research. What is obscured by the textual output can be revealed through participant observation. For instance, if one wishes to know how a particular news item is selected, rejected or highlighted, the best method to adopt would be to participate in the news production and observe, interview and talk with those involved in the news production. However, media professionals, as noted by Anders Hansen and his colleagues (1998: 36), often perceive themselves as an elite group and they tend to resist surveillance from outsiders. Although the question of access to the subjects of research poses a serious obstacle to observational methods, it is all the more so when the subjects are the media elites. Those who had themselves been media professionals do have an advantage in this regard. Such researchers would be perceived as former colleagues. A sense of solidarity of the

profession helps reduce the resistance from the media professionals who are the subjects of the research. The remarkable research of Marjorie Ferguson (1983) and Alastair Hetherington (1985) on magazine and news production was partly due to the fact that they were themselves the media professionals.³⁸

This study is also based on the field experience and the materials³⁹ accumulated by the present researcher who participated in the economic news report and observed the process of news production for about 20 years in Korea. The duration of participation and observation is of particular importance when one needs to trace 'structural changes'. This study is focused on how economic thought and economic reality in Korea underwent changes, how the government policies, chaebol's influence and the stance of the media interacted over the past 10 years, and particularly how the media influenced the economic changes. Accordingly, a short-term observation and participation is not likely to produce any meaningful result for these topics.

Although the present research was conducted through long-term participation and personal communications in the so-called 'natural settings', it is not without its own problems and shortcomings. As the present researcher did not start his professional career with research in mind, his observation was not done in a systematic and carefully devised manner. There are areas where he does not have a large amount of data. To fill this gap, relevant texts focused on policy issues during the period leading up to the economic crisis will have to be collected more extensively. Many more key players in the government, the chaebol and the press during that period would need to be interviewed in a fuller manner.

An issue posed relating to the extension of texts and interviewees is to select the sampling methods. A common feature of qualitative or field research, as many scholars have mentioned (e.g. Deacon et al. 1999; Sullivan 2001), is that most researches are conducted by non-probability (or non-random) sampling. This study also relies largely on non-probability sampling. However, the sampling was not constrained by any particular method. Once a class of materials is defined, the texts and the interviewees who were

³⁸ Ferguson who was a magazine journalist, conducted a study of women's magazines in the UK in the 1970's. She notes that 'my previous participation in their production... conferred advantages as well as applied restraints. It facilitated access to informants at all levels of hierarchy...' (1983: 217). Hetherington who edited the *Guardian* and was also a controller of *BBC Scotland*, later conducted a study of national news media (cited in Deacon et al. 1999: 252).

³⁹ This research has examined not only filed newspapers but also an enormous number of newspaper cuttings and documentation that were compiled by the present researcher who was working as an economic journalist. There are about 140 files in total, which are classified by subjects, items and events.

suited to the 'goal' of each case study were collected and analysed.

The selection of newspaper texts, as mentioned above, was mainly 'targeted' on commentaries, editorials and columns relating to big economic issues of Korea, which appeared in the four major Korean papers and some foreign papers. Almost all news articles falling within this class were reviewed. Those items which are significant for the case studies and representative of the stance of each of the newspaper companies under study were then selected.

Nevertheless, as the analysis of news reports is limited to news coverage of media companies, it has the disadvantage of failing to cover unreported but important news as well as the behind-the-scenes stories of covered news. In an attempt to overcome this shortcoming, other documents have been extensively reviewed, including report notes and memories of journalists, government policy records, prosecutors' investigation records and court records on dereliction charges relating to the currency crisis, records of the National Assembly hearings and classified documents such as the chaebol's PR project plans.

Multi-step sampling was used in selecting the interviewees. This is in line with the contextual orientation of qualitative research. In order to study the arguable causal connection between news coverage and policy change, for instance, it is not necessary to interview all relevant persons. One can start with a limited number of interviewees who are necessary to have an independent corroboration of the clues supplied by media texts. After the initial interview, further interviews may be conducted when it is necessary to cross-check the statements which were made in the initial interview. Those who were responsible for policy formation at the time, news reporters, editors, entrepreneurs or PR staff may be contacted for cross checking purposes. Extensive, in-depth interviews with them would reveal the intricate mechanisms of news reporting and policy making which are all under the influence of organisational pressures and other complex constraints.

However, purpose-oriented sampling must be done according to certain guidelines so that the interviewer's bias does not determine the selection of interviewees. While the present researcher's wide-ranging experience⁴⁰ was useful in securing interviews with a

⁴⁰ The present researcher entered a conservative newspaper, *Chosun* in 1984, and then participated in the foundation of the only progressive newspaper, *Hankyoreh* in 1988. After having covered nearly all the government departments for economic affairs and the chaebol as a reporter, he was working for an editorial writer, a leading columnist, and then an economic editor. His first career as a speech writer for the chairman of LG group in 1983 was also very helpful in meeting the PR professionals of the chaebol and collecting 'unknown stories' relating to PR practices.

great variety of media professionals, businessmen and government officials responsible for economic policies, there are a few issues which might adversely affect objectivity of the research findings. They are as follows:

First, sampling of interviewees might be biased by the interviewer's personal relationship and familiarity with them. In particular, media professionals as interviewees must be distributed across the whole range of the ideological spectrum. For this study, news reporters working at progressive newspaper companies and conservative ones were sometimes invited to come to a group interview session. Through discussions between them, it was hoped that their divergent views would emerge more clearly. Also, interviewees would need to be evenly distributed across the government departments who opposed to each other and the chaebol who competed against each other.

Second, the interviewer must make every effort to refrain from holding any prejudice or preconceived notions about the result of interviews. The validity and reliability of interviews will depend on how successful the interviewer was in maintaining a neutral approach. By making use of interviews with economic editors of various newspaper companies, single observer bias could be avoided to a certain extent.

Third, the research result may be affected by data collection bias in the course of the interviews. While the problem might be due to the interview method itself, it is difficult to draw honest answers from interviewees, especially high-level government officials, managers in the chaebol and media professionals. It is possible that they might provide distorted information and concentrate on self-defence. Yet, once anonymity is guaranteed, such a risk will be much smaller. One alternative in this regard would be to undertake interviews with those minorities who opposed unreasonable investment decisions or information manipulation, thereby collecting unknown episodes. At the same time, many company managers, policy makers and journalists who lost their jobs in the process of economic crisis and restructuring will be easily accessible for interviews.

In short, the three major techniques of data collection adopted in this research are i) scrutiny of media texts and other documents; ii) participant observation; iii) talks and interviews. The combined method, it is hoped, could reduce biases inherent in a single method, a single source and a single investigator.

Extreme caution ought to be exercised before assuming that the media determined public opinion in Korea in the later 1990s. Two generations of audience research, using

different methods, reveal that people have prior opinions, beliefs and values shaped by early socialisation, peer group influence and the discourses of everyday life, and that these prior dispositions give rise to selective responses to the media.⁴¹ It is not argued here that the press brainwashed an uncritical, mindless public. However, what is argued in this thesis is that the Korean press offered a very selective representation of the issues relating to the management of the economy. The press tended to marginalise alternative interpretations of the economy other than those advanced by the government and powerful business interests, and tended to exclude from active consideration alternative policy options. The press thus did not function as an open forum of debate, and in this way militated against the development of an independent public opinion that might have acted as a countervailing force compelling a change of economic direction.

In this context, where the potential power of critical opinion had been neutralised, the press exerted a significant influence on policy makers. However, this influence is best understood as contributing to policy outcomes rather than determining these. The influence exerted by the press coincided with that of other influences: those exerted from the president's office, the lobbying by powerful chaebol, and the consensus among trained economists. The press both expressed, and reinforced, the neo-liberalism of the era. It contributed to, but did not alone cause, the disastrous misjudgements and policy errors of this period.

Finally, the economic crisis that engulfed Korea needs to be understood in its wider context. Although its causes are still the subject of continuing debate, it now seems clear that a number of factors were in play. The corporate sector had become over-invested, and was debt-ridden. The banking system was destabilised by this overexposure. The global economy had become inherently unstable due to the unprecedented velocity and volume of capital flows between national economies, facilitated by the development of new communications technology and the deregulation of global financial markets. In this already imperilled context, the government made things worse by making the wrong decisions. In this, it was encouraged and abetted by the Korean and foreign press.

⁴¹ A particularly good overview of audience research, though one focused on television, is provided by John Tulloch, *Watching Television Audiences*, Arnold, London, 2000. For a recent study highlighting the limitations of press influence, as well as the variable, contingent and uneven nature of that influence, see James Curran, Ivor Gaber and Julian Petley, *Culture Wars*, Edinburgh University Press, 2005.

Neo-liberalism, the Korean Economy and the Press

Introduction

The meanings of ‘liberalism’ are slightly different in Europe and the US, and even confusing in Korea. In Korea, as in the US, ‘liberalism’ could mean free thinking, free from the grip of the conservatism. For this reason, ‘liberalists’ in Korea are sometimes described as ‘progressive’. However, most of them believe in the market, favour the chaebol, and can thus be classified as ‘right-wing’.

Among the economists who are regarded as ‘liberalists’, those who emphasise fairness and order mainly come under the category of Walter Eucken’s order liberalism or James Buchanan’s constitutional liberalism. Some ‘liberalists’ still remain in the category of Friedrich Hayek’s evolutionary liberalism. Both groups of economists in Korea hold favourable views about the chaebol. However, the former group emphasises liberalism within rules, believing that the chaebol need to reform themselves. In contrast, the latter group believes that every existing institution is the fittest that survived the struggle for existence. Therefore, they do not think the government needs to reform the chaebol.

Since the beginning of the twentieth century evolutionary liberalism has been severely criticised for its reactionary tendencies. It is, as it were, an ideology that failed to survive because it was, ironically, not ‘the fittest’. In Korea, however, it has attracted great attention because it has turned out to be very useful in defending the chaebol system. Neo-liberalist ideologues in Korea have argued that the chaebol of Korea are ‘the fittest’ who managed to survive the poor conditions of governmental intervention and regulation. Regarding the financial crisis, which was triggered off by the over-investment of the chaebol who relied on excessive loans, Gong Byungho of the Korea Center for Free Enterprise (KCFE) has claimed in his book, *Your common sense: you need to change it to survive*:

An important reason for the chaebol’s reliance on loans rather than on the stock or

bond market was the presence of the numerous regulations that cripple stock or bond markets.... Had the market and its pricing mechanism been allowed to function properly, this financial crisis could have been avoided (Gong 1998: 34).

In his argument, the principal offender of over-investment was stealthily changed from the chaebol to the government.

Liberalism in Korea thus shows a wide spectrum of nuances. Nevertheless, the common features can be described as neo-liberalism that ardently defends the market mechanism. They also have neo-conservative tendencies in that they attempt to restore law and order.

The ascendancy of neo-liberalism has brought back the issue concerning the relationship between the state and the market. This chapter aims to examine this issue from a historical perspective and also provide a critical review with regard to the depoliticisation of the market. It will also explore what distance the media need to maintain against the state and the market respectively, taking into account the level of socio-economic development in Korea. It is hoped that such conceptual clarifications will enable us to secure a comprehensive view concerning the status of neo-liberalism in Korea.

The big difference among economists with regard to the roles of the state and the market explains why the debates about the causes of the economic crisis were so tense. As their views on the causes of the crisis differ, their prescriptions also differ. These debates were essentially related to the future direction of economic policies and also to the ideological directions of Korean society. For this reason, the debates were characterised by intense fights for 'interpretative hegemony'.

In order to evaluate the influence of neo-liberalism on economic thought and changes in Korea, it is essential to revisit these debates. Such a critical review will reveal the characteristics and limitations of the economic analyses put forward about the causes of economic crisis. The limitations will, in turn, indicate why this study pays special attention to non-economic factors, particularly the way in which the communication system operates in practice in Korea.

Finally, a sketch of the ideological territory in the Korean media industry will help us develop a perspective that captures a crisis-inviting mechanism in the presence of ideological bias.

Market vs. State

The debates about neo-liberalism also stem from different views as to the role of the state and the market. Neo-liberalism could perhaps be defined as an ideology that supports policies driven by the conviction that ‘free competition in a market will produce the best results’. Professor Coase of the Chicago School emphasises that even if the market may fail, government intervention cannot necessarily be the answer (Coase 1960: 1-44).

Obviously, such belief relating to the minimal intervention of the government was also shared by Classical liberalism. However, neo-liberalism has a different context. When it emerged in the middle of the 20th century its main intention was to put forward an anti-thesis to the Keynesian welfare-state ideology. While neo-liberalists often quote the founding father of capitalist economic theory, Adam Smith, and earlier liberalists such as Alexis de Tocqueville, John Stuart Mill and Emile Durkheim, they tend to conveniently disregard the pre-conditions of liberalism that formed the shared assumptions of these liberalist thinkers.

However, as Amartya Sen (1987) points out, an accurate reading of Adam Smith would inform us that self-interested behaviour should not be understood in its narrow sense and that there is no evidence to show that maximisation of self-interest would lead to optimisation of the economy. For the earlier liberalist thinkers, free competition presupposed a degree of market regulation. Mill, for example, attempted to address the social difficulties resulting from natural rules of production by resorting to an artificially induced fairness of distribution and gradual social reform (Mill 1998).

Such a liberalist tradition underwent a radical change with the onslaught of the capital crisis after the 1970’s. In particular, the so-called Thatcherism of the UK and Reaganomics of the US adopted a decisively anti-labour, pro-capital approach as those regimes attempted to overcome the capital crisis by cutting down their welfare budgets, increasing labour-market flexibility, deregulating industries and privatising public companies.

Thatcherism, according to Stuart Hall’s analysis, emerged when the neo-liberalist effort to promote a free market economy was co-opted by the authoritarian Toryism which relied on the virtue of law and order. With an effective use of the populist discourse where the vices of industrial action, unionism, bureaucracy and tax feature prominently, the Thatcher government succeeded in combining the contradictory ideals of free market,

minimalist state and strong government (Hall 1983, 1988). The government has to be strong, not to provide increased welfare services, but to enlarge the areas of market rule. This is what Charles Lindblom referred to as 'the market as prison'. To suppress the demand for re-distribution of income and wealth a strong government was necessary. The strong government had the mission of preventing people from escaping the prison of the market (Lindblom 1982).

The neo-liberalist conceptions of the state and the market are grounded upon an assumption: 'in the beginning, there were the markets' (Williamson 1975: 20). However, many economic historians (e.g. Karl Polanyi 1957) show that the markets were not originally important institutions in comparison with the states and those large-scale markets were able to come into existence through the midwifery skill of the states.

De-politicising Market: Virtue or Vice?

Neo-liberalists claim that the principle of market-driven resource distribution (one dollar, one vote) should not be influenced by the principle of political resource distribution (one person, one vote). Nevertheless, it is far from clear whether efficient resource distribution can be better achieved by the market rather than the state. As Joseph Stiglitz pointed out, just as the Keynesian assumption that the state will always act in the interest of the public is wrong, so is the neo-liberalist assumption that the state is always and everywhere inefficient (Stiglitz 1989). The claim that the market and the state should operate in distinct and separate spheres without interfering with each other can barely hide the raw interests of the market, which is intent on fending off the state intervention.

In Korea, mainstream economists, who hold mostly neo-liberal convictions, have argued for a long time for the abolition of regulations. However, since the economy was depressed in 1993, they began to blame 'high costs and low efficiency' for the economic depression and push the government to take action for 'Strengthening competitiveness'. In order to combat 'high costs', they advocated low wages, low interest rates, low land prices and low transport costs. The Federation of Korean Industries (FKI)⁴² and the Korea

⁴² An interest group organised by Korean chaebol, apart from the Korea Chamber of Commerce and Industry (KCCI).

Employers Federation (KEF) have emphasised the need for strong government intervention in these areas. Their argument is therefore marred with self-contradiction.

They kept demanding the government crack down upon the labour movement in order to keep wages at a low level. They have often voiced their requests to the government to lower interest rates. In contrast to these vociferous demands, they rarely mention low efficiency in management and low levels of technology, which result in a poor rate of return. In short, they rarely blame themselves. In view of the development stage of the Korean economy, high wages are probably unavoidable. In order to compete with more advanced economies, they should have focused their efforts on high efficiency, but, they attempted to avoid the unavoidable – with the help of the government.

Political economists appear to agree that de-politicising the market is not only infeasible but also dangerous and anti-democratic. This is because the market itself is a political product. As Chang Ha-Joon noted, '[the] proposal for its de-politicisation is at best self-contradictory and at worst dishonest' (Chang 2002: 549). He points out that many constructs of the market – for example, the establishment and distribution of property rights, minimum working hours, consumer protection and even prices – are subject to political influences.

The relationship between the market and the state is at once complementary and potentially conflicting. It is rather common in many countries that once capitalists secure a dominant position in the market, they begin to influence political decision making as well. Such a state of affairs is undesirable not only for the state but also for the development of a market economy.⁴³ On the other hand, an over-enthusiastic policy decision to increase wages and welfare budgets may lead to inflation and ultimately drain resources that would otherwise have been put to production, thereby causing the overall impoverishment of the nation.

In short, the relationship between the market and the state should not be perceived as a matter of dualistic choice, but as the one that must be worked out to achieve a harmonious balance between the two. A well-functioning market economy requires a well-functioning state. Lim Hyukbaek suggests that the way to liberty, equality and social justice is to reform the imperfect market and the equally imperfect state so that the two could explore the possibility of a 'happy union' (Lim 1994: 157).

⁴³ This concern is echoed in Adam Smith's *Wealth of Nations*. See Sen (1987) for details.

Economic Development and the Media

The attempt to conceptualise the roles of the market and the state – in the viewpoint of institutional economics or development economics – has oscillated between two extremes. The debate now appears to have led to an awareness of complementarity of institutions. The market-centred approach of the neo-classical economic theorists who would view the state as a ‘necessary evil’ and the proponents of developmental state theory⁴⁴ who would rely on the state to coordinate resource distribution, have both contributed to the emergence of the ‘market-friendly view’⁴⁵ and the ‘market-enhancing view’.⁴⁶

The ‘market-friendly view’ is modelled after the high performing Asian economies. In this view, the state appears to have achieved satisfactory results by carefully delineating policy priorities, encouraging high savings and training good-quality human resources. The ‘market enhancing view’ reflects the recent theoretical trends in institutional economics. According to this view, the state itself is one among other economic entities in the system. Not only has the state overseen efficient functioning of the market, but also it has carried out its entrepreneurial role and thus contributed to an overall enhancement of the market function of the system (Seong 1998: 75-77).

The proponents of institutionalist political economy regard the markets as an institution like any other institution. Market failure, therefore, has a considerably reduced significance. The market, according to Chang, is nothing but a component of so-called ‘market economy’ or ‘capitalism’:

The capitalist system is made up of a range of institutions, including the markets as institutions of exchange, the firms as institutions of production, and the state as the creator and regulator of the institutions governing their relationships, as well as other informal institutions such as social convention (Chang 2002: 546).

To this, the media should be added as an institution that carries out a role whose

⁴⁴ For example, see Alice Amsden (1989), Robert Wade (1990).

⁴⁵ The market-friendly view is closer to developmental state theory although the name might suggest otherwise, as the emphasis is on the role of the state in economic development.

⁴⁶ This view is adopted by Aoki and colleagues (1997) who analysed economic developments in East Asian countries.

significance is comparable to that of the market or of the state. In particular, considering the importance of mass communication in a modern society, the mass media can be expected to function as the institution for distributing information, 'whistle-blowing' and organising public debates.

Concerning the relation between society and press, there were 'four theories of the press': 'authoritarian', 'libertarian', 'social responsibility' and 'communist' theory (Siebert, Peterson and Schramm 1956). In the early 1980's, McQuail (1983) and Altschull (1984), who witnessed the rapid economic advance of developmental states, added 'development theory' to these four. McQuail suggested:

A more positive version of media theory is needed which focused on national and developmental goals as well as the need for autonomy and solidarity with other nations in a similar situation. In the circumstances it may be legitimate for government to allocate resources selectively and to restrict journalistic freedom in some ways (McQuail 2000: 155).

This theory represents the features of the Korean media in the age of a developmental state, but cannot be fully applied to the developed states, especially in the age of the retreat of the state. New socio-economic environments tend to require a new status of the media that maintain a distance from the market without being captured by the state.

The tensions between the state and the market are not to be resolved by choosing one rather than the other. Instead, as Przeworski argued, they are to be relieved by providing incentives and supervision mechanisms to ensure that, within each of these organisations, the agent will strive to maximise the principal's interests (Przeworski 1992). The role of the media, then, is to guide and to watch out so that component institutions such as the market and the state can avoid violating the rules, lapsing into moral hazard or being co-opted by a particular group of the system. However, media industries themselves are no more than component groups of the system that are equally vulnerable to such risks. Herein lies the difficulty.

The Power of Neo-liberalism in Korean Society

The Retreat of the State

The studies of economic history (e.g. Lane 1958) reveal that capitalists would opt for state intervention and reap monopoly rent when such rent is likely to be greater than the gains from market generated revenue. However, when the scale of economy becomes large enough that the gains from innovation are likely to be greater than monopoly rent, they would rather try to be free from the state's interference.

After decades of high economic growth that had been achieved through developmental state policies, Korean society began to ride the wave of neo-liberalism or neo-conservatism in the 1980's. The state had to retreat. Park Chunghee's government was succeeded by the military regime of Chun Doo-hwan. Chun's government, although authoritarian in the political sphere, steered away from a state-led economy and began to follow the course of 'privatisation' of the economy. As Song Hogeun has remarked:

The beginning of the so-called 'self-regulation era' was not because of the Chun government's will for democracy, but because it was the best way to boost the economy. Booming economy and high growth rate were the keys to secure the stability of the authoritarian regime (Song 1992: 209).

The ruling military group of the time appointed neo-liberalist proponents of the market economy to crucial government posts in a short-term attempt to boost the economy. The government was seeking to forge cooperation with the chaebol.

All across the board, hundreds and thousands of people were banned from politics and stripped of their posts. Some of them were even sent to military camps where they had to go through ranger training courses. Amidst the reign of 'revolutionary' terror, the chaebol were spared intact.

The military government collapsed in the face of an unprecedented 'civil struggle for democratisation' in 1987. Roh Tae-woo⁴⁷ came to power and made a partial attempt to

⁴⁷ Although President Roh was also one of the leading members of the counter-coup in 1980, he could seize power thanks to political splits within the opposition party.

implement the demands for democratisation. His government pursued a series of reforms including the implementation of the 'Real-name Financial Transaction System', punitive taxation for speculative real estate transactions and restrictions on the chaebol's entry into certain defined industries.

By then, however, the chaebol had grown extremely strong with decades of accumulated capital. As predicted by Lane (1958), when the capital saw that the proposed reforms were a hindrance to their pursuit for profits, they rallied forces to resist the reforms. They mobilised interest groups and media industries under their control and started to mount an opposition. They vigorously lobbied to block the enactment of reform bills, or failing that, to delay the implementation of the reform acts. The government's programme for reforms was not a proposal to introduce 'novel' arrangements. Most of the proposed reforms were, in fact, already well in place in many industrialised countries. The chaebol, however, portrayed the reforms as 'state intervention'. What they now called the 'market economy', so went their argument, would be crippled by state intervention. Their opposition was effective. The proposed 'Real-name Financial Transaction System' was indefinitely postponed. The other reforms were also watered down and perfunctorily implemented for a couple of years before they were finally abandoned.

However, the 'Ban on Speculative Real Estate Transactions' (8 May 1990) which was subsequently introduced to curb the sharp increase in real estate prices provided another occasion for *a tour de force* as it required the chaebol to dispose of their real estate that were unrelated to their business operations. The neo-liberal leaning of Korean society began to manifest itself when the chaebol expressed their accumulated discontent in a variety of flora. The government's industrial policies and even the fair trade regulations were criticised as 'market interference'. The chairman of Hyundai, Chung Juyung, decided to enter politics. Chairman Chung used his unparalleled wealth and the organisational support of his super conglomerate to form a political party. In the election for the National Assembly held in March 1992, his party won 31 seats. However, his unsuccessful attempt to run for the Presidency in late 1992 dealt a heavy blow to his super conglomerate, Hyundai. This is an episode where economic power attempted to take over political power as well. It was a wasteful attempt in every sense.

To summarise, the relationship between the chaebol (capitalists) and the state during the successive governments of Chun and Roh cannot be described simply as the captivity of

the state by the chaebol. The relationship is, in fact, more dynamic and complicated. Obviously there is some indication of ‘captured state’ or at least ‘collusion’, as is illustrated by the imprisonment of both Chun and Roh when their corrupt practice of receiving impressive amount of money from the chaebol was revealed soon after they left office. However, it is also true that the pressure for reform was at times strong enough to make them embark on a collision course with the chaebol. Their decision to engage in such a high risk battle was perhaps their desperate effort to complement the deficiency of legitimacy from which they were suffering.

The Consolidation of Economic Powers

It is noteworthy that as democracy was advancing in Korean society, the capitalist giants also made strong attempts to organise themselves as an interest group. Their sphere of influence expanded and their lobby became more effective. The Federation of Korean Industries (FKI) emerged as the focus of their endeavours to organise themselves. FKI was created during the reign of Park Chunghee to foster the chaebol as the driving force for economic development. At the beginning, therefore, there was very little room for conflicts between the chaebol and the state.

According to some analyses (e.g. Hong 1993), however, as the negative consequences of the chaebol-driven economic growth strategies on the overall national economy began to surface in the late 1970’s, the FKI eventually defined itself as representing the interests of a handful of capitalist giants rather than the interests of all industries. Interestingly, this development was accompanied by the repositioning of another employers’ organisation, the Korea Chamber of Commerce and Industry, as a body that represents the interests of the medium or small size entrepreneurs in the provinces. The giants have effectively moved out for a much-needed, exclusive ‘solidarity’.

During the successive governments of Chun and Roh, the FKI successfully blocked the introduction of the ‘Real-name Financial Transaction System’. They were also opposed to the enactment of ‘Fair Trade Law’, which – as a result – took 17 years to see the light of day. It is paradoxical that an organisation whose mission statement prominently features ‘promotion of free market economic order’ rejected the vital piece of legislation aimed at

policing the market.

In 1996 the FKI hosted a special symposium to propagate the view that many regulations aimed at the chaebol were allegedly unconstitutional. Participants of the symposium expressed a view that various measures of the 'Fair Trade Law' and 'Securities Regulation Act', which were aimed at alleviating the concentration of capital within a chaebol (restrictions on cross-holding, restrictions on a chaebol's equity holdings in a commercial bank, for example), were basically unconstitutional (Lee, C. 1996). The pro-chaebol press covered this as an important topic. *Hankook Kyungjae*, of which the FKI members are the major shareholders, devoted two entire pages to report this as well as an editorial urging the government to proceed with the necessary law reform (*Hankook Kyungjae*, 20 June 1996).

The neo-liberal ideology provided the argumentative force for the FKI's attempt to challenge the state's legitimate economic policy decisions. Another source of the FKI's power can be found in the practice of the ruling politicians who used the FKI as a convenient channel for political fund-raising as well as treating it as a 'partner' in the government's efforts to boost the economy. The problem, as Lee Keunsik aptly pointed out, was that 'for the government to seek policy consultation with the FKI, which is after all an interest group of the oligopolistic chaebol, is contradictory to its mission' (*Hankyoreh*, 11 Sep. 1995). The Citizens' Coalition for Economic Justice (CCEJ) and other non-governmental organisations have argued that the FKI is no more than 'a cartel of the chaebol'. They also called for the dissolution of the FKI.

However, the futility of such an effort was a matter of public knowledge by then. In the mind of opinion leaders in Korea, the FKI had already succeeded in portraying itself as the 'necessary channel' between industry and the remainder of society. Each year the FKI secretariat organised factory visits for a large number of reporters, politicians, religious leaders and heads of various organisations. Schoolteachers were also invited to economics lecture tours on site. These programmes were funded by the FKI as one of its regular operations. The budget for these 'social cooperation projects' amounted to about four million dollars in 1996. This was increased to ten million dollars in 1997 when the FKI strengthened its neo-liberal propaganda activities. The FKI used part of this budget to fund overseas training programmes for labour union leaders as well.

The chaebol have forged a strong alliance with ruling politicians through marriage or

by offering top managerial posts to politicians or to high-ranking government officials upon their retirement. President Roh, for example, married his daughter off to the son of the chairman of SK Group, Choi Jonghyun, who later became the president of the FKI. President Roh's son, in turn, was married to a daughter of the chairman of the Dongbang Group, Shin Myungsoo. Toward the end of 1991 President Roh sent a memorandum to the Finance Minister instructing him to lower interest rates. It emerged afterwards that the memorandum had been prepared by Shin Myungsoo (Lee et al. 1995: 271). Choi Jonghyun also had his share of influence. He was invited to a meeting held in a hotel attended by the Finance Minister and the Chairman of the Bank of Korea. Choi gave a lengthy speech expounding a monetarist view that 'the increased supply of money will bring down the interest rate' (Lee et al. 1995: 272).⁴⁸ It would have been simply unthinkable for him to have such an audience for his speech had he not forged a close connection with the President through his son's marriage.

Also, the former Deputy Prime Minister of Economy, Shin Hyunhwak, Yoo Changsoon, Kang Kyungsik and many other former high-ranking government officials became advisers or executive directors of the chaebol. This added considerable power to the industry. Their lobbying led to the distortion of government policies in Korean society where connections play an important role. An official in the Financial Policy Section of the Ministry of Finance and Economy (MOFE) admitted this in an interview undertaken for this thesis:

When a person who has until recently been my boss approaches me as the finance director of a chaebol, it is not easy to ignore his requests. As a result, economic policies can be changed in a bad direction (interview 20 Feb. 2003).

In connection with the consolidation of the chaebol, another interest group that deserves to be mentioned is the Korea Employers Federation (KEF), which represents capitalists' interests. Its main purpose was to coordinate employers' positions in wage negotiations. As the labour force of the time could not cohesively organise itself to form an industry-wide union or nation-wide federation of unions, the KEF was very effective. In 1996, the KEF persuaded industry leaders to make a controversial decision to blacklist

⁴⁸ Choi studied economics at the University of Chicago, 'the cradle of monetarism'.

graduates who had a record of participating in student demonstrations (*Hankyoreh*, 31 Aug. 1996).

Compromises and negotiations between federated labour unions and the employers' federation can certainly be a positive mechanism for healing social cleavage and for reforming the system on a basis of social corporatism. However, when there is a serious imbalance of respective bargaining powers, it will lead to unreciprocated concessions and sacrifices by one side. In this regard, it is noteworthy that the collective actions of an interest group can be robust when there are a small number of members who can easily communicate and who have shared values, convictions and interests (Clague 1997). The famous passage of Vilfredo Pareto is particularly relevant here. He noted that:

[If] a certain measure A is the case of the loss of one franc to each of a thousand persons, and of a thousand franc gain to one individual, the latter will expend a great deal of energy, whereas the former will resist weakly; and it is likely that, in the end, the person who is attempting to secure the thousand francs via A will be successful (cited in Sen 1999: 122).

Labour unions, non-governmental organisations and other citizens' movements have inherent weaknesses in this regard. The FKI and KEF confirmed this by showing how well these handfuls of chaebol can organise themselves and proceed with collective actions with effectiveness.

The Subordination of Politics

A three-decade long period of rule by former army generals came to an end in 1993 when President Kim Youngsam came to power. President Kim declared the start of what he called 'civilian government'. He began his presidency by undertaking a comprehensive programme for political and social reform. Under the catch-all phrase of 'Building a New Korea', he used the sub-catchphrases of 'Reform', 'Strengthening competitiveness' and 'Redressing law and order'. His enthusiasm for 'Reform' was very strong at first. His decisions to disclose the wealth of high-ranking government officials, to oust corrupt

bureaucrats and to ban private cliques within the army (which had provided the power base for the former military regimes) won him the heart of the people. Opinion polls in the first year of his presidency recorded 90% popular support for the government.

Upon close analysis, however, the limits of his policies are obvious. Apart from the agenda of 'Reform', the remaining agendas are the typical sound bites of neo-liberalist governments. President Kim's 'Reform', therefore, was bound to clash with the remaining two (conservative) agendas that were discordant with his will to 'Reform'. Neo-conservatism as well as neo-liberalism emphasises the efficiency of the market while supporting the law and order argument of the government. The ruthless crackdown on labour movements, which took place half a year after the beginning of the so-called 'civilian government', was therefore pre-ordained.

'Strengthening competitiveness' was given concrete content by the new government's economic policies, which were summarised in the 'Plan for the New Economy'. In substance, they largely reflect the demands of the capitalist giants who successfully pleaded the need for 'Rescuing the economy'. At the time of the presidential election, the FKI had produced a proposal entitled 'What should government officials do in the new government: the business view' which spelled out their wishes and was later reflected in the government plan mentioned above

It appeared to be during the period between the outbreak of a labour dispute at Hyundai (June 1993) and the government's surprise announcement of the 'Real-name Financial Transaction System' (August 1993) that an anti-reform alliance was forged between the conservative block of the ruling class and the capitalists (e.g. Kang and Park 1997: 134). The new government had been in power for less than six months by then. The demand of the anti-reform alliance was that the focus of government policies should be shifted away from 'Reform' to 'Rejuvenation of the economy'. This move was justified by the economic slump of the time. Some even went so far as to suspect that the so-called 'slump' had been 'induced' with a purpose (e.g. Kim, S. 1994; Hong 1997a). In the National Assembly in 2003 Representative Kim Boogyum also asserted, "Over the past three presidential terms, each time the pro-reform government came to power, the chaebol avoided domestic investments to bring the government to its knees" (Records of the National Assembly Debates, 17 Apr. 2003).

The change of the catch phrase signalled the adoption of the neo-liberal, neo-

conservative ideology by the Kim government. While the 'Rejuvenation' could have been achieved by reforming the chaebol-centred economic structure, in reality, the 'Reform' was understood as consisting of 'deregulation' and 'privatisation'. The 'hands off' policy of the government was expected to accelerate the pace at which the inefficiency of the system accumulated, because, by then, the market had already been stifled by the monopolistic dominance of the chaebol.

The government began such a shift by removing the borrowing restrictions affecting some of the more heavily indebted chaebol. Construction of new plants within the already over-crowded area of Greater Seoul was permitted for the chaebol. Major construction projects to build social capital were carried out by private entrepreneurs. Public corporations were rapidly privatised. The major beneficiaries were the chaebol. Amidst the privatisation drive, the regulation of mobile communication services was 'handed over' to the FKI, which was asked to select the mobile communication service provider from among their members. In other words, even the communication service policy was entrusted to the cartel of the chaebol. The charter for the communication service provider was eventually granted to Choi Jonghyun, the Chairman of the SK Group and the FKI.

The executive committee meetings of the FKI, which were presided over by Choi Jonghyun, were referred to as 'Economic cabinet meetings'. The residence of Lee Keunhee, the chairman of Samsung, was the meeting place of the owners of the chaebol. It was called the 'Blue House II' at that time (*Hankyoreh* 20 Apr. 1995), named after the Blue House, the Official Presidential Residence of South Korea.

Toward the end of his term, President Kim Youngsam became a vigorous advocate for 'Globalisation', 'minimal state and market extension'. In this climate, the FKI-affiliated think-tank, the Korea Economic Research Institute (KERI) produced a paper, which argued:

Except for the Defence and the Foreign Service, all government departments may be abolished and that it will reduce the number of bureaucrats by 90%.... Higher income tax rates and other measures of artificial redistribution of income could lead to an exodus of domestic companies to foreign countries with the consequent breakdown of the government budget. The Incremental income tax rate system and the government-led unemployment benefit and national pension scheme should be abolished. Majority voting can fall prey to popular demand and political considerations will overshadow

economic considerations. Because of this, some of the advanced countries suffer from sluggish economic growth. The principle of majority voting must be re-examined.⁴⁹

The contents of the report were not implemented as government policies. Yet the report played an important role in blocking the wider introduction of incremental income tax rates, unemployment benefit and a national pension system. More significantly, the report shows that major capitalists were not content to remain within their own areas of corporate management but were attempting to increase and broaden their influence in social welfare policies. In doing so, it went further in questioning the fundamental principle of democracy, majority voting, based on the belief that it is simply an obstacle to economic growth. The preparation of the report attracted special and personal attention from Chairman Choi over a long period. Consequently, it was more than a collection of independent ideas of the researchers involved. According to a researcher who was closely involved in the research project, Choi repeatedly gave his strong support, saying “Even a small corporate enterprise endeavours to have managerial strategy for decades to come. How can a country afford not to have a decent strategy? Prepare a report which can serve as a roadmap for the country’s future.” (*DongA*, 15 Apr. 1997).

Regarding the FKI’s attempt to broaden its influence, Hong Duckryul observed:

Now the FKI is attempting to wield its power to control the government. The FKI is engaged in a head-to-head with the government. The FKI is effectively attempting to suppress free communications in a civil society (Hong 1997a: 12-13).

Having succeeded in transforming potential threats to their capital accumulation into a golden opportunity for unhindered expansion, the chaebol began to show an interest in what they called ‘Management toward the society’. This resulted in the infiltration of the chaebol’s logic into civil society. In other words, community values such as democracy, human rights, welfare and environmental protection are overwhelmed by industrial values such as competition, efficiency and productivity. Using Habermasian terminologies, the values which a ‘system’ (e.g. economic power) seeks have come to control the ‘life-world’

⁴⁹ On 14 April 1995, FKI published a report, ‘Recommendations for humankind of the world in the 21st century’. As it met with a furious reaction, FKI withdrew the report.

and the communication system of civil society is seriously undermined.

In particular, top ranking chaebol such as Samsung and Hyundai have amassed sufficient power to resist the government. They therefore mounted pressure on the government and civil society in order to foster a favourable business environment. Their desire to have greater influence and a greater presence in society is partly due to their proud conviction that industries should lead society. It is also a reflection of their grievance and bitter feeling that their hard-earned achievements were scarcely recognised by the people and that they were ever open to persecution by the government.

In April 1995, Chairman Lee of Samsung made the following remark during his visit to China: “In Korea, industries are the second class, the administration, the third, and politicians, the fourth class.” For President Kim, who has complied with most of the demands of the chaebol, Chairman Lee’s remark landed like a bombshell (*Hankook* 18 July 1998).

Samsung first put forward the idea of contracting out the social overhead capital in Korea. Samsung also promoted the privatisation of public corporations. In fact, as an economic analyst noted: “The policy maker, in truth, is neither the Senior Secretary to the President for Economic Affairs, nor the Minister of Trade and Industry. It is Chairman Lee.” (*Hankyoreh*, 20 Apr. 1995). Therefore, it should not come as a surprise that it was Samsung and the chaebol who benefited most from those government policies.

Chairman Lee would say with confidence, “The present government’s reform can only last for five years. Samsung’s reform is perpetual. When 180,000 people unite, nothing is impossible.” Scholars, bureaucrats and other members of the FKI appeared to hold a view that ‘in a sense, Samsung’s power surpasses that of the Korea Central Intelligence Agency (KCIA) during the military regime. If you are in the bad books of Samsung, you will have a tough time for a long time’ (*Hankyoreh*, 20 Apr. 1995). Kim Kyun and Park Soonsung have pointed out:

Economic liberalism would not put a limit to itself. It will inevitably attempt to control the entirety of system of the society. Capitalist giants, which have grown in a protected environment (the developmental state provided the ‘womb’ for the giants to grow), have finally come out to exercise their control over the state and the society (Kim and Park 1998: 367).

Song Minkyung also noted that ever since the ‘Plan for the New Economy’ of 1993, the concentration of wealth and power in the chaebol was not even perceived as a problem (Song, M. 1998). A study, which closely traced the changes and oscillations of government policies toward the chaebol, summarised the historical development of the power balance between the government and the chaebol in the following way: i) before the mid-1980’s, the government had enjoyed dominance over the chaebol; ii) then, the relationship changed to that of symbiosis; and iii) after the mid-1980’s the chaebol secured superiority (Kim, E. 1988). Since then, the tensions and occasional duels between the government and the chaebol, which arose out of the attempt of new governments to control the chaebol, have often ended with the victory of the chaebol.

Belated Debates on the Economic crisis

Scholarly debates surrounding the causes of the Korean economic crisis are sharply divided, perhaps just as spectacular as the sudden rise and abrupt fall of the country’s economy. The arguments about the causes of the Korean economic crisis can be classified into two broad categories: first, internal cause arguments which explain the crisis with reference to structural weaknesses of the Korean economy; second, external cause arguments which rely on outside conditions or impacts such as the instability of the international currency market of the time.

The internal cause arguments can be further divided into two main groups. From the ‘over-regulation’ view, the state-led development economic policies of the East Asian countries have reached their limits. From the ‘under-regulation’ view, the economic crisis followed the decline of the coordination role of the state. External cause arguments also take various shapes, ranging from those which explain the crisis as an ‘out of the blue’ breakdown of the international financial market to those which point the finger at the so-called ‘American conspiracy’.

The debate goes on. Not only among economists in Korea, but also among influential scholars in Europe and the U.S. However, it seems that there is an unbridgeable gulf between the two views. The irreducible differences in seeing one and the same event

may perhaps stem from the divergence in the overall outlook on the economy: the market and the state as two distinct points of emphasis in understanding the economy. In other words, the conflicting views reflect the tension between the economic ideology of the market (one dollar, one vote) and the political ideology of democracy (one person, one vote).⁵⁰ Most countries, including South Korea, espouse democracy and capitalism at the same time. Nevertheless, it is probably easier said than done.

Efforts to establish the causes of the economic crisis should not be viewed merely as an exercise to repair the pen after the sheep have escaped. They will serve as an important signpost for the future progression of the Korean economy. Depending on the diagnosis, the prescription will vary. Proponents of the market will endeavour to extract the 'lessons' of the crisis to further reduce the role of the state. Those who emphasise market failure will attempt to see the crisis as an exhortation to revive the role of the state. This section attempts a critique of divergent views about the causes of the Korean economic crisis. A comprehensive approach will then be introduced.

State-driven Economy under Fire

Both in Korea and beyond,⁵¹ a widely accepted view about the causes of the Asian economic crisis is that the state-driven development economic strategies have reached their limits. Government industrial policies which heavily rely on a regulatory regime and a government controlled banking industry eventually led to the instability of conglomerates, which in turn led to the instability of banks and financial institutions. This, according to the proponents of the argument, led to the financial crisis. Mainstream economists in Korea, especially those who hold neo-liberal convictions, share this view. For a long time they have been occupying key positions in universities, research institutes, in the press and in the government. They have expressed their persistent worries about 'government failure' in the economic sphere and have been arguing for the market-

⁵⁰ Capitalism is based on competitive markets and private ownership. Those who own more stocks are bound to have a greater voice. Democracy is based on a different ideology, which abides by the decision of a majority of the population. Capitalism takes for granted the inequality between the rich and the poor whereas serious economic inequality may threaten the very basis of democracy.

⁵¹ *The Economist* (23 Nov. 1997) also asserted that a long tradition of state-guided development was the fundamental cause of the problem.

driven economy. They advised the government to stop regulating loans to the chaebol and to remove strict market entry conditions for the chaebol. They effectively argued for the abolition of regulation, although they may appear to propose the ‘loosening’ of regulation. However, the consistency of their arguments is often in question, as inconsistently they used to frequently ask the government to intervene in controlling high costs mainly in relation to increases in wages and interest rates.

Paul Krugman offered a forecast of the future of East Asian economies based on the criterion of efficiency. In response to a glowing report about the East Asian economies – *The East Asian Miracle* – prepared by the World Bank (IBRD 1993), he put forward an argument – *The myth of Asia’s miracle* – that the high growth rates of the East Asian countries were not sustainable. According to him, the East Asian economies had until then enjoyed input-driven growth, rather than efficiency-driven growth. East Asian countries, he continued, had reached the limits in mobilising labour and the capital. Their previous glory was due to hard work, rather than high efficiency (Krugman 1994).

When the financial crisis hit the East Asian countries in late 1997, Krugman’s thesis was hailed as insightful. The International Monetary Fund (IMF), in the same vein, demanded a rather harsh and comprehensive corporate restructuring and the opening up of domestic markets. However, it is doubtful whether his view – which was advanced in 1993 – could still hold true in 1997. The neo-liberal trends of the time had required a new economic order and the East Asian countries had already opened up their capital markets when the crisis hit. It must also be noted that his thesis was based on a calculation of productivity that only takes account of quantitative analysis. The peculiar features of Asian values and other non-quantifiable variables were omitted from his analysis.

Jeffrey Sachs noticed the enthusiasm for education and a strong propensity for saving which characterise Asian countries. He thus believes that the Asian development model can still work and that high growth rates in those countries can continue (Sachs 1997). Krugman himself, in a newspaper interview, expressed the following view:

The IMF and Washington were a little too impatient in declaring the demise of the East Asian development model. They were perhaps overly enthusiastic in their attempt to comprehensively reform the institutions of the countries concerned (*Chosun*, 7 Jan. 2000).

Mainstream economists in Korea seek to explain the economic crisis as resulting from the non-existent or compromised market mechanism. They therefore prescribe discontinuation of government intervention in the market. They believe that this is the way to overcome the economic crisis. Lee Kyu-Uck, for example, lists the following as the causes of the economic crisis:

1) immature market mechanism and generalised regulatory scheme of the government; 2) under-development of the banking industry caused by the regulatory regime; 3) politicisation of labour issues; and 4) insufficient market mind. The most urgent task to overcome the financial crisis is to review the institutional framework which hinders the full development of the market (Lee, K-U. 1998).

Lee Keun-Sik developed a similar argument: Due to the government-led economy, there accumulated a great deal of inefficiency and corruption. According to him, creativity and motivation can emerge only in the market economy. He therefore urged the consideration of a shift of paradigm into that of 'liberalism' (Lee, K-S. 1998).

It is perhaps inevitable that they blame the government for the economic crisis. Through their economic research institutes the chaebol launched a sweeping attack against the failures of the government, enumerating high wages, high interest rates, the overall bureaucratic system of the government and even the social problem of 'ostentatious consumption'. Their views appeared in profusion in the form of countless research reports relating to the economic crisis. In all likelihood, they seem to make use of the economic crisis to corner and contain the state so that they can expand the sphere of the market.

Crisis from Under-regulation

Scholars who hold the view that a measure of state intervention is necessary for the economy seek to explain the Korean economic crisis as a result of under-regulation rather

than over-regulation.⁵² According to them, it is wrong to think that the state-led development policies have reached a dead-end. Instead, the crisis came because, at too early a stage, the government had abandoned its roles. Chang Ha-Joon, for instance, pointed out that ‘ill-managed financial liberalisation, abandonment of investment coordination, and poor exchange rate management were the underlying causes of the crisis’ (Chang 1998: 1,555).

It may be that the decision to adopt a neo-liberal stance was made without fully appreciating the peculiar features of the Korean economy, whose markets are at the mercy of the chaebol. Market-driven reforms pursued under such circumstances could have triggered off or quickened the economic crisis. Linda Weiss, for example, made the following observations with regard to the East Asian economic crises – indeed, the Korean economic crisis in particular: ‘If the state turns out to be part of the problem, it is more precisely a problem of too little state capacity, rather than too much state involvement’ (Weiss 1998: xiii).

If the investment coordination or other regulatory measures of the state did cause the crisis, she asks, then why did the crisis also hit countries like Thailand, Indonesia and Malaysia where such an intervention by the government was non-existent? She also noted that by the time of the foreign exchange crisis of 1997, the nation states in East Asia were ‘but a pawn in the invisible hand of the global market’ (Weiss: x). In the case of South Korea, the sphere of state control had been shrinking for the preceding ten years or so. The government no longer had any effective means to prevent excessive investment. The warnings of government officials were simply brushed aside by the chaebol. This state of affairs led to undisciplined expansion and diversification of business activities of the chaebol relying on loans.⁵³ Duplication and over-investment in all areas of industry also followed

Deregulation of financial industries saw a remarkable increase in merchant banking corporations. In 1994, there were six of them; by 1996, there were 30 of them. They were in fact the catalyst to the financial crisis. While the banks were still under some form of

⁵² To name a few scholars who have these leanings (emphasising the role of the state): R. Wade, J. Stiglitz, A. Amsden, Chang Ha-Joon and Lee Byungchun. For a collection of articles on this point, see *Cambridge Journal of Economics* 22 1998, and *The Crisis and Big Transition* (in Korean, edited by Kim, Kyun and Lee, Byungchun), Seoul, Dangdae.

⁵³ For the chaebol, this could be a way of diversifying their portfolio. However, if it goes wrong, the state will have to correct the market failure and finally the taxpayers will suffer.

regulation, the merchant banking corporations acted as the private purse of the chaebol. This accelerated over-investment.

Wade and Veneroso have argued that the state must have control not only over domestic loan transactions but also over foreign loan transactions involving domestic corporations and banks (Wade and Veneroso 1998). They take the view that this is an important safety mechanism to ensure the stability of an economy that achieves high investment by relying on loans. Such control is also necessary to maintain the autonomy of the national economy vis-à-vis foreign lenders. One reason for the reckless business practice of merchant banking corporations is that there was virtually no state control over them. Regarding the failure of merchant banking corporations, Lee Byoungchun pointed out that ‘it must be noted that this [merchant banking] is an ingredient of free market capitalism. It is not part of developmental state model’ (Lee, B. 1998: 113).

In the light of the foregoing analysis of the financial market and corporate behaviour in the run-up to the economic crisis, it is possible to argue that the crisis was caused by under-regulation rather than over-regulation. The problem lies in the market-guided economy rather than in the state-driven economy.

Globalisation and External Impact

The external cause (or impact) arguments are proposed to explain the Korean economic crisis with reference to the inherent natures of the international capital market and changes in external conditions rather than structural problems of the Korean economy. There are several varieties of these views, each with a different point of emphasis. For example, there are views which see the Korean economic crisis as i) a straightforward foreign currency squeeze; ii) an aftermath of the collapse of the South East Asian economies; iii) a result of the conspiracy of the international financial giants; iv) an event aggravated by the IMF; or v) a result of the US hegemony. Often, a few of these factors are mentioned together as contributing causes.

Those who put forward these views, by and large, point their fingers at ‘globalisation’ as the underlying cause of the crisis. They tend to hold the strong points of the East Asian economies in high esteem. They argue that these economies have healthy

foundations and that they still have viable mechanisms for economic growth. According to this view, when the transient crisis is over, these countries can bounce back. Sachs, for example, argues that the East Asian economic crisis occurred not because their growth potential has been exhausted, but because foreign lenders have simultaneously declined to allow revolving loans for short-term debts. It was a foreign currency squeeze, according to this view (Sachs 1997). Josep Stiglitz, the then Vice President of the World Bank, in a speech delivered at an international forum which was held two years after Korea came under the supervision of the IMF as a price for its emergency rescue loans, went as far as saying that the Korean economic crisis was not due to the failure of the Korean economy. It came because huge amounts of foreign capital had flooded the floor; Korea was the victim of its own success (Stiglitz 1999).

Scholars who see the Korean economic crisis as a 'straightforward foreign currency squeeze' note that, apart from the foreign currency deficit, Korea had no signs of trouble in its macro-economic indices. The economy was enjoying a high growth rate (5.0%) in that year. Unemployment was low (2.6%). Inflation and financial health were in a satisfactory or even exemplary state. It is true that the balance of payments, among other macroeconomic indices, was in bad shape in 1997. Nevertheless, it was far from nearing a generalised default.

Kim Dongwon, for example, has argued that although the balance of payments (in deficit) worsened from 2.5% of the GDP in 1995 to 4.7% in 1996, it cannot be viewed as the cause of the foreign exchange crisis because, in the case of other countries, the crisis came when the payment deficit was about 8-10% of GDP (Kim, D. 1998: 238).

Proponents of the external impact thesis point out that an economy that shows healthy fundamentals could easily collapse when attacked by speculative foreign investors, which characterise the globalised financial market. International financial capital appears to operate upon a 'rational' criterion of an expected rate of return. However, in fact, it is often ruled by 'flock mentality'. Lee Chan-geun noticed that the remarkable advancement in information technology has aggravated the ravaging effect of the international investment capital:

Hundreds or thousands of million dollars worth deals could take place in a second.

Traders do not have enough time to analyse market information fully. When they

operate with inadequate information, the best policy is to follow the mass. This flock mentality could amass the capitals scattered all over the world at one place – with a devastating effect (Lee, C. 1998: 105).

The view that the Korean economy suffered from a contagious plague that had visited the South East Asian economies is based on this investment psychology. Min Sangki, for example, analysed the Korean foreign exchange crisis with specific reference to the flow of international capital and the contagion effect. He pointed his fingers at the flow of foreign capital which ‘came like a tidal wave to the Asian countries in the 90s and which withdrew rapidly in 1997’ (Min 1998: 58). However, the nation states in the age of globalisation largely lack capacities to build up a breakwater before a tidal wave comes.

Credit rating agencies in the US are also criticised for further encouraging the irrational ‘herd instinct’ of international capital. Rather than countering irrational investment decisions by providing accurate information, their move often triggers off and multiplies the crisis.

The ‘conspiracy’ thesis that blames the international financial giants – mostly based in the US – is relied on this line of argument. According to this thesis, these financial giants had something to gain from the harsh restructuring programmes that the IMF forced upon Korean industries.

The arguments, which blame the IMF, are based on a claim that, as Martin Feldstein wrote in a column, what was a mere foreign currency squeeze was mis-diagnosed by the IMF as a structural defect of the Korean economy. Strict and ruthless restructuring programmes were then forced upon the country, which eventually turned the foreign exchange crisis into a generalised economic crisis (*Financial Times*, 3 Mar. 1998). The rehabilitation programmes prescribed by the IMF for the Asian countries invariably required a comprehensive opening up of capital markets and domestic financial markets to foreign investors.

Some conspiracy theorists maintain that Korea’s decision to seek rescue loans from the IMF was already in the interest of the Wall Street and Tokyo financiers. Once the IMF extended emergency loans, they could secure their credits. The opportunity to buy up Korean companies cheaply is an extra. The complete opening up of the Korean financial market was the persistent demand of these financial giants who had ceaselessly advocated

it through their governments. Also, the elimination of surplus production capacity was the godsend for the international industrial capitals.

Without firm evidence, it would be simply irresponsible to concede the ‘conspiracy theory’ that the United States provoked the Asian financial crisis on purpose. However, a close scrutiny of the Korean case would reveal circumstantial evidence that implies that this theory is not entirely ungrounded. As is shown above, a group of economists have been to some extent successful in evaluating the relevance and effectiveness of the US-led policy measures in the context of the economic crisis in Korea. Nonetheless, little is known about who are behind these measures, what are their intentions, and their linkages to foreign media reports (i.e., the influence of foreign media reports on the policy measures). It is thus believed that careful investigation of foreign media reports and a series of in-depth interviews with government representatives of financial negotiations will be indispensable to fact finding.

Toward the Comprehensive Approach

Theories about the causes of the Korean economic crisis thus show a great deal of divergence and none of them appear to cover the whole ground. This is in part because, in a sense, the crisis is still continuing, and also partly because the causes are complex. Establishing the causes, however, leads to future plans for the Korean economy and it may influence the direction in which Korean society will progress.

The internal cause theses tend to rationalise the prescriptive programmes of the IMF as they see that the internal structural problems of the Korean economy were the causes of its financial crisis. This view thus limits the range of economic strategies in Korea in relation to other countries. In this view the Koreans’ choices are considerably reduced. Lee Chan-geun pointed out that since the 80s, Great Britain, Italy, France, Sweden and other countries have met with crises that were dealt with as foreign exchange crises. However, in the case of the East Asian economies, they were treated differently and internal structural causes were sought. He thus emphasises the presence of the double standard (Lee, C. 1998).

Nevertheless, it would be wrong to put all the blame on external causes. For

example, the contagion thesis does not offer a satisfactory explanation either. Had the Korean economy been healthier, it could have survived the danger of contamination when it did arrive. Korea did not survive. Japan and Taiwan did. Concerns have been expressed, however, about the external impact thesis or the external conditions thesis. By putting the blame on its neighbours far and near, strong or not so strong, these could dampen efforts for the reform of the Korean economy. This view could certainly enjoy a warm reception among those who are opposed to the reform, but not so much by the international financial market, which may view it as a serious lack of drive for reform and self-improvement. It will not be of much help to the Korean economy.

Internal cause theses, as we have already seen, can broadly be classified into two categories. Those who believe that the over-abundance of regulation was the main vice are contraposed against those who argue that the lack of regulation was the arch-vice that brought about the 'fall' of the Korean economy. However, it must be recognised that neither of these views can be complete. Both of them have their own weaknesses. Proponents of the market tend to go to the extreme of condemning the necessary involvement of the state without which the stability of the market would be difficult to achieve. Proponents of state intervention tend to turn a blind eye to the deleterious legacies of the dirigiste development era. Both these camps appear to have a selective vision of the Korean economy in an effort to maintain the coherence of their views. In doing so, their vision of the economy as a whole is often not sufficiently comprehensive.

A careful observation of the Korean economy will show that the strong and weak points of the market and the state are intermingled. It is often difficult to separate what was due to the failure of the market and what was due to the failure of the state. Regardless of where it stemmed from, however, the foreign exchange crisis of 1997 was an outward manifestation of accumulated deficiencies and defects of the Korean economy as it was exposed to external impacts. As the negative sides of the market and the developmental state were coming to the surface, the economy was considerably destabilised. At that juncture the international financial market took a sharp turn against Korea. The whole system then collapsed.

From the dynamic angle of analysis, there is an important point to note. At that critical moment neither the government nor the market was functioning. There was a kind of vacuum that lasted for quite a long time. For example, the government had already

abandoned the task of investment coordination. Yet the private sector has not developed the know-how for assessing the viability or the profitability of proposed investments. The retreat of the state conceptually corresponds to the expansion of the market, but in Korea this has resulted largely from the expansion and consolidation of the chaebol. Thus, the monitoring system which is capable of treating an 'unhealthy' market has disappeared. Azit Singh has also expressed a similar view in an interview:

The Asian financial crisis was brought about because those countries have abandoned the Asian model and attempted the deregulation of their financial industry with little or no defence mechanism in place (*Chosun*, 30 Dec. 1999).

Linda Weiss has suggested that 'state capacity has acquired new significance in a changing world economy' and that the state must have the 'transformative capacity'. In other words, the state must have 'the ability to coordinate industrial change' (Weiss 1998). South Korea in the late 90s had already abandoned the 'traditional mechanism' and the 'Asian model'. Unfortunately, its government also lacked the 'transformative capacity'. External shocks, once imposed in such situation, have the potential risk of escalating into a crisis.

Numerous diagnoses and prescriptions had been proposed since the crisis. An important question is, however, why these vibrant debates could not have taken place earlier. This question is essential because the lack of public debate itself might be a comprehensive cause which eventually led to the breakdown of the economy. For a proper understanding of the causes of the economic crisis, it is necessary to have recourse to studies concerning the dynamic process of public opinion formation and media influences on economic policies. A comprehensive analysis of non-economic factors is therefore equally important as, or at least, complementary to economic analysis.

Ideological Leanings of the Korean Press

The Asymmetry of Two Wings

‘Public opinion’ means a common opinion that many people hold about an issue of general concern; but its formation is often influenced by the media professionals and the intellectual elite whose views are transmitted to the public through the media. If a large number of the media companies have a particular ideological leaning and if the majority of the members of the intellectual elite belong to a particular class or are in alliance with a particular class, the ‘public opinion’ is more likely to be skewed. When the views of the media (professionals) are presented under the guise of public opinion, the audience will probably accept them as genuine reflections of public opinion. When the media’s ideological leanings are too strong, the media may no longer accept the views of the public and observe or discern the reality. If that happens, the media will carry views that are opposed to public opinion.

Public opinion is of vital importance to the democratic decision-making process. However, when it appears distorted in the media, when it is banished from the media, which are busy to represent the interests of a particular group, then reliance on public opinion will be anti-democratic. Political decision-making that relies on specious public opinion will eventually harm social cohesion and integration. McNair warns of the danger of ‘manufactured’ information:

If the information on which political behaviour is based is, or can be, manufactured artifice rather than objective truth, the integrity of the public sphere is inevitably diminished. To the extent that citizens are subject to manipulation, rather than exposed to information, democracy loses its authenticity and becomes something rather more sinister (McNair 1999: 26).

History tells us that when the press is left entirely to the logic of the market, what will survive will be the right-wing press. As noted by Curran in his study of press history in England, such a process ‘contributed to a growing divergence between editorial and public opinion in a form that greatly over-represented the right’ (Curran and Seaton 1997: 89). It is

not too unusual to see right wing newspapers survive competition for advertisements. However, the ideological leaning of the Korean press was so excessive that it could not be entirely explained by the general trend. To understand the case of the Korean press prior to the outbreak of the financial crisis in December 1997, an examination of the situation in the year 1996 is needed. Out of 28 daily papers including economic dailies and local papers, only one (*Hankyoreh*) represents the middle-left wing, while the other 27 papers are located on the right of the ideological spectrum. According to Song Hogeun, *Hankyoreh* is situated in the middle to left; to its right are *DongA*, *Hankook* and *JoongAng*; *Chosun* was occupying a fairly wide range of the right (Song, 1998: 306).

Newspaper circulation data are treated as confidential in Korea. A sample analysis (10,000 subscribers) carried out in 1996 by the Korea Advertisers Association however showed that *Hankyoreh* had 6.2% of the total circulation of nationwide general newspapers, while the conservative *Chosun*, *JoongAng* and *DongA* accounted for over 65.6%.⁵⁴ Assuming that the remaining papers and the economic dailies are all in the right wing, the ratio of ‘right wing’ to ‘left wing’ paper was estimated at 97:3. See below for Korean nationwide newspapers, classified by ownership, ideological leaning and market share.

<Table 2-1> General Newspapers of Nationwide Circulation in Korea

Title	Ownership	Ideological leaning	Market share*(%)
<i>Chosun-ilbo</i>	private	right	24.9
<i>JoongAng-ilbo</i>	chaebol	right	20.7
<i>DongA-ilbo</i>	chaebol-rooted	right	20.0
<i>Hankook-ilbo</i>	private	right	8.7
<i>Kyunghyang-shinmun</i>	chaebol	right	7.8
<i>Hankyoreh-shinmun</i>	60,000 contributors	middle-left	6.2
<i>Kookmin-ilbo</i>	religious body	right	2.9
<i>Segye-ilbo</i>	chaebol-religious body	right	2.5
<i>Seoul-shinmun</i>	government	right	2.1
<i>Munhwa-ilbo</i>	chaebol	right	1.6

* Source of market share: *A Survey on Press Audience (1996)*, Korea Advertisers Association.

⁵⁴ A recent survey of the Korea Advertisers Association in 2001 showed that these three papers occupied 74% of the market.

Choi Jangjip pointed out that ‘in countries with social and economic development at a level comparable to Korea, few have media whose ideological spectrum shows the degree of conservatism observable in Korea’ (Choi, J. 1994: 60). What could then explain this extraordinary imbalance of the time? Firstly, about half of the nationwide newspapers are owned or part-owned by the chaebol. Out of ten newspapers, four were owned by the chaebol. Two out of four economic dailies were also owned by the chaebol. It would be hardly surprising that these papers represent the interests of the chaebol in their news reporting and analysis. *Chosun* is the quintessential conservative newspaper. Although it was often criticised as ‘commercialising national security’, *Chosun* managed to appeal to the fears of the Conservatives concerning the military confrontation between the two Koreas and reigns as the newspaper of widest circulation in Korea. Ultra-right religious groups own two other papers, *Segye* and *Kookmin*

Secondly, advertisement revenues account for an unusually high proportion of the total revenue of the Korean press. As of 1995, the ratio of subscription revenue to advertisement revenue for Korean newspapers was 21:79. The ratio is much higher in other countries: 40:60 in Britain, 53:47 in France and 61:39 in Japan (Chung, Mun and Song 1996: 29). Korean newspapers are under constant pressure to find potential advertisers. In this regard, it is of the utmost importance to make their news content appealing or attractive to those who have high purchasing power. There is therefore the inherent likelihood of Korean newspapers adopting a conservative stance. When it comes to the coverage of economic, labour and social affairs, the Korean press is more than likely to represent vested interests and sacrifice the ideal of fairness.

Finally, the confrontation between the two Koreas has continued to provide ‘convincing’ excuses for persecuting left-wing people and newspapers. One year after the civil uprising on 19 April 1960, a left wing *Minzokilbo* was launched. Four months later, however, an army general, Park Chunghee, staged a successful coup. The newspaper was abolished and its president, Cho Yongsoo, was executed after a ‘revolutionary’ court martial charged him unjustly with espionage.

Hankyoreh, which was launched in 1988 as a fruit of the ‘civil struggle for democratisation’, was also suppressed insidiously by the then conservative government. The paper was founded by former journalists who had been expelled from their jobs under

military regimes. Thanks to the voluntary financial contribution of around 60,000 people who cover a wider spectrum of society from workers to intellectuals, the paper was at first capable of maintaining its critical tone against the government and the chaebol. For this reason, the intelligence agencies put pressure on major public corporations not to place any advertisements in *Hankyoreh*. In 2001, a memorandum prepared by the Agency for National Security Planning (a successor to the KCIA) was leaked. The memorandum shows that secret operations were under way in order to undermine the *Hankyoreh*'s influence. The memorandum was prepared in 1997. It contains instructions such as:

All government offices should refrain from subscribing the paper; no extension should be granted for the repayment of the company's debt to the bank; the discontented employees should be closely monitored to foster and encourage the internal strife; suspected communist sympathisers should be thoroughly investigated and prosecuted; the right wing conservative journals should be mobilised to launch continual attacks against the pro-communist nature of the paper; the information about the company's irregular practice to secure the placement of advertisements should be collected and revealed in due course.' (*Monthly Chosun*, Apr. 2001).

Just as a bird with asymmetric wings can only circle around rather than move forward, so the serious imbalance between left wing and right wing papers encourages public opinion to circle around conservative values. Neo-liberal theorists argue that the newspaper market will improve through consumer choices. However, as Entman and Wildman (1992) mentioned, 'product diversity' does not always guarantee 'idea diversity'

Economic Reporting and Neo-liberals

The conservative leaning of the Korean press vividly manifests itself in economic news reporting. Even those newspapers that may maintain a balanced approach in other areas of reporting invariably fall back on the conservative stance for economic reporting. For example, *JoongAng* showed a degree of progressiveness by supporting the so-called

‘Sunshine policy’.⁵⁵ In contrast, with regard to economic news reporting, this paper is undoubtedly pro-chaebol. As it started as an affiliate of Samsung, it has inherent limits.⁵⁶ Such a situation is not unique to this newspaper. In fact this is to a large extent the case with other newspapers of nationwide circulation, because, as mentioned earlier, the chaebol own about half the newspapers and the advertisement revenue accounts for nearly 80% of total revenue for these newspapers.

Some observed that while *Chosun* takes a conservative stance in all areas of reporting, *JoongAng* adopts the neo-classic, corporate and market centred approach to economic news reporting (Kim and Kim 1997: 100). Chairman Hong Seokhyun of *JoongAng* Media Network himself remarked as follows in an interview: “Our paper adopts a basically conservative approach. As far as the economic policies are concerned, *JoongAng*’s stance is genuinely conservative. As for security issues, *Chosun* is truly conservative” (*Media Oneul*, 9 May 2002). Interestingly, it has been suggested that ‘even *Hankyoreh*’, which started out as a progressive paper, ‘is beginning to show a tendency to conservatism’ (Shim 1996: 123). More precisely, ‘*Hankyoreh* may show progressive leanings in its coverage of labour, poverty and environmental issues; but its coverage of macro-economic issues makes it difficult to pigeonhole the paper’ (Kim and Kim 1997: 124).

Examining the economic journalists’ personal outlooks as well as the economic determinants that affect the newspaper’s position can produce a more reliable analysis of economic news reporting. The financial and institutional restraints under which a paper has to operate will no doubt influence the contents of the paper. Of course, they cannot determine the contents entirely. The connecting link between ‘economic determinants of the media’ and ‘the contents of the media’ should perhaps ‘be sought in the professional ideologies and the work practices of media professionals’ (Curran *et al.* 1995: 18~19).

The economic journalists of Korea, by and large, tend to show strong neo-liberalist leanings. No doubt, this is because they have also been exposed to the neo-liberalist trend that stormed the Korean society in general. Their educational backgrounds also contributed

⁵⁵ As regards the policies concerning North Korea, there are two traditions: hardliners who believe in the importance of military superiority and economic sanctions; pragmatists who believe in the need for a peaceful approach particularly through economic aid to North Korea. The latter approach was adopted and substantiated by the Kim Daejung government, which is called the ‘Sunshine policy’.

⁵⁶ *JoongAng* is in the process of severing its ties with Samsung. Yet a brother-in-law of Lee Keunhee, the chairman of Samsung, is still the chairman of *JoongAng*. The paper enjoys favourable terms in transactions with Samsung.

to the formation of their economic thoughts. The economics faculties of Korean universities function as the conduit for American neo-liberalist ideas. Their influence seeped through other disciplines as well, paving a way for 'imperialism of economics'.

As early as 1991, Amsden took notice of the unusually large number of American-trained Korean economists (ATKEs). She suggested that this might pose a potential threat to the Korean economy. In addition to the research, Chang and Evans also discovered that between 1987 and 1995, Koreans accounted for as high as 9.7% (776 out of 8040) of the economics PhDs awarded in US universities (Chang & Evans 2000: 32). A survey of 230 Korean economists shows '59% of academic economists and 43% of non-academic economists have received graduate training at U.S institutions', while the total ratio is much lower at 16% in Japan (Cho 2001: 68).

Upon returning to Korea, these ATKEs find their way into universities, research institutes and relevant government departments. A good number of them became neo-liberalist ideologues dominating the economic columns in newspapers. According to Kim Manheum who analysed newspaper column writers during 2001, more than 70% of the external writers were educated in the US. In particular, the conservative papers had only 8~20% of their external writers educated in Korea⁵⁷ (Kim, M. 2001). Many reporters also have had the opportunity to receive US training. Samsung, Hyundai, Daewoo and LG have each set up a press foundation.⁵⁸ They provide a one-year training course in the US for middle or high-ranking news reporters. As the US economy was booming throughout the 1990's, American neo-liberalism was therefore perceived as the 'messiah for economic prosperity'.

Not all ATKEs are neo-liberalists; but most of them were duly impressed by the Chicago School economics, which appeared to have resolved the problem of stagflation. Many of them accordingly became monetarists. Cho found that 'over 60% of the US trained Korean academic economists answered in favour of the establishment of a money supply rule', which implies that the ATKEs strongly 'tended to believe in monetarist views'. In particular, over 90% of those ATKEs responded that de-regulation would enhance the efficiency of the economy. About 70% responded that the labour unions' power should be

⁵⁷ Among external writers, 84% in *JoongAng*, 70% in *DongA* and 66% in *Chosun* were educated in the US. In contrast, somewhat progressive papers such as *Hankyoreh* and *Daehanmaeil* had about 20~30% of their external writers educated in the US (Kim, M. 2001).

⁵⁸ Some of these press foundations even run joint-training programmes with American universities.

reduced (Cho 2001: 72-75).

The leanings of the Korean intellectual elite toward American bred ideas may hamper the formation of a healthy ‘public sphere’. Kim Taedong⁵⁹ explained the chronic ineffectiveness of reform programmes targeting the chaebol in a radio talk programme: “The government, the media and academia are comprehensively flooded by pro-chaebol people” (PBC Radio, 23 Apr. 2003). The ideological leaning of the media is all the more problematic. That is because the stronger their leaning toward a view becomes, the more powerful the media influence becomes. According to studies of media influence, this influence is increased: i) when different papers report the same, or similar, views about an issue; ii) when similar news coverage appears over a long period but moving in a consistent direction; iii) when the audience receives the same message from a variety of channels (e.g. Yoo and Lee 1994: 160). Media practices in Korea at the time of the financial crisis appear to fit these cases.

Conclusion

Habermas sees the public sphere as ‘a warning system with sensors’. He therefore argues that ‘the public sphere must amplify the pressure of problems, that is, not only detect and identify problems but also convincingly and influentially thematize them, furnish them with possible solutions, and dramatize them’ (Habermas 1996: 359). If the Korean press had emphasised the diversity of values and interests in a democracy and led the way to rational public debates, society could have been a learning place for democracy, not for de-politicisation.

As we have seen in this chapter, the discourse of ‘minimal state’ and ‘de-politicisation of the market’ in Korea is an indication that the market, which has become sufficiently powerful under the protective environment offered by the state, now attempts to reject state intervention and take over the traditional areas of competence reserved to the state. At times, the state endeavoured to control and to police the chaebol who were all-

⁵⁹ After the financial crisis, Kim Daejung appointed him as the Senior Secretary to the President for Economic Affairs. Due to his progressive leanings, the press accused him of being pro-communist. Eventually, he had to step down.

powerful beings in the distorted market. However, such endeavours could not last long. In the so-called democratisation era, to the contrary, political power was increasingly subject to economic power. This was partly due to the different nature of the two powers (democratic or authoritarian) and each term of office (limited or unlimited), but also due to the solidarity of the economic powers. Underlying this scene change was the gale of globalisation fertilised by neo-liberalism.

The debates after the outbreak of the financial crisis were also basically confrontations between the supporters and critics of neo-liberal economic policies. However, it seems that most of the currently available works are based on economic analysis that looks at only some economic indices. As for economic units, the focus was narrowed down to the state and the chaebol, and the issue of the media as part of ‘policy community’ was excluded. In a broader view, the crisis could have been examined in relation to the system of formulating public opinion and making decisions, and essentially to the issue of democracy itself. Unfortunately, such an attempt was lacking at that time.

Democratic media, as discussed in the previous chapter, can be an effective tool for revitalizing ‘genuine democracy’ and ‘politics’. However, such a role could not be expected from the Korean press. The Korean press was excessively slanted to the right. In particular, ‘market fundamentalists’ who were trained in the US have dominated the economic news reports and depoliticisation of the economy has become the guiding principle for editorial desks. The role of the media, as a ‘warning system’ which helps detect problems with the national economy and as an ‘arena of public debates’ that encourages seeking political resolutions, has been to a large extent paralysed.

As discussed, neo-liberalism has played an important role in determining the role of the media as well as the relationship between the government and the chaebol in Korea. By taking into account such ideological backgrounds, social environments and institutional conditions, the causes of the economic crisis will be better understood.

The Disseminating Mechanism of Neo-liberalism

Politics of Discourse and the Media

Why do people comply with oppressive social institutions which may at times take away more than they give to individuals? Why do people even support them with enthusiasm? Edelman offers an explanation with reference to the political effectiveness of symbolic actions (Edelman 1971). Not only politicians but other influential members of the society resort to political symbols to have their ideals incorporated into political debates and to obtain political support. They participate in the politics of discourse.⁶⁰

According to some studies, discourses describe and define in our daily lives ‘what is possible to say and what is not possible to say’, and ‘what is possible to do and what is not possible to do’. By doing so, they lead our perception of the reality and our action in a certain direction, creating and repeatedly emphasising particular values, meanings and norms. By doing so, discourses eventually subordinate the public under these particular values, meanings and norms at the expense of other values, meanings and norms. It is through discourse that the power acquires its ideological basis (Althusser 1971; Kress 1989; Foucault 1993).

Then, what were the values and norms which were emphasised in the course of the politics of discourse during Kim Youngsam’s presidency (1993-1997) to define and determine the popular perception of the reality? How could the chaebol hold hostage the government which presented itself as the ‘first civilian, reform-oriented government’ in 30 years? How did the chaebol achieve the pre-eminent position within the axis of government-chaebol-media which ruled Korea? Discourse analysis can be effectively used in answering these questions. Relating to the advantages of discourse analysis, Deacon and his colleagues noted:

⁶⁰ Kang Myunggu and Park Sanghoon, as mentioned in chapter 1, researched the ‘politics of discourse’ by analysing political symbols in the early years of Kim Youngsam’s presidency (Kang and Park 1997).

The critical scope and potential of discourse analysis resides most of all in its examination of how relations and structures of power are embedded in the forms of everyday language use, and thus how language contributes to the legitimisation of existing social relations and hierarchies of authority and control (Deacon, Pickering, Golding and Murdock 1999: 150).

A comprehensive investigation of the ruling group's discourses can serve as a basis for elucidating how the conservative elements of the Korean society could neutralise the challenges of the reformers from within the ruling bloc and solidify the ruling bloc. What is particularly important to this investigation is the power and role of the media in the politics of discourse. In reference to such ideological process, Robert Ferguson emphasises the media's power, arguing that power relationships are never equal:

[T]he media have particular powers, and that, in turn, they are able to represent a wide range of power relations in the world beyond the media text. The media also have the power to prioritize and to define issues for debate and representation (Ferguson 2004: 19).

The focus of this chapter will be placed particularly on the question of what role the media played in making the neo-liberalism as the undoubted mainstream ideology. The Korean media seemed to be not simply a messenger but a producer of dominant discourses who, as part of the ruling bloc, sometimes led the government. A careful study of some ruling discourses of the time can provide useful tools for a comprehensive analysis of the Korean economic crisis. Greater emphasis, therefore, must be accorded to these topics than the topic of how each of the individual policy issues was reported by the media.

Textual analysis in this research, as briefly mentioned in chapter 1, relies mainly upon qualitative analysis, but quantitative analysis is undertaken whenever necessary and feasible. Through the qualitative analysis of political symbols (e.g. 'Globalisation') of the time, one can understand how such ruling discourses were finally accepted as a 'common sense'. This method can be a fluoroscope through which to look into the power relations within the ruling bloc (government-chaebol-media), which are unlikely to be revealed by quantitative analysis.

The experience and insights about discourse practices the present researcher has accumulated as a journalist or an ‘insider’ provides valuable sources for qualitative research. On the other hand, the ‘objectivity’ of such approach might be questioned, as the present researcher was a ‘participant’ or an ‘opponent’ in the very process of creating and disseminating discourses.⁶¹ Herein is the necessity of the quantitative analysis as well. Even if the results of quantitative analysis are trivial, they can provide a starting point for qualitative analysis and a clue to infer the power relations of Korean society. Combining two methods together enables us not only to cross-check results of each analysis, but also to understand comprehensively the disseminating mechanism of neo-liberalism.

The Rise and Fall of Ruling Discourses: Quantitative Analysis

In the 1990’s, the state, the chaebol and the media forged a firm alliance of conservative leaning. They were in agreement that neo-liberalism, which was rapidly spreading in many Western countries, should be the ruling ideology of the Korean society as well. When Kim Youngsam came to power in 1993, the President set his catchall phrase as ‘Building a New Korea’ and attempted a comprehensive programme for reform (dubbed as ‘Reforms without sanctuaries’). As pointed in the previous chapter, however, the grip of neo-conservatism and neo-liberalism neutralised his attempt. The purported reforms of the economy and the media proved unsuccessful. The failure of reform was brought about by the successful resistance of the chaebol and the media.

On his visit to Seattle in November 1993 to attend the APEC (Asia-Pacific Economic Cooperation) summit meeting, President Kim declared ‘Internationalisation’⁶² as the new foundation of his government’s policies. The ‘Reform’ then transformed itself into ‘Internationalisation’. The demand to purge corruption and to continue to extend the ‘Reform’ was then brushed aside as ‘clinging to the past grievances’. The new discourse was grounded upon a statement, ‘We need to move forward into the world and into the

⁶¹ In order to enhance the objectivity of this research, the present researcher who has been working for a progressive newspaper interviewed many journalists of conservative newspapers.

⁶² ‘Internationalisation’ is perhaps not often used in the English language, and has a different meaning from ‘globalisation’. In Korea, though it was sometimes used interchangeably with ‘globalisation’, there were considerable differences of nuance at the era of discourse.

future' (cited in Kang and Park 1997: 138).

The Kim government's prime discursive symbol has evolved from 'Building a New Korea', 'Internationalisation' and finally to 'Globalisation' by the beginning of 1995. There are some significant differences between 'Internationalisation' and 'Globalisation'. 'Globalisation' suggests that the state boundary no longer matters. It announces a world of trade unhindered by state boundaries. It is a harbinger of rapid opening up of protective trade barriers. In fact, having failed to devise an adequate means of coping with capital movements across the border, the Korean economy collapsed in a financial crisis which struck it less than three years after the Kim government began to produce the grandiose discourse of 'Globalisation'.

During these three phases in the evolution of the main discourse, many other subordinate themes⁶³ (sub-discourses) had surfaced and sank. Just an exception is the subordinate theme of the 'Strengthening competitiveness' which was consistently emphasised.⁶⁴ According to Przeworski, neo-liberalism has it that the foremost value in government policies should be the increase of the national wealth rather than welfare. The political argument for integration is therefore subordinated to the economic argument of competition (Przeworski 1990: 20-23). From this standpoint, it was inevitable that Kim's presidency, which was increasingly leaning toward neo-liberalism, saw 'Competitiveness' emerge as a new mantra.

The process through which the ruling bloc was 'composing the reality' can be traced by examining the frequency of newspaper articles which contain one or more key discourses (discursive symbols) of political nature. <Table 3-1> shows the monthly number of articles in the four major newspapers (*Chosun*, *DongA*, *JoongAng*, *Hankyoreh*) which contain one of the four discourses (New Korea; Internationalisation; Globalisation; and Competitiveness). This quantitative analysis made use of the Korean Integrated News Database System (KINDS: www.kinds.or.kr) which is maintained by the Korea Press Foundation. The newspaper articles for this analysis are limited to the editorials, columns and feature/serialised articles because these types of articles strongly reflect the views of those who wrote them and those who employ them (newspaper companies).

⁶³ Based on van Dijk's discourse analysis system (van Dijk, T. A. 1987), Kang and Park set up several themes under each of the discourses of 'New Korea' 'Internalisation' and 'Globalisation'. Under the discourse of 'New Korea', for instance, the themes such as 'Reform', 'Strengthening competitiveness' and 'Establishing state disciplines' were placed.

⁶⁴ See the <Table 3-1>.

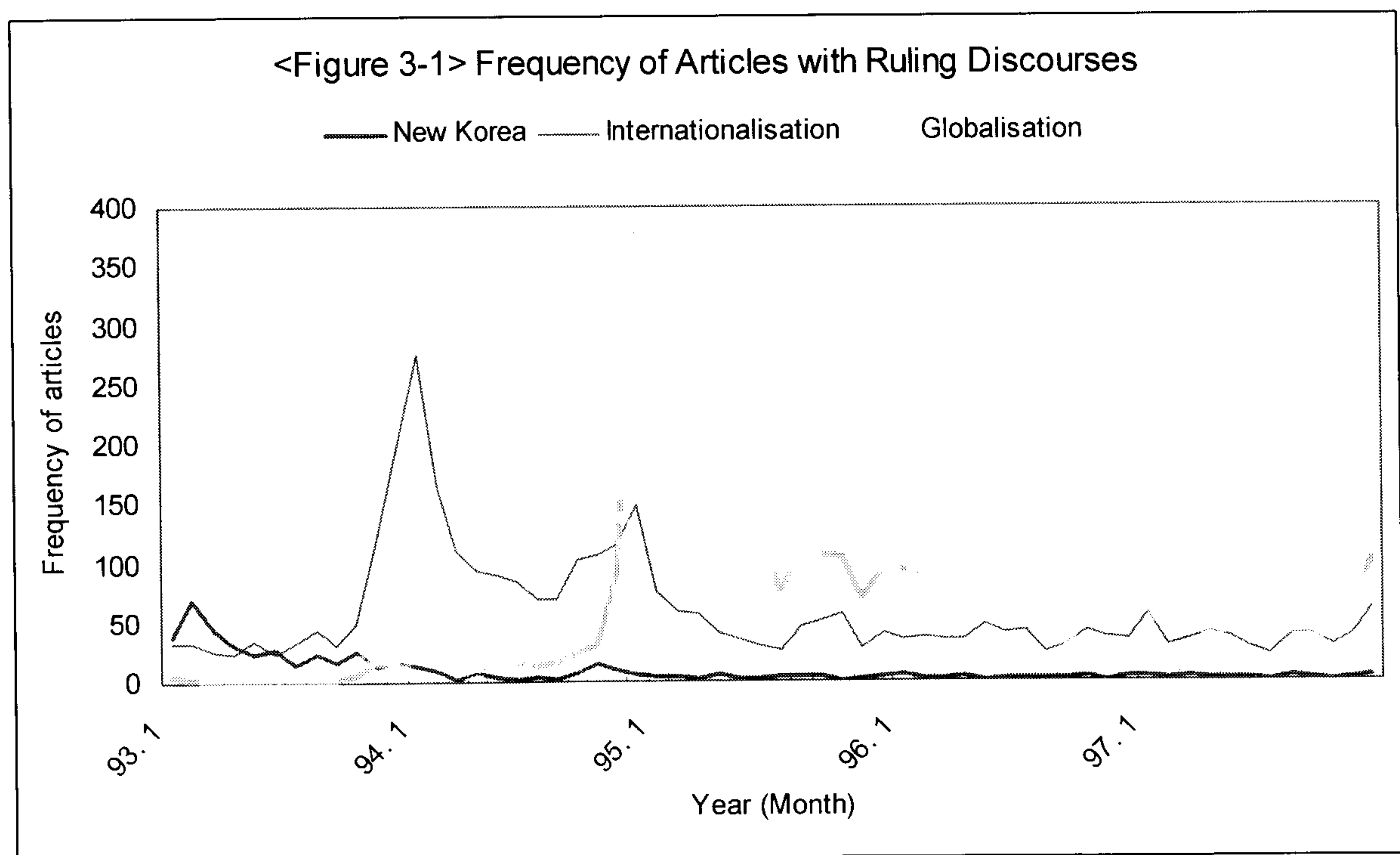
<Table 3-1> Frequency of Articles with Ruling Discourses (1993~1997)

Discourses	Number of Articles by Month											
	1	2	3	4	5	6	7	8	9	10	11	12
1993												
New Korea	39	69	44	32	23	27	15	23	16	25	13	17
Internationalisation	33	33	25	23	34	24	33	44	31	50	122	194
Globalisation	5	1	3	4	4	6	10	7	4	6	19	16
Competitiveness	103	113	98	98	73	83	58	83	81	100	147	267
1994												
New Korea	13	9	2	8	4	2	3	2	7	14	10	5
Internationalisation	275	165	111	93	89	84	69	70	102	106	116	149
Globalisation	79	33	23	11	17	15	12	17	23	31	93	376
Competitiveness	321	214	113	144	159	130	127	131	196	198	173	218
1995												
New Korea	4	3	2	5	2	2	4	3	4	0	2	4
Internationalisation	76	58	57	40	35	30	25	45	52	56	27	40
Globalisation	340	184	205	183	118	117	75	109	106	104	70	96
Competitiveness	199	133	148	141	118	121	96	119	141	89	91	101
1996												
New Korea	5	1	1	3	0	1	1	1	1	4	0	3
Internationalisation	35	37	35	34	48	41	42	24	29	43	37	35
Globalisation	93	90	108	74	88	84	78	56	55	72	59	75
Competitiveness	154	114	130	121	143	169	206	138	178	283	252	258
1997												
New Korea	4	1	3	1	2	2	0	3	1	0	2	4
Internationalisation	56	29	34	41	37	28	22	38	38	29	38	60
Globalisation	82	53	51	45	59	66	48	50	47	66	63	100
Competitiveness	311	149	238	194	193	242	195	172	174	196	228	321

* The key word search method available at KINDS is used in counting the numbers of articles published in four major newspapers by months and discourses. The articles with each discourse are obtained from entering the key word after selecting above-mentioned papers and three types of articles. In January 1993, for instance, these four newspapers produced 39 articles which contained the word 'New Korea'.

Using these data, one can obtain <Figure 3-1>. It shows that the articles containing ‘New Korea’⁶⁵ appeared most frequently in 1993 when Kim Youngsam’s presidency began. By the middle of that year, however, ‘Internationalisation’ became the dominant concept. From the middle of 1994, ‘New Korea’ had lost the pride of place in the ruling discourse.

Articles related to ‘Internationalisation’ began to increase from the middle of 1993 and reached a peak in January 1994, when the government adopted it as the key concept of state policy. It is usual that when a new concept appears in the political discourse, it receives a heightened attention in the media. Even so, there appeared as many as 275 editorials, columns, feature/serialised articles in January alone. This high frequency indicates the vigour with which the four major newspapers produced the discourse of ‘Internationalisation’. It had occupied the position of leading discourse until ‘Globalisation’ replaced it in November of that year.



* The ‘Competitiveness’ is omitted from the <Table 3-1> because it is a subordinate theme, not major discourses like the others.

⁶⁵ In December 1995, the ruling party changed its name into ‘New Korea Party’. For the present quantitative analysis, I did not take into account the articles about the New Korea Party as they are not directly concerned with the production of ‘New Korea’ discourse.

The discourse of ‘Globalisation’ began its rapid ascendance in November 1994, when President Kim announced it as the main policy concept. In December, there appeared as many as 376 editorials, columns, feature/serialised articles which contain ‘Globalisation’. Throughout the rest of Kim’s presidency, ‘Globalisation’ was the leading concept of the political discourses, a mantra appearing again and again in the Korean media. Considering that ‘Internationalisation’ was sometimes used interchangeably with ‘Globalisation’, the sheer quantity of the discourses of ‘Globalisation’ and ‘Internationalisation’⁶⁶ was enough to overwhelm the readers.

Qualitative Textual Analysis

‘New Korea’

The quantitative analysis shows the changing patterns in the leading discourse. Qualitative analysis is still necessary in understanding the reasons for the change. Within the ruling bloc of government-chaebol-media, who took the lead in the production of political discourse? Under what context and with what motive did the newspaper companies use such discourses? Qualitative contents analysis of newspaper articles aims to answer these questions.

As we have seen, President Kim’s drive to ‘Build a New Korea’ was grounded at an early stage. It has been suggested that that was due to inherent limits of his political power base.⁶⁷ However, another important reason for his failure may be the success of chaebol-media with neo-liberal inclination in their offensive against the government. Neo-liberalism provided the vital argumentative force for the chaebol-media. Neo-liberalist values and policies were portrayed as the essential ingredients for the development of the state. They no longer were perceived as abstract ideas. They infiltrated into the mentality

⁶⁶ As the Figure 3-1 shows, ‘Internationalisation’ was superseded by ‘Globalisation’ in December 1994. However both show a similar pattern in the evolution of their frequencies. This may suggest that, to a certain extent, these two words were used interchangeably.

⁶⁷ Kim had long been fighting against the military dictatorship in Korea. After his defeat in the presidential election in 1988, however, he forged an alliance with his erstwhile enemies. He entered the conservative ruling party and won the candidacy with his programmes for reform.

and life style of the people. Neo-liberalism afforded a convenient means of packaging the private interests of the ruling sectors and presented them as public interests.

At the very beginning of Kim government, the chaebol and the media were not against the new government. As they had long enjoyed their oligarchic dominance of the market by virtue of their alliance with the military rulers lacking in legitimacy and democratic credentials, the chaebol and the media were uneasily observing the beginning of a civilian government which was democratically elected.

Especially during the presidential election, the controversial candidacy of Chung Juyung, the Chairman of Hyundai, brought out the dangers of plutocracy. Some were even arguing for dismantling the chaebol. The chaebol, therefore, were attempting to improve their reputation by advocating managerial reforms. Samsung was proposing 'New Management' and LG was putting forward the concept of 'Just Management'.⁶⁸

Kim Youngsam's drive for comprehensive reform started as soon as he was elected. The reform plan was enjoying the support of the media and the people. They felt as though Kim's presidency was about to bring about a truly 'New Korea' with thoroughly reformed politics and economy. When the FKI's committee of chairmen gave a press conference at the beginning of 1993 offering reservations about the new government's drive for reform of the chaebol, *Chosun*, in its editorial, severely criticised it as motivated by shameless pursuit of self-interests (*Chosun*, 7 Jan. 1993).

Nevertheless, the views of the conservative newspapers during this period require a more careful analysis. They singled out 'lack of etiquette and good manners' as the 'Number 1 Korean disease' (*Chosun* 26 Jan. 1993). Another newspaper was urging 'Stern application of law - let's straighten up things' (*JoongAng* 22 Jan. 1993). Yet another paper was suggesting, 'Above all, let's learn to queue properly' (*DongA* 15 Jan. 1993). By arguing that these things should be the foremost tasks of the new government, they revealed their implicit intention to lead the government in the direction of order liberalism and neo-conservatism.

In contrast, the moderate-left newspaper *Hankyoreh* voiced its concern that President Kim's reform may move in the direction of 'neo-conservatism without any real structural reform' (3 Feb. 1993). Korea Progressive Academy Council, which has the

⁶⁸ Choi Taeryong pointed out that the discourse for managerial reform played a role in opposing the move to dismantle the chaebol which surfaced in 1990 (Choi, T. 1994: 176).

progressive leaning, held a policy debate entitled 'Neo-conservatism and New Korea'. They warned the dangers of 'small government thesis' which calls for de-regulation and reduction of welfare budget. Their debate went virtually unnoticed except for an article in *Hankyoreh* (26 Mar. 1993). In a country where the press has a pronounced ideological bias in one direction, it is highly unlikely that the voices of the minority will be reflected in the public opinion and communicated to the political centre.

The sluggish economy of the time had the consequence of depriving the minority of its tiny voice. From April 1993, there began to appear feature articles reporting the economic slump and urging a change of mindset. *Chosun* started out with serialised articles entitled, 'New Slump' (2~9 Apr.). It was followed by many serialised articles such as 'Rescue the Economy' (*Chosun*, June) and 'The World is in a Race: We Must Change' (*JoongAng*, July). These articles typically exaggerated the recession phase of the business cycle and often, if not always, attributed it to the government reform drive. With regard to investment depression, for example, an article about 'New Slump' argued that 'even after the new government was launched, enterprise activities remain suppressed in a chilly mood of audit and inspection and a wait-and-see policy prevailed' (*Chosun*, 9 April).

Amid the articles dealing with the economic slump of the time, some had the eye-catching and sensational titles such as 'Eliminated from the league of the four Dragons: our economy' (*JoongAng* 10 Mar.), 'Endless falling economic slump' (*Chosun*, 9 Apr.), 'Domestic demand weakens: here to stay long' (*Chosun* 29 June). These articles might have further undermined the economic performance. These 'negative headlines' in reporting economic news, as Blood and Phillips found, 'have a significant and negative impact on subsequent consumer sentiment' (1997: 111). In this climate, the prominent columnist of *Chosun*, Ryu Keunil (editorial writer in chief) advocated a 'Grand alliance between reform and economy' (10 Apr. 1993). *JoongAng* made a plea, 'Let's turn our attention to the outside world' (23 May 1993). In July 1993, the chaebol who were on the defensive from the reform efforts announced through the FKI:

In an era of economic warfare, the paramount task of the state is to foster the growth potentials of the economy. The debates about the economic reform can only weaken the competitiveness of the industries by dragging them into a wasteful war of attrition (*Weekly Gazette of the FKI*, 28 July 1993).

JoongAng followed this up with an article by a conservative scholar Lee Sangwoo, 'The shift of phases in the pending reform' (12 Aug. 1993). *Chosun* responded with a contributing article by a professor of Seoul National University, Cho Dongsung, 'Audits should be short, the economy should be long' (18 Sep. 1993). The headline of his article became a cant phrase. These articles proposed a shift of policy emphasis from 'Reform' to 'Economic rebounding'. They converged to the new focal point of emphasis: 'Strengthening competitiveness'. 'Competitiveness' - together with 'Reform' and 'Redressing the law and order' - used to be one of the subordinate themes of the discourse of 'New Korea'. As a result of the discursive offensive of the anti-reform forces who made use of 'Economic rebounding', 'Competitiveness' became the foremost concept taking precedence over 'Reform' and even over 'New Korea'. As the 'Reform' was painful to implement, its scope was reduced to a 'Reform without undermining competitiveness'. Thus, de-regulation and law and order in the employment relationship became the newly defined targets of the 'Reform'.

In connection with the discourse of 'Strengthening competitiveness', the role of the FKI deserves particular attention. This is because the FKI became the sponsor for production of neo-liberal discourse and the media undertook the task of propagating it. The 'anti-reform alliance' was effortlessly forged. Since then, the pattern has repeated itself: the FKI hosts a debate, seminar or public lectures where neo-liberalist economic theorists were invited to speak; the media ensure high-profile coverage of the event. In July 1993, the FKI hosted a meeting of corporate executives entitled, 'New Government's Visions for Restoring Economic Vitality, and the Views of the Industries'. It was soon followed by a colloquium whose title says it all: 'Colloquium for Members of the Industry, the Academia and the Media for Strengthening International Competitiveness'. To this Colloquium, which was in fact a series of public lectures, Finance Minister and other Ministers for relevant departments were invited (Kang and Park 1997: 135).

In September 1993, the 'Private Committee for Strengthening the National Competitiveness' was formed. It was to be chaired by one of the chairmen of the five industry organisations (which include FKI, KEF, and KCCI). In the event, it was chaired by the Chairman of the FKI. The Committee hosted a 'debate for all citizens' which was entitled, 'Strengthening the National Competitiveness and Reforming the Mentality'. The Committee also launched overseas training programmes. It offered to senior reporters and

scholars a new overseas training programme which covered all training and travel costs. The programme was called, 'Site visits to the globalisation movement'. News reporters despatched to the Economic Planning Board (which oversees public corporations) were also offered trips to England so that they could study the 'Results of privatisation of public corporations in England'. Subsequently, all newspapers were filled with feature articles urging privatisation of public corporations. The somewhat progressive *Hankyoreh* was no exception (*Hankyoreh*, 1~4 Feb. 1994).

In the face of the united resistance of chaebol-media, the reform-oriented group in the ruling bloc capitulated. Between September and November of 1993, President Kim had one to one meetings with the chairmen of the chaebol. At one point, he said, "Legitimate wealth should not be criticised. There will not be any policy measures which may dampen the industries' enthusiasm for investment" (*Hankook*, 16 Sep. 1993).

'Internationalisation'

Careful investigation is needed to answer the question of exactly who in the ruling bloc is the producer of prevailing discourse. It is not being doubted that the government and the chaebol are the producers of the discourse. However, it would be wrong to imagine that the media was just a 'messenger'. In fact, they also attempt to gain influence or control by setting the agenda.

Regarding the discourse of 'Internationalisation', it was believed to have become the policy agenda after President Kim's speech at the beginning of 1994 after his attendance at the APEC meeting in Seattle in November 1993. However, a more careful investigation of the matter shows that *Chosun* played an important role in creating this discourse. Already on 1 January 1993, the headline for the New Year's special editorial was entitled 'Let's become a member of the internationalised society'. The newspapers announced the launch of a serialised article, 'Korea, a Lonely Isle' (1 Jan. 1993). On 11 January, another editorial appeared with the heading 'The way to the true Internationalisation'. Throughout the year, *Chosun* dealt with the topic of 'Internationalisation' while other newspapers and academia paid little attention to the topic.

In April 1993, when President Kim's reform drive was all the rage, *Chosun*

published an editorial, 'Reform means Internationalisation' (26 Apr.). It was essentially a demand to change the course of the reform efforts. More editorials and columns along this line followed suite. 'Let's start with Kim government's Internationalisation' (10 Oct.), 'Bureaucracy hinders Internationalisation' (9 Nov.). Choi Chunglim, the head of *Chosun's* editing staff, wrote a column entitled 'Slumping Internationalisation' (6 Oct.). He argued that 'the President must take the initiative for Internationalisation.'

At the beginning of November 1993, the government started to adopt the concept of 'Internationalisation' in its ruling discourse. On 14 November, *Chosun* took the unusual measure of publishing two editorials dealing with Internationalisation, thus attempting to set the course of the government's policy. In an editorial entitled 'What is Internationalisation', they set out the concept. In another editorial, 'A case for corporate model of government administration', they argued that 'Internationalisation calls for a reform of government administration', thus offering a concrete method for implementing 'Internationalisation'. At last, President Kim publicly announced on 18 November that 'Internationalisation' would be the policy goal of the government. *Chosun* warmly welcomed the move. There soon followed editorials such as 'The essence of Internationalisation is de-regulation' (28 Nov.), 'Internationalisation and nationalism' (12 Dec.). Further feature articles including a column, 'Internationalisation of our mindset' (30 Nov.), appeared to deal with concrete themes of 'Internationalisation'.

By this time, other newspapers such as *JoongAng* and *DongA* also jumped on the bandwagon and offered various arguments for 'Internationalisation'. When the trade negotiations for the Uruguay Round were concluded in December 1993, the discourse of 'Internationalisation' was given a new push. Newspapers were flooded with articles, columns, feature/serialised articles advocating 'Internationalisation'. They all contained neo-liberalist proposals such as 'de-regulation' and 'reduced government'. However, there were meaningful differences among individual newspapers.

While *Chosun* appeared to emphasise the need for reform of the bureaucracy, *JoongAng* emphasised de-regulation. In a serialised article entitled 'Time for a Change', *Chosun* made a categorical assertion that 'The worst obstacle on the road to Internationalisation is the bureaucratic organisation' (4 Jan. 1994). In another serialised article, 'The Way of an International Citizen' (27 Dec. 1993 - 2 Feb. 1994), *Chosun* advocated for a change of people's mindset. It appears that *Chosun's* neo-conservatism

was grafted into the neo-liberalist trend of the time. When *JoongAng* argued for de-regulation in its editorial, 'Time for shaping up the policies for the chaebol' (1 Apr. 1994), *Chosun* quickly replied with an editorial, 'Time for the chaebol to shape up their own structure' (2 Apr. 1994). One must remember that *JoongAng* is owned by Samsung. The 'corporate' identity of the newspaper company affects the discourse it produces.

Chosun was surprisingly critical of the chaebol considering its basic tenet of neo-liberalism and neo-conservatism. That was perhaps motivated by its rivalry with *JoongAng*, a chaebol owned newspaper. *Chosun* sometimes outperforms the progressive *Hankyoreh* in its criticism against the chaebol. That is because *Chosun*'s financial situation is strong enough to withstand pressures from its major advertisers. In a group interview with the present researcher, an economic reporter from *Chosun* replied, "I rarely felt the pressure from the managers in connection with my news reports about the chaebol" whereas his counterpart in *Hankyoreh* replied, "It is not easy to ignore the pleas of the Head of my company when my article is likely to be critical of our company's major sources of advertising income. After all, he is the Head of my company who was elected by us" (interview, 14 Mar. 2003).

In 1993, *Chosun* took the lead in advancing the discourse of 'Internationalisation'. Yet *JoongAng* did not stand by as an onlooker. *JoongAng* took pride of itself as the 'Locomotive of change and reform'.⁶⁹ Of course, the contents of the reform it was advocating were squarely based on neo-liberalism. *JoongAng* contributed very much to the propagation of neo-liberalism in Korea. In doing so, it attempted to promote the market driven economy and to advance the social climate which is favourable to the chaebol.

This is evidenced by the fact that the persistent theme of the discourse advanced by *JoongAng* in 1993 was 'Strengthening competitiveness'. We have seen earlier that 'Competitiveness' and 'Reform' were the competing themes subordinate to the 'New Korea' discourse of Kim government. We also saw the chaebol's role in promoting 'Competitiveness' at the cost of 'Reform'. The part played by *JoongAng* in this process is worthy of note. January 1993 was a time when the chaebol were lying low. *JoongAng*, however, published the New Year editorial 'Let's build a joyous society' on 1 January

⁶⁹ *JoongAng* was trying to implant those images in people's mind through their internet home page and advertisements.

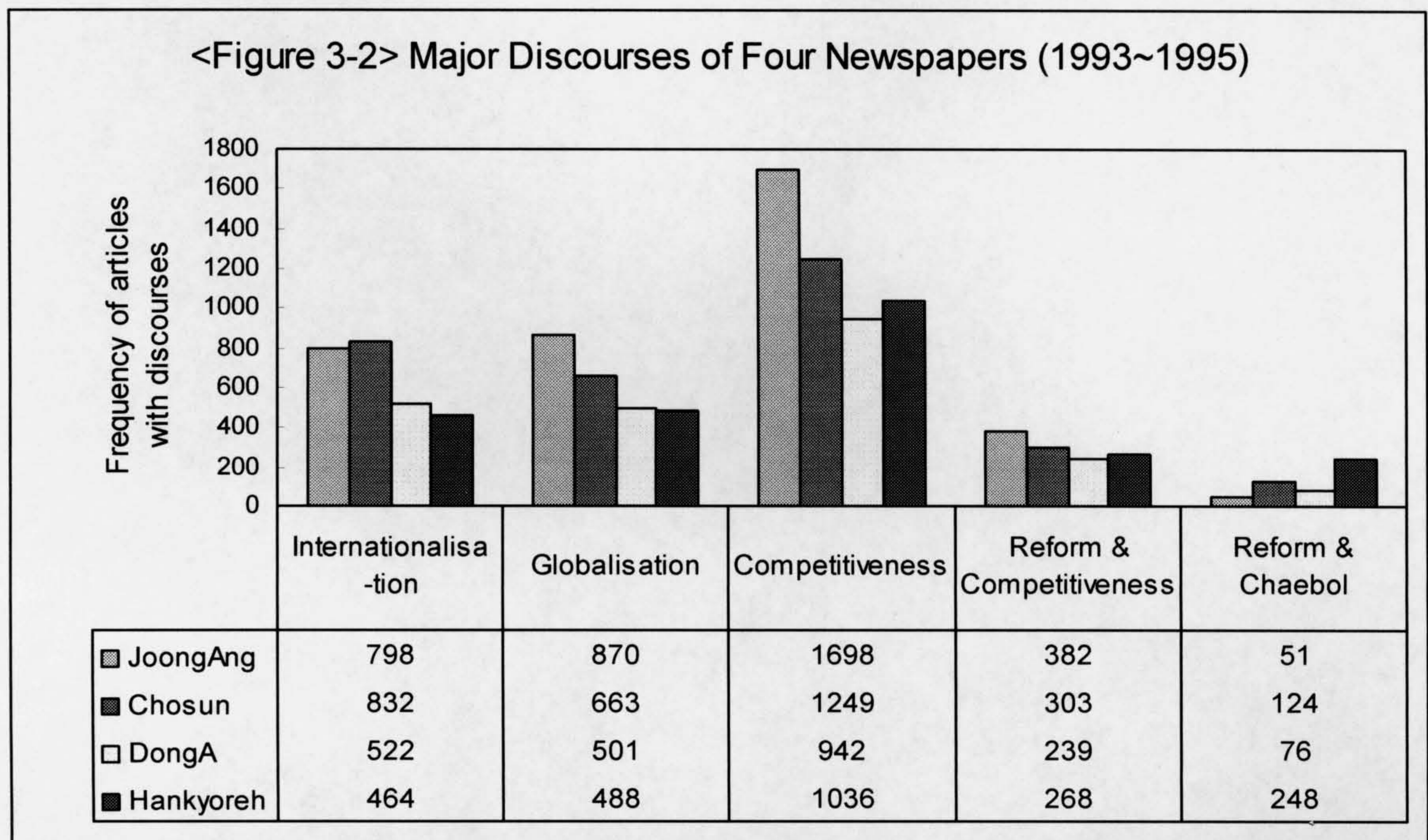
1993. On 5 January, they followed this up with another editorial, 'Conditions for a joyous economy'. The same theme was pursued in various articles 'Regulations obstructing corporate operations: worsening the slump' (11 Jan.); 'Regulations weakening the competitiveness' (12 Jan.) and 'Regulations arresting corporate moves' (13 Jan.). These articles were bombarded even before the President-elect Kim took office in February. In May, when the new government still had the energy and enthusiasm for 'Reform', *JoongAng* published an editorial, 'Corporate Reform: the enthusiasm and the reality' (2 May). Concrete proposals and arguments were set out in a contributing article by a neo-liberal economist Chung Goohyun, 'Reforming the conglomerates: not to be undertaken rashly' (21 May).

The slumping economy gave a boost for *JoongAng*'s discourse practices. Editorial titles included 'Economy: big frogs in a small pond' (11 July); 'Competitiveness of Korean economy far from satisfactory' (26 July); 'International competitiveness: the foremost aim of our time' (10 Aug.) and 'Competitiveness: the road to join the advanced states' (22 Sep.). As one can see from these titles, 'Internationalisation' and 'Competitiveness' were seamlessly combined. These two concepts did have overlapping contents but the emphasis of the former lay in raising the standards of various institutions, manners, customs to the level of advanced states whereas the latter had the emphasis on de-regulation. As the economic slump persisted, the 'Internationalisation' advocated by *Chosun* came to mean raising the 'Competitiveness' (as advocated by *JoongAng*) to the level of advanced economies.

JoongAng pushed forward its ideas through a great number of articles with serial titles such as 'Issues of New Economy' (June 1993), 'Problems of Public Corporations' (June 1993), 'Tasks of the New Economic Team of the Government' (Dec. 1993), 'Mid-term Assessment: Where does the New Economy Go from Here?' (July 1994) and 'Privatisation of Public Corporations' (July 1994). *JoongAng* criticised the restrictions placed upon the chaebol in taking over the public corporations. They also argued for predominantly private ownership of banks, most of which were owned by a lot of shareholders without a large shareholder. From September 1994, they launched long serialised articles, 'Advanced States: What Makes Them Different [from Korea]' which purported to report the 'success stories' of foreign countries which adopted neo-liberalist policies. Similar series appeared at the time: 'Japan Revisited', 'Corporate Innovation and

Corporate Success: In-depth Report' (Aug. 1994). Regarding the education service, *JoongAng* carried long-term serialised articles, 'Educational Reform in Advanced States' (9 Nov. ~ 30 Dec. 1993), 'Our Future Lies in the Success of Education' (1~25 Sep. 1994) which emphasised the need for 'Competitiveness' in education. *JoongAng* criticised the government which was opposed to donation to private universities in return for places. *JoongAng* argued that the government must stop meddling with the university education.

<Figure 3-2> shows the discourse practices of the four newspapers during the three year period from 1993. The discourse of 'Internationalisation' was excelled by *Chosun* whereas 'Competitiveness' and 'Globalisation' were most frequently appearing themes of *JoongAng*'s articles. *JoongAng* and *Hankyoreh* published a similar number of articles containing the word 'Reform' (2,707 articles for *JoongAng* and 2,695 articles for *Hankyoreh*). However this must be assessed with caution. *JoongAng*'s discourse of 'Reform' was aimed at de-regulation to improve the competitiveness. In fact, *JoongAng* had by far the largest number of articles which contained both 'Reform' and 'Competitiveness' during this period (382 articles). By contrast, *JoongAng* had a small number of articles which contained both 'Reform' and 'Chaebol' in the text. During this period *JoongAng* had only 51 such articles compared to 248 such articles appearing in *Hankyoreh*.



* In preparing the Figure, the present researcher used the key-word search method available at KINDS.

JoongAng did not regard the chaebol as the targets of reform. For example, in a New Year editorial entitled 'Shaping the framework of the state in an era of Internationalisation' (1 Jan. 1994), *JoongAng* was advocating comprehensive reform in politics, administration, education and other areas. Yet they kept quiet about the chaebol.

It seems that the active alliance between the chaebol and the media in the production of ruling discourse greatly contributed to President Kim's adoption of 'Internationalisation' discourse. A former Junior Secretary to the President told in an interview:

If you did not talk about 'Internationalisation' and 'Competitiveness', you're sure to be accused of living in the by-gone era, an anachronistic person who does not even read newspapers. If you raised an objection to those values, you were cornered (interview, 22 Mar. 2003).

The cabinet reshuffle which followed shed a number of Ministers and high ranking officials who had been energetically pursuing the reform programmes. Han Wansang, a somewhat progressive Minister of Re-unification remarked immediately after leaving the post, "I have been severely criticised by some of those who did not welcome the trends of the post-cold war era. But when sufficient time passes, my contribution will be assessed in a fairer manner." (*Hankyoreh*, 22 Dec. 1993). He had attempted to introduce some elements of the policy which was to be adopted later by President Kim Daejung under the name of 'Sunshine policy'. While in office, he was vehemently attacked by *Chosun* who accused him of being a pro-communist. When the impending cabinet reshuffle was being discussed, *Chosun* had an editorial 'Managerial ability should be the criterion for the new cabinet' appearing on 17 December 1993.

The new cabinet was indeed filled with neo-liberalists and neo-conservatives. In the name of 'Competitiveness', a series of policies aimed at de-regulation of the chaebol were announced. Of course, the FKI welcomed the new move. In its New Year statement in January 1994, it announced, 'A new consensus is beginning to emerge from the nation' (cited in Kang and Park 1997: 139). The FKI demanded further measures for de-regulation and wage stability. The FKI promised to form the Committee for Promotion of De-regulation and the Committee for Employment and Labour so that it could offer its views

to assist the new government in policy formulation. It was argued that the world economy had moved from an era of 'fair competition' into an era of 'unlimited competition'. It advocated for strengthening of the chaebol as an answer to the new challenges.

The FKI could hear its voice echoed from the government. The Ministry of Information launched a public advertisement which was entitled, 'Competitiveness: housewives too'. The discursive symbol of 'Competitiveness' was used as a magic wand to bring out a consensus from the people. In the name of 'Competitiveness', the government accepted the demands of the industry and declared 1994 as the 'Year One of no industrial actions'. Guidelines for wages were also introduced. As the labour movements showed a violent reaction, the government swiftly responded with ruthless crackdown (Kang and Park 1997: 139). All newspapers, except *Hankyoreh*, welcomed and urged more rapid and effective control of industrial actions.

In December 1993, economic indicators showed that 'the slump is over'. However, the newspapers continued their discourse practices, insisting that the Korean economy should leap into the league of world class economic powers beyond the slump. *Chosun* launched many series of feature articles such as 'UR and the Era of Competitiveness' (Dec. 1993), emphasising that deregulation and opening up could be countermeasures in the era of open economy.

JoongAng, for its part, carried out an extensive coverage in this direction, such as 'The Economy in an Era of Genuine Open Market' (Dec. 1993), which called for a ground-breaking deregulation concerning business activities. In addition, *JoongAng* made 'Look Outside' the theme of 1994 and launched an all-year round series about where Korea should be ushered to survive the new economic order (1 Jan. 1994). *DongA* also added its voice in its serialised articles, 'Competitiveness: a Survival Kit in the Era of Internationalisation' (Jan. 1994). The core message of these conservative papers was that the role of the government in an era of Internationalisation should be limited to that of supporting the industry and the economy.

Of course, there were lone voices expressing concerns about the policy overdrive. *Hankyoreh* offered its warnings against the excessive pace of market opening in its editorials: 'Internationalisation should begin from sound domestic economic foundations' (10 Nov. 1993). It also published columns 'The cult of Competitiveness' (2 Nov. 1993) and 'The nation's Competitiveness and Internationalisation' (21 Jan. 1994) where the

paper asserted: 'When the interests of the nation and of the workers are excluded, when public interests are ignored in this drive for Internationalisation and building up of Competitiveness, the whole enterprise may prove to be a failure.'

However, the voices of a newspaper which can claim only about 3% of the total number of newspapers issued in Korea were largely ignored or swamped by the mainstream news and feature coverage. At times, however, *DongA* - which was relatively less active in these discourse practices - allowed contributing articles such as 'Dangers of blind conviction in Internationalisation' (23 Jan. 1994) which were incongruent to its stance. Such articles were rather isolated events.

'Globalisation'

If a ruling discourse or political agenda which dominates government policy line is to secure legitimacy, the process of decision making should be democratic. In this respect, Habermas laid stress on the direction of communication flow:

Binding decisions, to be legitimate, must be steered by communication flows that start at the periphery and pass through the sluices of democratic and constitutional procedures situated at the entrance to the parliamentary complex or the courts (and, if necessary, at the exit of the implementing administration as well)' (Habermas 1996: 356).

In light of this, the process through which 'Globalisation' came to be adopted as a ruling discourse was far from democratic. As mentioned in chapter 2, 'Globalisation' had not been discussed even in the circle of the President's Secretariat, but somehow became the nation's policy goal and functioned as a 'false barometer' which kept demanding rapid opening of the market and de-regulation. The crisis came eventually.

According to Chang Jungsoo, the reporter of the Hankyoreh who accompanied President Kim during his APEC summit meeting in Indonesia, the adoption of 'Globalisation' discourse took place on 16 November 1994 in the airplane to Australia after the summit meeting. The following is a reconstruction of what happened on that day:

President Kim summoned some of his secretaries in the plane. “There will be an informal meeting with news reporters tomorrow morning. Any idea?” Someone replied, “Perhaps a brief explanation of the results of these summit meetings.” President Kim appeared to think that something more was necessary. He went on, “It dawned on me this time that there are fabulous opportunities over here, outside Korea. I heard people speak about global market. Could you not make something out of that?” “Internationalisation or Globalisation, you mean?” replied someone. “Globalisation! That sounds new and attractive. Could you have something ready for tomorrow morning?” The secretary sent urgent faxes to the Economic Planning Board in Seoul asking for the meaning of globalisation and the case for pursuing it. The Economic Planning Board was then busy with the ‘Internationalisation’ policy project. On that basis, they hastily prepared a press release and sent it back to Sydney. President Kim announced on the following day that from then on, ‘Globalisation’ will be his long-term policy goal. This was the so-called ‘Sydney Announcement’ (based on the then news reports and the interview of 2 July 2005).

In spite of its somewhat ‘casual’ beginning, the Globalisation policy had formidable repercussions. Initially, it had a lukewarm reception from the media which responded by asking, ‘is it any different from Internationalisation?’ However, the attitude soon changed and they started to seek something different. They realised that it could be the means of implementing neo-liberal ideology and furthering the interests of the ruling bloc on all fronts.

JoongAng was particularly quick to respond. It is worthy of note that Samsung - the chaebol that owns *JoongAng* - was to benefit most from the ‘Globalisation’. As if they had been waiting for the announcement, *JoongAng* started a serialised article ‘The Future Lies in Globalisation’. The first article in this series was entitled ‘Reform policy now found the right target’ (19 Nov.). The article advanced the claim that ‘the reform which focuses on punishing the past misdeeds has now more or less served its purpose... There is now a demand for forward-looking achievements’. The fourth article in the series was entitled ‘Reforming the institution and the mindset with a view to Globalisation’ (23 Nov.). It was asserted that: ‘the least that the government must do is to refrain from restraining the

creative drives from the private sector and to endeavour to foster the environment for vibrant competition’.

In its editorials which immediately followed President Kim’s Sydney announcement, *JoongAng* welcomed what it termed ‘Long-term ideas for Globalisation’ (18 Nov. 1994). It made its own policy suggestions as well in an editorial ‘What the President should do upon his return’ (19 Nov.). Another editorial purported to be a reminder for ‘Points to watch out in implementing the Globalisation’ (23 Nov.). The government announced a plan for re-organising the economic and finance departments on 4 December. *JoongAng* welcomed the move by launching a serialised article ‘Administrative Revolution on the Road to Globalisation’. The series started off with an article praising ‘The first visible result of the Globalisation announcement’ (5 Dec.). However, the government re-organisation was criticised by some as a publicity stunt to hide the emptiness of the ‘Globalisation announcement’. They claimed that the decision to merge the Ministry of Finance and Economic Planning Board had the result of depriving the sense of balance in economic policies and that it was one of the causes for financial crisis of 1997.

On the very day when the government re-organisation was announced, however, Samsung also announced that they would pursue their plan to start car-manufacturing. Samsung’s plan to enter into the car-manufacturing industry had long been a highly contentious topic. The sudden announcement by Samsung was carefully timed to fish in troubled waters. The government referred to Globalisation in justifying its policy somersault and decided to allow Samsung to start car-manufacturing. In January 1995, the restrictions on investment in petrochemical industries were also lifted. The trend of Globalisation granted the wishes of the chaebol at last. However, both the car industry and the petrochemical industry were responsible for a tremendous scale of over-investment and triggered off the financial crisis of 1997.

Chosun was then engrossed in the production of ‘Internationalisation’ discourse. President Kim’s ‘Globalisation announcement’ met with a sarcastic response there. In its editorial, they criticised the government’s announcement as ‘a move to get out from its political predicament caused by major accidents and corruption charges levelled against close aides of the President’ (19 Nov. 1994). *Chosun* made clear its preference in another editorial ‘Politicians and the government: yet to be internationalised’ (24 Nov.).

After a while, however, *Chosun* published a contributing article ‘Forward-looking

Globalisation' (8 Dec. 1994) by Choi Jonghyun, who was then the Chairman of the FKI. In this article, he argued that "we have been thinking about Internationalisation within the framework of nationalism" and lent his full support to the 'Globalisation announcement'. Chosun had its own staff article 'Globalisation: in need of details' (11 Jan. 1995) and urged the reform of education to meet the global standards. *Chosun* ended up adopting the 'Globalisation' discourse. In 1994, *Chosun* carried a series entitled 'Globalisation is the Word' (29 Nov. ~ 10 Dec.) to emphasise the importance of foreign language learning. From the beginning of 1995, *Chosun* started to regurgitate long lists of articles with serial titles such as 'Global New Strategy' (1~26 Jan.); 'Global Competitiveness' (1~9 Jan.) and 'Nurturing the First Class Citizens' (1~12 Jan.). The core agenda underlying these series was that, as Globalisation is the key to strengthening competitiveness, the government should hurry to open up the economy and remove regulatory barriers and every individuals in the society should improve their own 'competitiveness'. Regarding the chaebol, however, *Chosun* remained critical. In a feature article 'The start of WTO era: when only the best can survive' (1 Jan. 1995), *Chosun* argued that 'instead of developing expertise in specialised areas, the chaebol are keen to branch into a wide variety of areas in order to diversify risks'.

Hankyoreh warned of the negative potentials of the globalisation drive in its column, 'Globalisation: yet another cult' (5 Jan. 1995), and in its New Year's editorial, 'Reviving the reform: reviving the people's hope' (1 Jan 1995). They criticised the decline of the 'Reform'. Yet the voice of the minority was bound to be lost in the loud slogans of 'Globalisation'. When the Mexican peso plummeted, *Hankyoreh* made a plea to pay heed to the 'Lessons of Globalisation in crisis' (16 Jan.). However, *JoongAng* published a column 'Digging a tunnel in an era of globalisation' contributed by a proponent of neo-liberalism, Kim Byungjoo (21 Jan.) who argued that 'some people in the press and in the government were attempting to use the devaluation of the Peso as an excuse for delaying the opening up of Korean market.'

At any rate, after adopting the ruling discourse of 'Globalisation', the government undertook to review its various policies. The new agenda included 'Company-like Government', 'Sales diplomacy' and 'Productive welfare'. In particular, the so-called 'Productive welfare' meant welfare provisions which avoid burdening the economic growth. This neo-liberalist idea may have an appeal in a country suffering from the

crushing weight of social security spending. In the Korean society which has very few and weak welfare provisions to begin with, however, 'Productive welfare' would simply mean indefinite avoidance of welfare provisions.

The retreat of welfare policy is bound to enlarge and perpetuate inequalities. Such a policy can only be implemented, as pointed out by Edelman (1971), through a manipulation of political symbols. The examples of European countries which had reduced welfare spending were peddled around as the 'global standard'. All had to be fair in the race toward 'Globalisation' and 'Competitiveness'.

The chaebol did not sit tight. They started the practice of symbolic advertisement. Advertisements appeared where no particular products appeared. They were selling images and symbols rather than products: 'Global management, that'll be the Daewoo'; 'Global Super First, this is Samsung'; 'LG now has a new client, the World'; 'Hyundai is going on top of the World'. The chaebol were not after the consumer's money. They were after the consumer's mind. Through a control of political symbols, they hoped to achieve a favourable environment for their business operations.

In reference to 'opinion management', Habermas takes a line from Steinberg: 'By means of a dramatic presentation of facts and calculated stereotypes it aims for a "reorientation of public opinion by the formation of new authorities or symbols which will have acceptance"' (Habermas 1989: 194). *Labourer's Daily* deplored: 'No page of any media [in Korea] is produced without the stamp of Globalisation. Without it, the authenticity of one's views is to be suspected' (21 Feb. 1995).

Alliance for Ruling Discourses

Reinforcing Solidarity

We have seen that the press in Korea have not only conveyed the arguments advanced by others, but developed their own arguments and suppressed the arguments of certain others. They were an important producer of ruling discourses and as such led the government in making its policies. The values they espoused advanced mainly the

interests of the ruling bloc rather than reflecting the general interests of the civil society. As a result, the communication and decision making process seemed to flow from the core to the periphery. In the case of Korea, 'the sluices' - which was mentioned by Peters (cited in Habermas 1996: 354) - were usually set to operate in one direction: from the centre to the periphery. What were the conditions under which the Korean press could engage in its 'unhealthy' discourse practices in a manner which is far from Habermas's normative model or the democratic media model? Also, where did the power wielded by the Korean press come from?

First of all, the reasons should be sought in the firm alliance within the ruling bloc forged by 'common interests'. On the other hand, the opposing side was in disarray. The common interests are often observable in the relationship between the press and the chaebol. We have seen that *JoongAng* was most enthusiastic in promoting the ruling discourse of 'Competitiveness' and 'Globalisation'. *JoongAng* and Samsung share 'common interests'.

When Kim Youngsam and a reformist group joined the then conservative ruling party and succeeded in winning the Presidential election, the binding power of the ruling bloc including the government, the chaebol and the press was not that strong. This is because the bloc came to contain some progressive elements vigorously pursuing the reform. However, when the reformist group tried to set up the Committee for New Korea to implement Kim's reform programmes, anti-reform groups began to reunite. The Committee was grounded even before it was launched as the anti-reform groups were actively blocking the emergence of any potential opponents.

On the other hand, the Committee for Implementing Internationalisation and the Committee for Implementing Globalisation - both of them were supported by the corporate sector - were launched smoothly (Kang and Park 1997: 140). The reason is that the interests within the ruling bloc were coordinated by then. It can be also attributed to the neo-liberalism which became the 'common ideology' for most Koreans. A considerable number of intellectuals who had no immediate political interests joined in the debate as the propagator of neo-liberalism.

The national assembly, the court and other state organs did little to check each other. Rather, they encouraged the Administration's energetic drive in a particular direction. These organs are often portrayed as acting on the basis of reason and rationality. However,

a closer look may show that this may not always be so: the press may aggravate the situation. When the national assembly is in session, for example, a great deal of discourse is produced. At this time the press can select and report only those remarks that fit their taste. The distortion of discourse can take place in this manner. Regarding the autumn session of 1993 Assembly, *JoongAng* had an article entitled 'The focus of the question time'. Half of the article was filled with the remarks of the Assemblyman Kang Kyungsik⁷⁰ who advocated market opening, overriding importance of the economy in policy considerations and 'Internationalisation'. A sub-title for the article was 'The economy according to the logic of economics: in one voice' (1 Nov.). Some assemblymen⁷¹ were voicing their concerns about the side-effects of 'Internationalisation', but they were largely ignored.

In contrast to the united front of the ruling bloc, the opposing groups were lacking in number and organisational power. Citizens' groups were lacking cohesion and could not rally enough force. The chaebol could buy up political influence. Yet labour unions were too weak outside their work place to have any political impact. There are more than 10 million workers in Korea; not a single seat in the National Assembly went to them. It would, of course, be unfair to criticise their lack of cohesion too much. When the discourse of 'Internationalisation' was all the rage, the Minister of Justice remarked that 'Internationalisation can only be achieved upon the foundation of a stable society'. He instructed the Director of Public Prosecution that 'labour disputes must be sternly cracked down' (*Hankyoreh*, 24 Jan. 1995). *JoongAng* also had a column, 'Labour-management relationship in an era of Internationalisation' where it was asserted that 'in readiness for the Internationalisation, peace and order should first be restored in work places' (1 Feb. 1995).

'A working media model' devised by Curran (Curran 2002: 240~246) could be applied to the press in Korea. Regarding the 'private enterprise media sector', it is indeed rare that the major newspapers gave an adequate coverage of the workers' viewpoints. Those papers gave a full coverage of the chaebol views. The claims of the citizen groups and workers were often ignored or given an extremely cursory coverage.

⁷⁰ This very man was to become the DPM of Economy in 1997

⁷¹ The Assemblyman Kim Keuntae put forward an argument that "the discourse of Internationalisation and Globalisation contains the logic of justifying in the name of the people the special favours enjoyed by the chaebol" (cited in Kang and Park 1997).

In the ‘civic media sector’, citizen groups were lacking in organizational vigour as they were most often run by dignitaries, rather than activists. Even if they did produce important discourse, they lacked the media who could report their views to the wide public. The newsletters of these groups were barely surviving, if lucky.⁷² There was no government subsidy and very little interest from the general public. Rather, some of the citizen groups were joining force with the ruling bloc. They participated in the discourse production of the ruling bloc. The Secretary General Suh Kyungsuk of the well-known Citizens’ Coalition for Economic Justice (CCEJ), served as a member of the Committee for Implementing Internationalisation. He argued that “citizen groups and workers movements should turn their attention to strengthening the national competitiveness”. According to him, “Educational reform should aim to provide skilled man-power which can sustain the national competitiveness” (Cho 1993).

In September 1994, the People’s Solidarity for Participatory Democracy (PSPD) was organised. The CCEJ and the PSPD were the two most important citizen groups. They made a great deal of achievements and voiced progressive views from time to time. However, both of them were pursuing reforms inspired by neo-liberalism. While critical of the chaebol, they were demanding de-regulation at the same time. The PSPD was actively pursuing ‘one dollar, one vote’ movement in corporate governance. Regarding these moves, Yi Jonghyun observed that:

These movements draw upon people’s animosity of the state which had used violence to maintain its illegitimate power; another reason for blossoming of these movements is that the order which had been reigning until then was lacking in rational grounds compared to the order by market.... It would be a mistake to understand that the retreat of the state is the progress of society.⁷³

As the government has no policy to provide for the ‘social market sector’, minor newspapers had to struggle for survival. The dire conditions of their existence sometimes led to distortion of their news report. *Seoul Kyungjae* (economic daily) used to be critical of the chaebol. However they decided to launch a one year long series of full-page articles

⁷² *Labourers’ Daily*, which started with 14 million workers as its potential subscribers, had to discontinue due to financial difficulties in April 2003.

⁷³ A paper read in a seminar organised by Cambridge Korean Society (24 May 2001).

(39 in total) under the heading, 'Industries' Survival is the Key to the Nation's Survival' (1 Aug. 1995 ~ 9 July 1996). In a personal communication with the present researcher, a reporter of the newspaper reluctantly admitted that "the articles were written in exchange for a huge sum of money paid by the chaebol" (personal communication, July 1996).

As for the 'professional media sector', it is unrealistic to expect that the Korean media professionals would stick to their calling as an objective transmitter, or make voluntary efforts to convey minority's voices. Young reporters in conservative newspapers often reply that they are closer to the progressive camp. Nevertheless, even their articles are often based on a neo-liberalist perspective.⁷⁴ If the revolutionary potentials from inside the media organisation were the premises for Habermas's optimistic view, then the picture would become rather pessimistic for Korea as there is very little or no such potential in the media professionals in Korea. Hardt did point out that 'journalists have never challenged the organization of media power directly and collectively' (Hardt 2000: 217). In Korea, the media professionals do not even manage to have a vigorous labour movement to protect their own interests.

Another reason for the major newspapers' oligopolistic control of the discourse market is, ironically, exaggeration and distortion in their report. There were numerous instances where these major papers arbitrarily selected and 'puffed up' certain news sources in order to have a greater impact for their news report. The annual report of the International Institute for Management Development (IMD) can provide a convenient example to illustrate this point. The Swiss based Institute's 'World Competitiveness Yearbook' is seized by the press and the chaebol each year to create the dominant discourse favourable to their position.⁷⁵

In 1994, Korea was reported to have been ranked at 24th place. *JoongAng* made a big issue out of this. In a feature article 'The shock of the IMD report', *JoongAng* offered an explanation that 'inflexible regulatory schemes targeting big corporations undermine our competitiveness'. It proposed 'Globalisation on all fronts' as an alternative to regulation (10 Sep. 1994). However, the article did not emboss that the report was based on a study of 41 of mostly advanced countries. Nor did it question the pertinence of the

⁷⁴ For more details, see chapter 4.

⁷⁵ Yi Jong-hyun, a former correspondent who had covered European countries for *Maeil KyungJae*, said, "Reporting the IMD report was so important that some reporters negligent of it got reprimand from their desks (interview, 5 Nov. 2004).

items with which the report worked out the ranking. *Financial Times* had an article about the IMD report which raised doubts about its reliability.⁷⁶

After a while, however, the Korea Economics Research Institute (KERI) which is founded by the FKI published a report claiming that ‘having reassessed the results of the IMD report from the Korean perspective, Korea should have been placed at 33rd place rather than 24th’. The KERI’s report took additional account of the labour relationship among other items. *JoongAng* seized this report and launched another round of alarmist articles. An editorial ‘Banking industries should be entrusted to responsible private owners’ (12 Oct. 1994) accompanied these articles as well. Sensational news reporting can have some real impact on the economic performance. In a personal communication of the time, an executive officer in the Ministry of Finance responded:

The KERI’s report did not take adequate account of the government’s reform measures. It is deplorable that the chaebol who already have tons of problems are now pushing hard to branch into the banking industry. They are putting serious pressure on the government by manipulating the media. If this continues, we will be lucky if the country does not go bankrupt (personal communication, 13 Oct. 1994).

In the following year, the Heritage Foundation published a report on economic freedom. According to the report, Korea was classified among the ‘nearly free’ countries (*Kookmin* 14 Dec. 1995). Such a news should be a good news for neo-liberalists! Nevertheless, the conservative newspapers kept quiet about this report. When they judged that the report could undermine the discourse they had been producing, they did not hesitate to ignore it even if it was published by a conservative research institute in the US.

Lastly, the slanted and provocative statements used by the conservative press may have strengthened the cohesion among those who are already favourably disposed to the conservative newspapers. Such language was a serious hindrance to the culture of meaningful debate and democracy. However, it may be an effective means to consolidate the inner cohesion of an interest group. Professor Gwak Sangkyung of Korea University contributed a column, ‘Requests for the new team for government’s economic policy’,

⁷⁶ It was pointed out by the newspaper that the research was done with 16,500 questionnaires sent out mainly to entrepreneurs but only 2851 were returned (*Financial Times*, 7 Sep. 1994). Such a biased sample and low response rate may have caused serious problems in survey analysis.

which stated:

There is no need whatsoever to listen to the preposterous, childish assertions of certain people who have no sense of internationalisation, parochial, lacking in understanding and full of egoistic fears about opening up the market. The new economic team should boldly move forward to an open market (*JoongAng* 5 Oct. 1994).

It reads like needless accumulation of verbal violence against those who are opposed to rapid an opening up of the market. Gwon Youngbin, a staff editor of *JoongAng* wrote a column, 'Globalisation and remote relatives of a chaebol family', which said:

1. The chaebol are those who have hoarded money in dubious manners; 2. Chaebol Jrs. are the decayed managers; 3. Both of them are keen to have their tentacles all over. Now these three are the false stereotypes conjured up by the fascist rulers through their spin and misguided manipulation. Now we live in a new era of civilian government where the brilliant fanfare of 'Globalisation' can be heard loud and clear. However, some crooked types are still peddling the old, false stereotypes from the by-gone era and seriously undermine the reputation and good standing of the corporate owners (*JoongAng*, 13 Feb. 1995).

Instead of transmitting the concerns of the periphery to the general public, these media professionals were hotly engaged in a 'cockfight' where savage attacks were launched against one's opponents. Until the Korean media undergoes a comprehensive reform to allow diversity of values and rational public debate, the democracy in Korea is likely to retreat or languish.

Major Players in Discourse Practices

According to some studies, when an enthusiastic view of the few who have a great deal of interest in an issue is reported in the media packaged as an expert opinion, those

who have little interest in the issue are likely to accept the view (e.g. Mun 1999: 79~80). Propagation of ruling discourse requires ardent star players.

Chairmen of the chaebol competently undertook the role. As mentioned earlier, Choi Jonghyun expounded his monetarist view to an audience composed of Finance Minister and the Chairman of the Bank of Korea. He then became the Chairman of the FKI during Kim Youngsam's presidency. His performance became more prominent. 'Break the structure of high costs, low efficiency' was his mantra.

As the head of the interest group of the industries, he often met the President and put forward his demands. Amidst the Globalisation fever, the export industries were experiencing difficulties because of the diminished rate of return. They were losing the competitiveness. In December 1996, Chairman Choi made a controversial announcement: "I met the President and requested him to use the Emergency Powers under the Constitutional law to freeze wages for the next five years". In a joint meeting between the Special Committee of the National Assembly and the Private Committee (both committees were for 'Strengthening National Competitiveness'), Choi menacingly remarked, "having met with the President, I requested that the relevant officials who failed to lower the interest rate to the level of the industrialised countries of the West should take the responsibility" (*Hankook Kyungjae*, 5 Dec. 1996). His remark which was opposed to revising the industrial laws⁷⁷ was also taken seriously and favourably reported by most media under the titles such as 'Revising the industrial laws causes the crisis' (*JoongAng*, 5 Dec. 1996).

No serious efforts were made to analyse the reasons for the economic crisis and the possible alternative ways to cope with it. A newspaper voiced a critical view through such articles as an editorial, 'Diminished Competitiveness due to chaebol' (*Hankyoreh* 11 Sep. 1996). However, conservative papers continued to point a finger at increased labour costs. Due to the pressure from rapidly diminishing support for the government, the demand for freezing wages was not fully implemented. Nevertheless, the situation led to large scale lay-offs. Wage negotiations which took place in the following spring saw that wages were effectively frozen in the face of imminent threat of further lay-offs.

⁷⁷ At that time, the government attempted to allow for multiple labour unions at the workplace, which failed due to the opposition of employers. Samsung notoriously took advantage of the law which prohibited multiple unions, for example, by encouraging its loyalist workers to organise a union before a *bona fide* one coming into existence.

Chairman Lee Keunhee of Samsung had brought about the so-called 'Lee Keunhee syndrome'. Chairman Lee became the charismatic preacher who propagated the neo-liberalism to the nation. 'Competitiveness' and 'Global Super First' were his mantra. His in-house speeches delivered and broadcasted to all Samsung employees in all locations were subsequently made in video cassettes. Munhwa Broadcasting Corporation (MBC) decided (upon the president's special request) to broadcast Chairman Lee's 'in-house' speeches for about one and half hours during the evening prime air time. Chairman Lee's speech came with his own request, 'Listen to my speech at least 50 times over'. Opinion polls⁷⁸ often showed that Chairman Lee literally became a household name for one of the most favoured entrepreneurs.

Chairman Lee's pursuit of 'New management' had an impact on government policy as well. Many of his ideas such as 'New Management' were echoed in President Kim's initial economic master plan, which was unveiled as 'New Economy'. The government departments were not free from the generalised exhortation, 'Learn Samsung'. The training for government officials and ruling party members was done by so-called 'outsourcing': they spent days in the training complex of the chaebol who organised the training programmes for these 'clients'. The Ministry of Internal Affairs decided that all its officials and the local government chiefs all the way down to the level of township (17,000 in total) should receive training by the chaebol. Many of them went to Samsung's training centre and watched Chairman Lee Keunhee's videotaped lectures on 'The philosophy of New Management'. Under these circumstances, a neologism appeared: the 'Republic of Samsung'. The expression often appeared in the title of newspaper columns.⁷⁹

At about this time, it became fashionable for chairmen of the chaebol to publish autobiography recounting their entrepreneurial achievements. Almost all of these 'autobiographies' were written by 'ghost writers' who were paid to dramatise the virtues of the chairmen. The trend started with Chairman Kim Woojoong (of Daewoo), *The World is Wide with Opportunities*. It was swiftly followed by Chairman Chung Juyung of Hyundai, *Ordeal, but no Failure*. When these autobiographies became the best-sellers and put the

⁷⁸ For example, a survey of university graduates in the first half of 1995, which was conducted by *Recruit*, a job search news magazine.

⁷⁹ For example, see Song Heeyung (*Chosun*, 24 July 1996) and Chung Youngmoo (*Hankyoreh*, 20 Apr. 1995).

respective chaebol in favourable light in the eyes of the readers, about 10 others followed suite.

Korea Economics Research Institute (KERI) and Korea Centre for Free Enterprise (KCFE) which were founded by the FKI, and Economic Research Institute of each chaebol are very important sources of neo-liberal discourse. The weekly *Sisa Journal*, albeit arbitrarily, singled out five most influential pro-chaebol ideologues. Four of them are the heads of KCFE and research institutes of the chaebol (Daewoo, LG and Samsung) (*Sisa Journal*, 8 Jan. 1998).

These research institutes not only reproduced and consolidated neo-liberalist ideologies. They also developed and published policy proposals and thus influenced the government policy decisions. The KCFE had a particularly wide range of activities. Faithful to its mission statement (propagation of the spirit of free enterprise), it offered financial support for publication of neo-liberalist scholars' works. It supported university societies of neo-liberalist leaning. It published an impressive list of titles for liberalist works, booklets, videos, cartoon series, which were often donated to various places. Following the example of the Heritage Foundation, it sent out, via fax, brief papers⁸⁰ or short articles to opinion leaders as a rapid response to upcoming issues. Columnists or reporters who may write something critical about neo-liberalist ideas or policies could expect to have a same day or next day response from this Centre. News reporters pressed for deadline could contact the Centre as it offered a hotline network of scholars who would give neo-liberalist comments about the urgent issues of the day (or the afternoon).

The Centre has closely monitored the views of various participants of economic policy debates. In 1999, it prepared a detailed report analysing the views and leanings of high-ranking government officials (6 Ministers or Vice-ministers), leaders of non-governmental organisations and professors (35 in total). Because of the scathing tone and McCarthyism of the analysis, the report (available on the internet) provoked huge controversy.

The Centre's director, Gong Byungho, is well known for his adamant defence of neo-liberalist ideas. For him, the proposals for reform of the chaebol were the 'biological vestiges of jealousy and envy harboured by the poor against the rich' (cited in Kim, S.

⁸⁰ *Opinion Leaders' Digest, Executive Essay, etc.*

1997). He also argued that ‘even incompetent owner management can be more efficient than the clever professional management’ (*Seoul KyungJae*, 2 Sep. 1999). Those who disagreed with him were often dismissed by him as leftists. Ryu Simin, who professed to be a liberalist, criticised Gong in the following terms:

Gong despises humanism and idealism; in short, those who are critical of social inequalities; those who defend the state intervention in the market and those who attempt to change the existing orders are all treated by him as equally retarded or equally senseless (Ryu 1999: 217).

In his book, *What is Market Economy?* (thirdly printed, 15 Nov. 1997), Gong wrote:

The scare-mongering government officials’ fear of foreign debt has, in fact, never proved to be of substance even if some scholars appeared to mention it from time to time during the earlier period of economic growth (Gong 1997: 407).

Just 20 days later, the Korean economy proved to be in need of emergency loans of IMF.⁸¹ As Chang Sangwhan noted:

The financial crisis was only followed by a lukewarm criticism of the chaebol’s share of responsibility. That was because the chaebol succeeded in misguiding the public opinion using the media and their research institutes (Chang, S. 1998).

Intellectuals who are in academia or in government research institutes are under no duty to propagate the neo-liberalist ideas. However, driven by their personal conviction and sometimes lured by money, they contributed to conservative newspapers, published learned articles, attended public debates and gave public lectures. As a result, neo-liberalist ideas were propagated further. The vice chancellor of Seoul National University, Song Byungrak, the chancellor of Yonsei University, Song Ja, and the director of Yeouido Research Institute (the conservative party’s think-tank), Yoo Seungmin, are considered as the most prominent neo-liberalist ideologues together with Min Byungkyun, who replaced

⁸¹ Cited in Chung Taein (1998).

Gong Byungho as the director of the Centre for Free Enterprise. The Korea Development Institute (KDI) is the biggest and most prestigious research institute fully funded by the government. Yet it has had a leaning toward the neo-liberalism. It has consistently advocated for minimal state intervention and market driven economy. The weekly *Sisa Journal*, as mentioned earlier, enumerated five pro-chaebol ideologues. The fifth one is Cha Dongsae, the Director of the KDI (*Sisa Journal*, 8 Jan. 1998).

The free competition in the market for ideas, which Schumpeter emphasised⁸², was not that competitive in reality. This is because there existed, as Coats and his colleague wrote, ‘an even distribution of power among disseminating and receiving individuals and institutions’. They further developed:

With respect to individuals, reputation and position are crucial: the cost of effective dissemination falls sharply the more widely the individual economist is known and respected. Here decreasing marginal costs obtain, and the same applies to institutions (Coats and Colander 1989: 13).

As the above-mentioned individuals were mostly the heads of ‘prestigious’ universities or research institutions in Korean society, their discourse practices could be effectively carried out thanks to the ‘prestige’ of their institutions. The discourse produced by those neo-liberal ideologues was absorbed, reproduced and forcefully delivered to the public by the media industries which shared the same ideological outlook. Foreign scholars, in particular, are the darlings of the Korean media. Renowned foreign scholars are featured in the whole page interview articles appearing on every New Year’s Day. In the middle of the 1990’s, many foreign scholars (e.g. James Buchanan) were invited by the media or the chaebol to give public lectures expounding their liberalist economic theories. It was by the media that their lectures could effectively reach the whole nation.

⁸² Joseph A. Schumpeter made a farewell speech at Bonn, on 20th June 1932: “There is no use fighting something which life will sooner or later eliminate anyway....All we can say is that if in science something wins through it will have proved its right to exist, and if the thing is not worth anything, it will surely wither” (Schneider 1975: 40).

Conclusion

According to Habermas, in any given ruling discourse, there is politically motivated distortion of language. The distortion is firmly in place even in our routine conversation (cited in Mun 1996: 253). Yet people are often unable to recognise such distortion. When the ruling discourse of the Kim Yongsam government changed from 'New Korea' to 'Internationalisation' and then to 'Globalisation', who could possibly understand its deep impacts on their daily life? Through these changes in ruling discourses, neo-liberalism (even though not agreed) could penetrate into people's minds and be translated into various institutions without much resistance from the public.

A survey in 1995 showed that 83.6 % of Koreans were aware of the 'Globalisation' discourse. When they were asked to name the most important policy goal in the 'Globalisation', 24.8% of them mentioned 'changing the people's mindset' (*Weekly Administration Affairs* 12 June 1995). The survey appears to suggest that not only did the 'Globalisation' gain acceptance, but the people were actively endeavouring to adopt it as the new frame of reference for their actions.

The role of the media was tremendous in creating and disseminating ruling discourses. In the early stages of the new government, the media and the chaebol maintained a loose alliance while exercising restraint in criticising the government. However, when the 'Reform' discourse of the government began to pose threat to their vested interests, the conservative media changed course and mounted resistance. The alliance of media-chaebol succeeded in containing the government within the strait-jacket of neo-liberalism and neo-conservatism. The triple alliance of government-chaebol-press was forged in this manner. They used the ideology as favourable discourse conditions. Also, by disseminating their ideology, they enlarged their sphere of influence.

Once the state was securely stripped of sharp teeth for 'Reform', the media and the state became friendly partners to further the interests of the industries. In one voice, most players began to chant 'Internationalisation' and finally 'Globalisation'. The 'Reform', however, was portrayed as incompatible with the remaining policy aims. *Hankyoreh* laid emphasis on 'Reform' whereas *Chosun* was focused on 'Internationalisation' and *JoongAng* was going for 'Globalisation' and 'Competitiveness'. Such differences between these major newspapers can be to a large extent explained by their financial status and

their relationship with capitals.

Korean media industries have strived to consolidate their ideological basis, to enlarge their sphere of influence and to increase their economic power. To this end, they produced and reproduced symbols and discourses which they disseminated. Often, they did no more than conveying and amplifying the discourses of the political, social and economic players so that they could reach the general public. At times, however, when their own ideological or political stance was at risk, the media industries assumed a task which was more than that of dispassionate communication channels. Indeed, they sometimes initiated the creation of a new discourse and called for the government to accept it.

Of course, this does not mean that all the discourses of the time had only negative aspects. If some of them were adequately promoted, the resulting discourse could have enriched the life of the public and upgraded the standards of corporate management and political culture. In the case of 'Globalisation', however, its negative aspects were amplified, as it emphasised solely deregulation and market opening without making any serious efforts for reform. Most of the press were enthusiastic about the growing market, but not in reform.

The evolution of ruling discourses toward furthering vested interests was possible due to the solidification of the government-chaebol-press alliance and the weakness of countervailing powers. Labour unions were yet to grow as a political power, and influential civil organisations tended to favour neo-liberal reform policies. In the case of the media, major newspapers offered an unrivalled sphere of activity for neo-liberalists, as civic media and social market sectors remained underdeveloped. In this way, neo-liberalism came to establish itself as the mainstream in the Korean society.

Corporate Failures and the Press: Two Case Studies

Introduction

The Triangle of Policy Community

After having surveyed the process through which public policy decisions were made in the US, Peters pointed out that ‘elected political representatives, civil servants, and pressure or policy groups’ form the ‘iron triangles of policy communities’ (Peters 1986). However, this may not be applicable to the process through which economic policies and, in particular, chaebol and industrial policies are decided in Korea.

First of all, ‘Elected political representatives’ and ‘civil servants’ in countries with a relatively short history of democracy, unlike in Western countries where the tradition of bureaucracy is firmly in place, act like a body in the policy communities. Until very recently, the Korean political system was, with some degree of cynicism, described as having the ‘kingly President’. In other words, the Executive headed by the President wielded a great deal of power. As a result, political parties and the National Assembly were largely left out of the ‘policy community’. Policy decisions were taken at the initiative of the ‘government’, that is, the ruling factions and the Executives.

Citizen groups in Korea have only very recently begun to emerge as pressure or policy groups. It is probably with the formation of the Citizen’s Coalition for Economic Justice in 1989 that citizen groups have begun to show active interests in chaebol and industrial policies. Full-scale involvement of citizen groups in these issues did not start until the launch of the People’s Solidarity for Participatory Democracy in 1994. These citizen groups’ efforts bore some fruits. Introduction of ‘class action’ is an important example. However it happened only in 2002 and some key stipulations were suspended. In addition, policy groups have had very little influence. Apart from research institutes funded by the government or by the chaebol, most policy groups kept a low profile. They played a passive role, responding to the invitations of newspapers to contribute opinions.

Even then, the opinions of progressive and offbeat scholars were often ignored.

On the other hand, the chaebol themselves had a non-negligible influence in the formation of policies concerning the chaebol and industry. Exactly how the chaebol exerted their influence will be the topic of this chapter. It will be argued that the chaebol have been not only the target of these policies but also the decision makers of the same policies.

Controversies surrounding policies about the chaebol or industry often take the form of propaganda warfare. Public opinions form the basis of policy making in a democratic society. However, not infrequently, public opinions are in fact the opinions of the media or of the elite. The media will no doubt cooperate or contest with the government or the chaebol depending on their stance and on the issues. The government and the media, it would seem, have no immediate vested interest in policies about the chaebol. One could therefore expect that they would maintain impartial views taking account of the interests of the public. If they do have different views, that is because they have different criteria for their judgment. In other words, the government seeks the voters' support whereas the media would seek the support of the audience or the readers. The opinions of voters may not necessarily be the same as the opinions of the readers.

Different newspapers have different readers. Moreover, the media would not only need the readers' support; they also need the support of the chaebol who are the major sources of advertisement revenue for the media. The growing trend of reader-driven or market-driven news reports can seriously distort government policies. There are many other factors which determine the stance of newspapers or the broadcast media. The media are not a mirror which merely reflects the economic reality. The media should be regarded as a member of the 'policy community', which has a certain amount of power to shape the policy direction in accordance with its stance.

Broadly speaking, the press can have an effect on policy decisions by influencing public opinion, which will have an impact on election. It is a long-drawn process of feedback. In reality, however, a mere expectation that a news report would have a negative effect on the upcoming election can have enough power to alter the government's policy decisions. Furthermore, many senior journalists specialising in economic matters are members of various committees dealing with economic policies such as the Industrial Policy Review Committee or the Committee for Review and Development of Taxation.

They can therefore have an immediate impact on policy decisions.

That the press is in a position to influence policy formation or policy change is corroborated by numerous episodes involving economic journalists and policy makers. In the seminar on economic news reporting⁸³ mentioned in chapter 1, Lee Janggyu, then Economic Editor at *JoongAng*, said, “People may possibly be interested in news reports on crimes or politics; but news reports on economic matters have the greatest power to influence the government’s policy decisions”. Song Daehee, formerly an adviser to the Ministry of Finance and Economy, concurred, ‘Policy makers have no choice but to be sensitive to the criticism of the press’ (Song 2000: 51).

In short, the triangles of policy communities for matters concerning the chaebol are usually composed of the government, the chaebol and the press. It is a triangular, rather than linear, relationship because each party influences and is influenced by the remaining two parties. All three of them thus contribute to the formation of policies. Depending on the case, however, the triangular relationship will not occur when the chaebol or the press is not intimately involved in the process of the matter. However, sometimes, the relationship of the chaebol and the government or that of the chaebol and the press plays a more important role, while the remaining party merely plays a supporting role.

Along the road to the economic crisis of 1997, the chaebol and the government made a number of policy decisions. As we have seen in chapter 2, however, there is no consensus as to the causes of the economic crisis. It is thus not easy to say exactly which decisions led to the economic crisis. In this chapter, we shall examine some of the decisions for which the chaebol should take the responsibility: Samsung’s entry to car industry, Kia Motors’ bankruptcy, Hanbo’s reckless decisions to expand its operations, Hyundai’s decision to enter into politics and expand its operations. The case of Hanbo and that of Hyundai have different backgrounds. However, they both raised the question of internal democracy within the organisation and attempted to enter into the steel industry. So these two cases will be discussed together. The role of the government and the press must also be investigated. For this purpose, we shall begin by looking at the factors that determine the stance of the press in its news reports about the chaebol.

⁸³ The seminar regarding ‘Economic News and Economic Reality’ was held by the Korea University and Samsung Press Foundation on 31 October 1996.

The Chaebol, Communication and Democracy

What are the social and political implications of the chaebol in the process of democratisation of Korea? The chaebol have half a century of history starting from the industrialisation of Korea.⁸⁴ Until recently, however, scholars have paid little or no attention to the chaebol other than to their economic and managerial aspects. Academic works on the chaebol concentrated themselves on the ownership structure, management and efficiency of the chaebol.

The wider implications of the chaebol in the social and political context of Korea began to be studied mainly by younger scholars after the ‘Civil struggle for democratisation’ of 1987. The powerful movement of civil disobedience against the military dictatorship brought about the democratisation of political processes. However, that did not guarantee widespread democratisation in other aspects of the society. It was not a mere coincidence that progressive academic organisations such as the Korea Social & Economic Studies Association, the Community for Korean Political Studies, and the Korean Society & Korean Press Research Group began to mushroom at about that time. As their names suggest, these organisations were focused on the study of Korea and Korean society.

In the following year, these organisations formed the Korea Progressive Academy Council with the aim of conducting inter-disciplinary studies to achieve ‘real’ democracy in all aspects of Korean society. In 1996, nearing the onslaught of the currency crisis of 1997, the Academy Council held a symposium entitled, ‘Control Mechanism in Korean Society – the Chaebol and the Press’ with the participation of 17 member organisations. The tenet of the symposium was that the chaebol and the press are at the core of the problems facing the Korean society. The participants of the symposium accordingly proposed reform measures aimed at the chaebol and the press. However, the 11 out of 13 articles⁸⁵ presented in the symposium dealt with the chaebol and the press as if these two

⁸⁴ Some scholars distinguish the chaebol into a few types chronologically. According to Lee Jaehee, until 1950, the chaebol were mainly commercial enterprises; in the 60’s and 70’s, they were industrial enterprises; and since the 80’s, they are monopolistic entities (Lee, J. 1999: 39).

⁸⁵ In a brief general introduction, Lee Sanghee remarked that ‘the ownership structure of the press is at the heart of the problem of the control system of Korean society’ (Lee, S. 1996: 22). Hong and Gong claimed that ‘the problem of chaebol system must be understood not only in terms of economic fairness and efficiency but also from the stand point of democracy and the public nature of civil society’ (Hong and Gong 1996: 28-39).

were separate topics. These articles therefore did not fully bring out the merits of an interdisciplinary study apart from the fact that they were presented together on one occasion. They did not thoroughly explore how the chaebol and the press are intertwined in their corporate control and management structure, how they cooperate to maintain their control and to ‘manipulate’ public opinions to the detriment of democracy in Korea.

Although the scholarly attempt was not entirely successful, it nevertheless did have a news value. However, the new attempt was completely neglected by the mainstream press. If the awareness of offbeat scholars about a certain problem was to have any impact, their views must be communicated to the public. Yet the press failed to do so. None of the papers, except *Hankyoreh* (21 Oct. 1996; 4 Nov. 1996), even mentioned the symposium. There lacked a healthy forum for discussion out of which public opinions could emerge.

As we have reviewed in chapter 1, Habermas’ observation of the communication structure of the public sphere and the ‘public service’ or ‘democratic’ media models can provide an explanation for why important topics about the chaebol could not become public agenda before the visitation of the financial crisis. The press abandoned its role and failed to convey the voices of civil-social periphery to the larger public and to the political centre. Instead, these topics remained no more than obscure problems raised by progressive scholars within the academic circle.

All this while, as discussed earlier, the chaebol reinforced their consolidation in the face of the retreat of the state. The chaebol’s control of the society increased as a result. Subordination of politics inevitably followed. The market-centred approach which was proposed as an alternative to the strategy of developmental state by main-stream neo-liberal economists turned out to provide an argument for the chaebol’s transformation. The chaebol grew under the protective environment of developmental state. When they had sufficiently grown in size, they started to disfavour state intervention. They were looking for an argument which could be used against state intervention. To an extent, the market-centred approach did have positive results as it removed extreme cases of unlawful and unfair dealings, which had been practised when there were no rules at all. The rules of the market introduced some degree of orderliness to the economy. However, when the market was dominated by gigantic chaebol, the self-correcting mechanism of the market, supposedly at work thanks to the ‘invisible hand’, turned out to be powerless. The pressure for reform which might have come from outside the market was not likely to be

significant when subordination of politics to the logic of economy continued. Using their economic power, the chaebol shrewdly controlled the press and politicians. They even own the press or enter into politics. The chaebol are not merely economic entities responsible for production and provision of goods and services. They are one of the ruling groups in Korean society.

In terms of Habermas' communication theory, the chaebol in Korea form part of the 'system' as opposed to 'life-world'. According to his theory of communicative action, which we reviewed in chapter 1, the 'system' is a realm where money and power, rather than language, are the means of communication (Habermas 1981: 476). In Korea, where the balance of power within the ruling groups is tipped in favour of economic entities such as the chaebol rather than political entities, one may entertain a hypothesis that money is the decisive means of communication within the 'system'. The chaebol have direct control of the means of communication by outright ownership of media companies. They indirectly influence the press by their decision about where to place their advertisement.

The life-world, according to Habermas, is a 'transcendental site' where autonomous human beings 'can reciprocally raise claims', 'criticise', 'settle their disagreement and arrive at agreement' (Habermas 1987: 126). However, as the life-world tends to be colonised by the system world, individuals are subject to oppressive communication mechanism (Habermas 1987: 301-373). The chaebol can be studied as forming part of such a communication mechanism. If internal democracy of a chaebol is undermined by its oppressive communication mechanism, their employees' day-to-day life will be adversely affected. Furthermore, the wrong decisions made by the oppressive communication mechanism may give pain to the national economy and the whole society.

The Chaebol and the Press : Unfair Tug-of-war

The Chaebol as News Sources

As pointed out in chapter 1, news-reporting organisations maintain a close relationship with their environment. When they find suitable items in their environment,

they process and deliver them as news. In return, they receive material resources for their survival. The problem posed by the chaebol is that they are not only news sources but also the providers of financial resources for the media. More significantly, they are 'very important' news sources as well as 'oligopolistic' providers of financial resources in Korea.

In a capitalist society, it is perhaps inevitable that industrialists are important news sources. However, the chaebol in Korea have some special features. One of the chaebol, for example, has dozens of companies, each of which is a news source, and thus their products cover the whole range of consumer's pages. Every detail of the chairman of the group and his business decision receive the spotlight of the news coverage. Scenes of violent strikes in their work places become photo sources of newspapers. When a chairman decides to enter into politics, political correspondents will follow him. When a chairman is involved in a corruption scandal, social affairs correspondents will follow him.

The chaebol have an even stronger control of financial resources for the media. The newspaper companies have a very weak financial position and they are overly reliant on advertisement revenue. Also, a substantial portion of their advertisement revenue comes from the chaebol. Although both the press and the chaebol are influential institutions in Korea, the chaebol do have a considerable control over the press because of their financial power. This is the starting point of the unhealthy relationship between them.

In the case of Britain, the Royal Commission on the Press indicates that until the mid 70's, advertisers' influence on the media was not significant (RCP 1949; 1962; 1977). However, scholars such as Curran have shown that since the late 70's, newspapers have been increasingly under the influence of advertisers (Curran 1978). Curran's subsequent works uncovered that the media would respond to the demands of advertisers 'in the ways they have sought to maximize revenue' (Curran 1986: 333).

The efforts of the press in Korea to maximise revenue brought about new formats for reporting economic affairs in the 90's. Special reports appeared which were designed to solicit placement of advertisements. These reports can be described as 'news reports in the nature of advertisement'. These reports have introduced products that would attract a great deal of advertisements which are placed at the bottom of the page or on the opposite page to where the reports appear. Some of these reports may run on several consecutive pages. There appeared weekly specials on cars, electrical appliances, financial products, real

estate, department stores, credit cards, weddings, jewellery, franchise stores, and so forth. Not to mention *JoongAng*, *Chosun* and *DongA*, but even the progressive *Hankyoreh* would feature the annual (which became biannual in recent years) special coverage on ‘Big Hits’ where the newspaper purports to select the most successful products for the benefit of the readers. The real purpose of this coverage is to solicit placement of advertisements. In preparing these reports, newspaper companies use information and sources ‘manufactured’ and provided by public relations departments of the chaebol. The contents of these reports, of course, reflect the intentions of news sources.

On the other hand, the ‘Sponsor’s Section’ which appeared first in *JoongAng* should be understood as ‘news report on order’ or ‘advertisement in the form of news report’ in that the wishes of advertisers are directly reflected in the report. Even though these reports are nothing more than advertisement, most consumers are not aware of such disguise. Whether it is ‘news report in the nature of advertisement’ or ‘advertisement in the form of news report’, these kinds of articles rarely expose shortcomings of the products or offer an impartial comparison of prices of comparable products. They are basically misleading the readers. This is due to the fact that the news source is also the source of financial resources of the press.

An even greater problem is that, along with these special reports on consumer products, daily reports on economic affairs are very much influenced by the chaebol who are the news source. As discussed in chapter 1, many factors contribute to the selection and treatment of news. Gans observed that the news report is ‘the exercise of power over the interpretation of reality’ and that its contents are determined in the course of a tug-of-war among news sources, journalists and audience (Gans 1980: 81). The power of the chaebol as the news source flows from the mere fact that they are the main source of economic news. For journalists who always have to look for news items, the chaebol are ‘reliable and stable’ sources of news. In return, the chaebol gain a privileged access to news media.

When the relationship between journalists and the news source becomes too close, it may degenerate into a collusive connection. Many journalists appear to regard it as more or less inevitable that their relationship with the news source borders on a collusive connection. Many scholars and journalists have already pointed out that economic news reporting is overly reliant on news sources (Kim et al. 1977; Underwood 1993; Lee, J.

1997). Economic editors also recognise this. In the seminar on economic news reporting, Kim Younghan, who was the Economic Editor at *Kookmin*, said:

Compared to social affairs reporting or to political affairs reporting, economic affairs reporting relies more on the governmental sources and on corporate sources. As a result, economic news reporting tends to be less critical. In recent years in particular, the chaebol have grown very powerful and the press has become less critical of them (Samsung Press Foundation 1998: 104).

‘Asymmetric information theory’ offers an explanation as to why an institution or an individual who has more information has more power (e.g. Mishkin 1991). As one of the most important news sources and the provider of financial resources for the press, the chaebol have a considerable power. They use their superior power to ‘spin’, ‘sex up’ or ‘tone down’ news reports to their liking. Manning mentioned that the increased power of ‘spin doctors, advisors and image consultants’ in political discourse is likely to pose a threat to public sphere (Manning 2001: 10). However, their power is perhaps more palpable in business-related news.

In fact, the chaebol in Korea have public relations department for each of their affiliated companies. On top of this, they have the group-wide public relations ‘headquarters’ reporting directly to the chairman of the group as a whole. The public relations ‘headquarters’ of the chaebol such as Samsung, Hyundai, and LG are headed by the chaebol’s top ranking employees who have dozens of support staff. Placement in the public relations ‘headquarters’ is considered to be an ‘elite track’. Employees in that department are promoted faster than others. These public relations employees of the chaebol have a great deal of influence over the press. They command the most important sources of advertising revenue and news items for the press. They are well connected to journalists through personal networks, and they have a deep corporate pocket from which they can draw when it is appropriate to offer journalists money in the name of *chonji*.⁸⁶

⁸⁶ The literal meaning of *chonji* is ‘a little token of one’s gratitude’, but in practice it means something between gift and bribe. Such practice is so widespread among journalists that the Korean dictionary adds the explanation that *chonji* is often offered to teacher or journalist (*Standard Korean Dictionary*, 1999). Thanks to Hankyoreh’s campaign against it, *chonji* appears to be reduced in terms of frequency, but not to be eradicated. A survey of journalists conducted in 1995 shows that 73.6% of journalists who responded to the survey have received *chonji* (Korea Press Research Institute 1995: 92).

The PR staffs of the chaebol are in daily contact with a 'party of reporters'. A 'party of reporters' is a unique feature of the Korean press which is maintained because it meets the needs of the news source and the press. This practice facilitates news source's lobbying and public relations efforts. In the past, 'parties of reporters' were exclusive groups of news reporters from nationwide newspapers and broadcasting companies who shared an office freely provided by the news source. They were 'in residence' at the news source, usually receiving free meals as well as requests for dissemination of news released by the news source. In the past it often played the role of a 'clearing house' for *chonji* offered by the news source to the press. It can turn into a ring of corruption and collusion between the press and the news source. The chaebol sometimes offer free holidays to their 'parties of reporters' under the pretext of providing an opportunity to report the news of their overseas plants.

Because of such a close or collusive relationship between news reporters and the news sources, news reporters came to depend on news releases provided by the news sources. Their news report tends to be identical and it is hard to expect them to investigate potential problems of the news source.

As the newspapers became thicker in the 90's with increased numbers of pages, the influence of the chaebol as news sources increased decisively. Several statistical studies show that the proportion of advertising sharply increased as the newspapers accumulated more pages (*Journalists Association Newsletter*, 13 May 1995; Lee G. 1996). The competition to get more advertising did considerable damage to the independence of news-rooms. Most newspaper companies began to put pressure on their employees to boost subscriptions, often by encouraging their friends and relatives to make subscription applications. In some companies, there sometimes appeared a practice of offering a portion of the advertising revenue as a rebate to the journalist who secures a placement for advertisement. Research into Korean journalists' reporting behaviour shows that 89.5% of journalists employed by newspaper companies of nationwide circulation have been asked at least once by their employer to solicit subscriptions or to secure placement of advertisements (Kim and Kim 1999: 67). This is an important development in that it could create cracks in the 'fire wall' between news-rooms and sale departments.

PR staffs' decisions to place or not to place their advertisement come to be perceived as a more powerful and effective means of influencing the contents of news reports than

the *chonji* which are handed directly to journalists. Journalists who receive *chonji* from a source may nevertheless write an article which may be critical of the source. However, it may be far more difficult to be critical about an advertiser. An implicit message from the management and the editorial staff is often conveyed to the journalist regarding an article about the advertiser. In fact, the research cited above shows that 36.8% of news sources agreed that '*chonji* and entertainment had a significant effect on contents of news articles' whereas a much higher proportion (71.9%) replied that 'it is possible to influence the contents of news articles through placement decision of advertisements' (Kim and Kim 1999: 77-78).

PR staffs of the chaebol are particularly sensitive to news articles which may contain negative reports about their chairmen. If the first edition of copies which are despatched to provinces in the evening for delivery in the following morning should contain such an article, the PR staffs would make every possible effort to remove or water down the article, or change the title at least, for the following edition to be delivered in Seoul and nearby areas, which are all important for them. This unique practice that PR staffs thoroughly screen first-edition newspapers plays the role of gatekeeper especially regarding chaebol-related bad news. The following remark of a PR staff of a chaebol shows the degree of his confidence in controlling contents of news articles: "If we notice it by 8:00 pm, we can certainly remove it" (*Media Oneul*, 15 May 1996).

Indeed, it is more than likely that the chaebol have a network of informants within the press. The leak of inside information has become a serious problem with the introduction of computerised typesetting systems (CTS), which make the contents of news items accessible to the management or to the advertising department while the items are still in the briefed information, a draft stage, or being edited. Many economic editors disclosed in informal talks with the present researcher that they had been contacted by PR staffs of the chaebol regarding news articles which were damaging to their chairmen or their family members even before the first edition was out.⁸⁷ One economic editor said:

Employees of the advertising department or the management appear to hand over the information about news articles in order to strengthen their ties with the

⁸⁷ These remarks were made in informal talks during three day long seminars mentioned earlier. As the seminars were held for economic editorial writers (October 1996) and economic editors (May 1998), the present researcher also attended the two seminars as the person concerned at that time.

chaebol. It is even possible that some members of the editorial staffs may also be doing the same thing. They are exchanging information with the chaebol because it has some advantages for both sides (personal communication, 31 Oct. 1996).

Another economic editor confided that:

An executive director responsible for public relations of a chaebol requested that a particular article be removed saying that “If our advertisement and a news article critical about us should appear in the same newspaper on the same day, I will be in trouble”. He made it rather clear that “If you cannot remove the news article, we would have to remove the advertisement”. I had no choice but to remove the news article (personal communication, 7 May 1998).

When it is evident that negative news coverage is going to appear soon, the public relations department concerned would set the goal of minimising the impact of the news coverage. Their staff would conduct carefully organised lobbying and publicity stunts. A confidential document⁸⁸ leaked from inside the SK Group⁸⁹ shows how it controls the contents of a news article, ‘persuades’ the journalists concerned and uses its advertising decisions. The document is entitled, ‘PR Plan for the Media Regarding Shareholders’ General Meeting’. The document was prepared in response to an intelligence that a number of professors, lawyers and accountants from the People’s Solidarity for Participatory Democracy were to attend the shareholders’ general meetings of SK Telecom and Samsung Electronics to uncover and denounce illegal dealings of the owners of these companies.

The two companies were accused of allegedly defrauding the companies’ money, tens of millions of dollars respectively, through a complex scheme of transactions between sister companies and gifts to family members. The owner families’ dubious dealings triggered off the minority shareholders’ movement in Korea. The confidential document sets out three stages of publicity measures to be taken:

⁸⁸ The present researcher secured the document from a deep throat of SK group in March 1998.

⁸⁹ SK is a market leader in telecommunication and petro-chemical products. Its chairman Choi Jonghyun was also the chairman of Federation of Korean Industries at that time.

1) Before the shareholders' general meeting, indirect measures should be taken to disperse the attention of the public and the negative aspect of minority shareholders' movement must be emphasised in order to promote favourable opinions for the company; 2) On the day of the shareholders' general meeting itself, positive news reports about the company should be released in order to attract the attention of the public away from the negative publicity efforts of People's Solidarity for Participatory Democracy; 3) After the shareholders' general meeting, public relations efforts should be focused on presenting a favourable image of the group in order to change the opinions and attention of the public (a confidential document of SK Group, Mar. 1998).

To implement these plans, the document continues, a press release entitled 'SK to enhance transparency of its management' will be distributed, charity events such 'Help the Orphans' and 'Blood Donation' will be launched and advertisements will be placed emphasising SK's philanthropic programs. The document further states that 'the president himself together with the executives must come into contact with the head of the editorial department, duty editors and journalists to persuade them'. The document also recommends the company 'to induce those opinion leaders who are favourably disposed to the company to contribute articles to newspapers'. The document includes a plan 'to contribute articles to readers' opinions sections of *Chosun* and *Hankook* to make use of people's negative views against foreign capitals'. This is because the activists of the minority shareholders' movement have secured proxies from foreign shareholders to attend the shareholders' general meeting. SK therefore plans to present the situation as 'domestic management under threat from foreigner capitals'. The document shows how the news source attempts to manipulate 'public opinion' in the format of two-way communications.

The document did not remain dormant. The action plans were carried out by all component companies of SK group. 65 companies including SK Telecom and Samsung Electronics held their shareholders' general meeting on the same day, 27 March 1998. Several chaebol appear to have been in communication with SK and timed their component companies' shareholders' general meeting to disperse activists and news reporters. The document mentions the need to 'closely manage' reporters. In this context,

‘close management’ suggests presentation of *chonji*. The document also mentions ‘the need to manage the group’s advertising’. In fact, nearing the shareholders’ general meeting, the SK group’s advertisements appeared in large quantities in all the newspapers.

Constraints of Chaebol-related Reports

There are several factors which contribute to hamper the Korean press from reporting chaebol-related news in a proper manner. The usual symptoms of the press left to the free market mechanism can certainly be found in Korea in an aggravated state. There are also other problems which are unique to the Korean press. Several of them stem from the power and advantages of the chaebol as the source of news and of financial resources for the press.

First, as noted in chapter 3, the overwhelming majority of journalists and columnists in Korea have neo-liberalist leanings. They look upon the chaebol as the winner of market competition. Even when they recognise problems posed by the chaebol, they take a lenient view that those problems can gradually be addressed through an improved and better functioning market. They hold a conviction that ‘a better company is the one which makes more money and offers better products’. They turn a blind eye to unfair trade practices and the ills of monopolistic or oligopolistic control of the market by the chaebol. This stance can become the ‘practical consciousness’ mentioned by Williams (Williams 1977: 55~71). In consequence, they do not even realise that the judgment they express in their articles is made from a particular ideological standpoint. As they hold a conviction that their point of view is a matter of common sense, their views are unlikely to change. The chaebol-related reporting is not going to change either.

Second, the unique ownership structure of newspaper companies in Korea poses another problem. As explained in chapter 2, 16 out of 28 newspapers including 4 economic dailies and 2 English dailies, had nationwide circulation (as of 1996). Out of those 16 newspapers, 8 were owned by the chaebol or their affiliated companies. Many of local newspapers were also owned by the chaebol or influential construction companies in the region. Furthermore, newspapers that are not owned by the chaebol are often owned and run by family members of the founder who have up to 99% of the shares. In some

cases, the owner also makes editorial decisions as the publisher. This is in striking contrast with newspapers of worldwide reputation which are either listed on a stock market (*New York Times*, *Washington Post*), owned by individuals who do not control the management (*The Guardian*, *Le Figaro*), non-profit corporations (*Frankfurter Allgemeine Zeitung*), or partly owned by employees (*Le Monde*, *Information*, *Asahi*, *Yomiuri*). Unlike these newspaper companies, the Korean press has little or no institutional safeguard against the owner's interference with editorial decisions.

According to Lee Sanghee, 'when the ownership of a newspaper is concentrated on an individual, there cannot be separation of ownership, management and editorial decisions. In fact, the editorial power will effectively be in the hands of proprietors. Their political values and outlook will directly be reflected in the newspapers' (Lee, S. 1996: 21). In particular, the chaebol have used newspaper companies owned by their affiliated companies to provide protection for the mother companies by covering up their questionable dealings. The chaebol have also used newspaper companies to build up public opinions for lobbying purposes.

In Korea, the press is recognised as 'almost omnipotent institutions of power'. Even though newspaper companies cannot claim any democratic credentials, their owners as heads of these institutions wield considerable power. Additionally, many honours are showered upon them. Many studies show that the reasons for owning a newspaper company in Korea are not simply to make money. The owners aim to share the power of the press (Won 1998: 76; Park 2000). A survey of Korean journalists was conducted to ask them to choose one or more of the suggested reasons why big corporations are trying to own a newspaper company. 'To secure the power of the press' was the answer chosen by 57.3% of the respondents. Other reasons included 'To obtain a means of public relations for the company' (19.9%) and 'To process and manage information' (13.4%) (Kim and Kim 1999: 69). *Segye*⁹⁰ and *Kookmin* are owned and issued by unorthodox Christian denominations. Each year, they incur huge loss, which is met by donations from many devotees.

The ownership structure of newspaper companies can explain why newspapers rarely contain articles critical of the chaebol. Little needs to be said about newspapers

⁹⁰ The paper is owned by Unification Church founded by Moon Sunmyung. It is a sister paper of *The Washington Times*. Before the economic crisis of 1997, Unification Church was a small-sized chaebol in Korea, having about 10 affiliates.

owned by the chaebol themselves, yet owners of other newspapers are also reluctant to find themselves in an awkward situation with the chaebol. When the newspaper's ownership is concentrated on a few individuals, they are more likely to interfere with the editorial decisions and profit maximisation becomes their overriding objective. The problem is that the influence of capital is growing inexorably each year.

When asked to single out 'the group or entities that have the greatest influence on the reporting behaviour', 39.6% of journalists in a survey in 1991 pointed their fingers at the capital (owner, management and advertisers). In 1993, 50.1% of journalists thought so (Yang 1995: 130). In 1997, a survey on 602 reporters shows that the proportion was increased to 62.8%⁹¹ (Korea Journalists Association 1997). A study conducted in 2002 by a weekly newspaper for media critique reveals that 67.2% of journalists responded that they are 'under the pressure from the owner and the management' (*Media Oneul*, 16 May 2002). To a considerable degree, pressure from the owner and the management originates from advertisers.

Third, newspaper companies' weak financial position hampers them from undertaking investigative reporting and criticism of the chaebol. According to the annual accounting report of 1996, which was one year before the economic crisis of Korea, few newspaper companies were making profits. *Kyunghyang*, *Moonhwa* and *Segye*, which were owned by the chaebol, were suffering from impaired capital. *Seoul Kyungjae* (Economic Daily) had debt amounting to 9,700% of its assets. *Hankook's* debt was 1,563% of its assets. The attraction of the 'power of the press' is the reason these companies continue their operation. Their power also supports their existence in that they can continue to secure loans from banks. Banks are forced to extend loans to them because the banks themselves have many questionable dealings relating to loans, which they do not wish to be reported.

The symbiosis between banks and newspaper companies forms one side of a symbiotic triangle of the press, banks and the chaebol. As we shall examine in more detail in chapter 5, the close connection between banks and the chaebol turned out to be an important factor in bringing about the economic crisis as the relationship degenerated into a mutually consumptive dependence while the warning mechanism of the press remained

⁹¹ The percentage (62.8%) was calculated from 51.3% chose 'owners and the management' and 11.5% chose 'advertisers' as the most influential group.

defective and inactive. If the market is not dominated by the chaebol and if the newspaper companies' financial position is healthier, the chaebol and the press could maintain a healthy relationship where each one carries out its proper roles.

The excessive competition among newspaper companies began after the 'Civil struggle for democratisation' of 1987 which removed restriction on setting up of newspaper companies. The technological advancement in newspaper production that occurred with the introduction of the computerised typesetting system also intensified the competition as it became possible to set up a newspaper company with a relatively small amount of capital. Initially, the situation appeared to be a gospel as minority groups' voices could have an opportunity to be heard.

However, as the new technology 'has not reinvigorated popular publishing through the new, minority papers' in Britain (Curran and Seaton 1997: 293), it did not break the oligopolistic market control of major newspaper companies in Korea. The mushrooming new, minority papers mostly failed to diversify the media market. Contrary to the convictions of advocates of the free market, dramatic increase in the number of newspaper companies led to excessive competition which in turn brought about weakening of newspaper companies' financial position. Because of their weak financial position, newspaper companies came to depend even more on the financial resources of the chaebol. The end result was that freedom of the press was diminished. It was yet another example of market failure. The retreat of freedom of the press meant that the chaebol became even freer from valid criticism.

Fourth, because of excessive competition among newspaper companies, more copies began to be printed and newspapers became thicker. As a result, articles with soft contents were booming, which consequently diminished articles critical of the chaebol. As for the number of copies, Won Yongjin has shown that, as of 1996, the total number of copies printed daily by 110 newspapers was in the region of 17 million. However, about 3 million copies weighing 450 tons were immediately recycled as used paper (Won 1998: 73). The reason for this bizarre practice of wasting is that newspaper companies are under a great pressure to print more copies in order to secure advertisement. As mentioned in chapter 2, newspaper companies are overly dependent on advertising revenue. In order to survive, they print more copies than the demand of the market. The surplus copies are delivered

free of charge to households even against their wishes.⁹² The rest is recycled.⁹³

Dire competition among newspapers led to excessive promotional events. As a result, some papers are derided as ‘bicycle paper’ and ‘bidet paper’. That is because in an effort to boost subscriptions, some newspaper companies offered a bicycle or a bidet to first-time subscribers who sign a contract of subscription for one year. As the situation got worse, *Britannica Book of the Year (2004)* took the case of Korea ‘to illustrate the level of the gimmickry involved with newspaper subscriptions’ in the world: ‘a South Korean government commission found that more than 75% of subscription offers since 2000 had come with a discount or gift’ (2004: 242).

Excessive promotional events put financial pressure on all newspaper companies. Such a market condition was fatal to new entrants to the market. Smaller papers with weak financial resources could not compete and their circulation shrunk. This led to diminished revenue from advertising, which was their main source of income. Competition among newspapers also made newspapers thicker. In 1987, newspapers had, on average, 12 pages per day (72 pages per week). In 1996, the number of pages increased to about 50 pages per day on average (up to 320 pages per week).

The newly added pages were filled with ‘soft’ articles. Economic news articles in particular were dramatically increased. In the case of major papers, the daily economy section of 6-8 pages (as of 1998) was accompanied by frequent special reports on economic affairs. These special reports dealt with real estate, stock market investment, new products, consumption, gossips about corporate executives and interviews with prominent businessmen. Most of them were ‘lucrative’ or ‘moving stories’. Macroeconomic analyses of economic cycles were regarded as ‘too difficult’ and therefore were treated as having a secondary importance. According to a weekly for media critique, ‘it became more and more difficult to find articles which uncover dubious dealings of the chaebol’ (*Media Oneul*, 21 Nov. 2002). Ironically, the quantitative increase of economic news led to a diminution of articles critical of the chaebol. *JoongAng*, which took the initiative in increasing the number of pages for the economy section, was received by

⁹² It is not uncommon that three or four different papers were freely delivered to a household. Stopping the delivery of free paper was extremely hard due to the persistent marketing efforts of the distribution agents for each newspaper company.

⁹³ According to the records of Audit Bureau of Circulations (ABC) released on 16 October 2003, free copies account for about 33-35% of all printed copies including those of *Chosun*, *JoongAng* and *DongA*.

readers as ‘the newspaper which has the best economy section’.⁹⁴ *JoongAng*, a sister company of Samsung, is strongly in favour of the chaebol and it hardly ever even mentions the very word ‘chaebol’ because of the negative connotations of the word in Korean.

Fifth, robust criticism against the chaebol is hampered by the attitude of journalists due to the lack of professional autonomy. We have so far examined structural restraints on chaebol-related news reporting. However, there are also restraints stemming from journalists themselves. When journalists feel that their autonomy is undermined, they could make an attempt to regain their professional autonomy. Nevertheless, the attitude of major papers’ journalists, which emerged from personal communication and interviews with them, shows that although they do have a degree of professionalism, they are cynical about their autonomy. A senior reporter of *Chosun* lamented:

Although I can stick my nose up in the air as a reporter of a major newspaper while I am in the company to which I am assigned, I am a mere pawn in the chess board when I am back in my own company. If just a list of personnel changes is attached on our company’s bulletin board, I can be posted to the sales department or advertisement department the next day. What about autonomy? (personal communication, May 1998)

A junior reporter of *DongA* said:

Once you are caught going against the wishes of the owner of the company, you are done. The owner will be there for ever generation after generation. Please do not expect me to go against him. Rather, I would write stuffs which I know would please him. Do not expect me to be a hero. I am a wage-earner, no more, no less (interview, 20 Feb. 2003).

A junior economic reporter of *JoongAng* complained:

⁹⁴ In a paper read at the seminar mentioned in chapter 1, Kim Kyun (media scholar) stated that ‘newspaper A was chosen by 80% of the respondents of our survey as having the best economics coverage’. In a private conversation with the present researcher, he confirmed that ‘newspaper A’ was *JoongAng* (personal communication, 8 May 1998)

If I propose in our department's editorial meeting something no more radical than an article on the widening gap between the rich and the poor, for example, the response would be, 'Where have you been wandering lately? Could you not find anything better to write about?' They would think that I am simply a 'has-been'. Do you want me to propose an article which is critical about the chaebol? (interview, 20 Feb. 2003)

As Weaver and Wilhoit (1991: 163) have observed, journalists' lack of autonomy appears to be all the more serious in the largest news organizations. Korea is not an unusual case. *JoongAng* is well known for its ruthlessly competitive environment for its journalists. Computerised text processing has made it possible to compare even the number of words each journalist has written. Several papers have a policy of posting able and competent reporters to the secretariat of the owner for a brief period. The company expects them to familiarise themselves with the owner and the management. On the other hand, those journalists who have gone against the grain can sometimes be posted to harder and tougher departments. They are thus invited, in an indirect manner, to resign.

The lack of journalists' autonomy in Korea is also related to the recruitment and training mechanism for them. The competition to become a journalist in Korea is very dire. Journalism is regarded as one of the most attractive jobs and it is normal to see 1000 or even 2000 candidates competing for about ten posts at each employment exam. The successful candidate, once selected and recruited, will normally remain with the company until retirement age. There is very little horizontal movement from one company to another company. This situation makes journalists dependent on the company's hierarchy. While they are trainees in the company that selected them, they go through a period of apprenticeship which is almost 'medieval' in that the trainee is required to faithfully imitate his senior's practice in every detail. There is a very rigid hierarchy where absolute respect and obedience must be shown to one's seniors even if the difference is only one year. It feels almost like a military organisation.

As a result, even if one's senior or the editorial staff should arbitrarily change one's article, the established practice means that one should have no complaint. According to a study of reporting behaviour, 89.8% of reporters surveyed replied that they 'would follow

the experience and views of the editorial staff or find a compromise solution by altering the contents of the article' when there is a disagreement between the reporter and the editorial staff (Kim and Kim 1999:61). Since the editorial staff are keen to maintain a good relationship with the management, some articles critical of the chaebol can hardly survive the process of editing.

Sixth, the complex nature of economic issues together with the lack of specialist knowledge on the part of journalists can be viewed as imposing limits on criticism against the chaebol. Economic issues require one to make a choice among several policy alternatives. Yet it is extremely difficult to make accurate predictions. Each one of the competing policy alternatives has strong points and weak points which makes it very difficult to compare them and to single out the most desirable one. Even economists have difficulty in explaining economic issues in a clear and concise manner. Their explanations tend to be abstract or complicated. In spite of the ambivalent nature of economic issues and of the complexity of economic theories, economic journalism must carry out the task of swiftly reporting the issues together with a clear and concise analysis. Some economists such as Solow even argue that economic theories are bound to be distorted in the course of being communicated to the public. Economic problems are complex phenomena. Theories which purport to explain them must also be complex. It is impossible to reduce them to simple theses and brief explanations which can be understood by the general public (Solow 1989: 81-82). The controversies regarding the chaebol are still an ongoing issue. It is not easy to arrive at any definitive conclusion yet.

On the other hand, economic journalists often have relatively little expertise in economic issues. As the economic affairs department is just one of the departments within the news room like any other departments, journalists are posted to the economic affairs department as a part of their usual rotation cycle. There are not many journalists who have an academic background in economics or management.⁹⁵ Even those who have such an academic background are not necessarily posted to the economic affairs department. One needs not to be an academic to be a journalist. Nevertheless, it is not a strong point for a newspaper company that it has relatively few reporters who have specialised in economics at the undergraduate or graduate level. The company does not provide time or an

⁹⁵ A survey of 1995 conducted by Korea Press Research Institute shows that out of 1024 journalists in the sample, only 94 (9.6% of the sample) had a degree in economics, business administration or trade.

opportunity for studying economics. In fact, there is not enough time to get sufficient materials to fill the increased number of pages in the economy section. The following remark of an economic editor of a major newspaper shows why economic news reporting is done with little expertise:

We cannot afford to have the leisure of studying. We need to get the required quantity first. I have no problem with the principle of two sources or getting the expert's opinions, etc. But how are you going to fill the vast and numerous pages like that? You need to decide upon the message you want to get across and then you simply back it up with what comments you manage to get (interview, 11 Mar. 2003).

The so-called 'expert opinions' attached to reporters' articles may be no more than devices to be seen plausible. Far from guaranteeing objectivity of the articles, they can be mobilised to distort a certain economic reality. However, such a thing is no more than 'a strategic ritual' justified 'in the name of objectivity' (Tuchman 1972; Manning 2001: 68).

The lack of expertise on the part of economic reporters leads to a lack of critical analysis of economic issues. To remedy the situation, scholars and professors are often invited to contribute as external columnists. However, their columns are often too removed from the reality. Also most of these external columnists in Korea have neo-liberal leanings. Their particular views are communicated as if they are the only possible and correct views.

Seventh, strong personal connections in Korean society and corruption of journalists hamper critical reporting of chaebol-related news. Personal connections based on place of origin and the old boys' networks constitute the base of the political, social and cultural networks in Korea (e.g. Kim, K. 1993). Park Myung-Jin and her colleagues have also argued that 'the political system of Korea has a Western appearance, but its operation has been more dependent on informal and pre-modern methods than official and reasonable procedures' (Park, Kim and Sohn 2000: 115).

In the case of the chaebol, Seo Jaejin has shown that 'the majority of managerial staffs are either from the family members of the owner of the chaebol or from the same region as the owner's place of origin (Seo 1988). The managerial staffs are in turn connected to the high-ranking employees in newspaper companies through old boys'

networks or regional connections. Lobbying and ‘peddling of articles’ are done through these personal networks.

Chonji, as mentioned earlier, plays the role of lubricant in making these kinds of personal connections operate without a hitch. In particular, *Chonji* from the chaebol took the form of a large sum of money. They were offered and received with an implicit expectation and understanding that they would eventually be reciprocated in one way or another. They seriously undermined fairness of economic news reporting.

Samsung’s Entry into the Car Industry

Samsung in Korean Society

In Korean society, Samsung is not simply a commercial corporation. It is recognised as a powerful institution. Its economic power⁹⁶ has become influential enough to check the ruling political party, the government and the press. A chaebol’s economic power has reached a point where it can vie against the elected political power or the collective power of the press. While other chaebol have suffered from the economic crisis of 1997, Samsung has consolidated its own power base. By the mid ‘90s, Samsung was already described as a ‘super power’ (*Hankyoreh*, 20 Apr. 1995). Also, the expression ‘Republic of Samsung’ used at that time suggests its influential status (*Chosun*, 24 Jan. 1996). A special coverage of Samsung appearing in *Hankyoreh* reports the following impression of the time:

Samsung is the author of the governing ideology; is deeply involved in the making of government policies; is in control of all sectors private and public with its intelligence gathering capabilities, organisational support and money. Samsung has become a super-power who is beyond the reach of the government or the press (*Hankyoreh*, 20 Apr. 1995).

⁹⁶ As of 2002, shares of Samsung affiliates account for 26.8% of the shares traded in the Korea Stock Exchange. 19.8% of total exports of Korean companies are by Samsung’s affiliates.

The power of Samsung, especially that of Chairman Lee Keunhee stems from his firm grip of the control mechanism within the group, its oligopolistic control of the market, and the ruling political ideology and the political system of Korean society. Samsung had 55 affiliates in 1996, which was one year before the economic crisis. Chairman Lee had a complete control of these affiliates with his 1~2% share of these companies because of the scrupulous and complicated structure of cross-ownership and mutual guarantees between affiliates. Samsung's confidence and dynamism were expressed in the popular sayings of the time: "The President of the Republic has a fixed term; Chairman Lee's power has no terminus"; "With the money and the organisation of Samsung, everything is possible." Chairman Lee himself said, "The present government's reform can only last for 5 years. Samsung's reform is perpetual. When 180,000 people unite, nothing is impossible." (*Hankyoreh*, 20 Apr. 1995).

To a certain extent, the great power of Samsung comes from its superior intelligence ability. *The Wall Street Journal* described Samsung's superior ability to collect, analyse and utilise intelligence and likened it to that of CIA (*Chosun* 24 July 1996). Overseas intelligence is dealt with by employees of Samsung Trading Corporation and other Samsung affiliates who are stationed in foreign countries. The speed and accuracy of their intelligence is well recognised. When Deng Xiaoping died in February 1997, for example, *JoongAng*, which is Samsung's sister company, broke the news the following morning in an article by its correspondent in China. That was before the official New China News Agency reported the news.⁹⁷ *JoongAng* was aided by Samsung's intelligence network, which is connected to China's power centre. It is said that the death of Kim Il-sung of North Korea in July 1994 was also first notified to the South Korean government by Samsung Trading Corporation's Chinese Branch rather than by the government's intelligence agencies.

Many of Samsung's domestic employees are also engaged in intelligence gathering activities on a regular basis. When they meet government officials or journalists, they report their meetings to the group's intelligence service. Samsung's intelligence service was sometimes headed by a former staff of the Korea Central Intelligence Agency. Its task

⁹⁷ *New China News Agency* posted the news of Deng's death at 2:44 am. *JoongAng* already had the news included in the final edition of prints which were to be delivered in the following morning.

is to process and analyse the intelligence so that it can be used in their business operations. However, some information can also be used for lobbying and other purposes too. In 1995, for example, it emerged that owners of the chaebol had regularly offered vast numbers of bribes to the Presidents of Korea (who were formerly army generals) during their presidencies. At that time, little was reported about Samsung's lobbying during prosecutor investigations, but interviews with the reporters of the time reveal the following:

At first Samsung began lobbying with the Public Prosecutors in order to remove Chairman Lee from the list of indictees, but their lobbying efforts were turned down. At that point damaging information was leaked about the questionable wealth accumulated by some of the top ranking Public Prosecutors who were leading the case. Although the Public Prosecutors had a belief that the leak was from Samsung, they could not but swallow their anger⁹⁸ (personal communication, Nov. 1995; *Chosun* 24 July 1996; interview by telephone, 5 Oct. 2003).

People in Korea say that 'if you are not in the list of Samsung's internal database, you are probably not an important person'. If Samsung wishes to get a business project approved by the relevant person in the Ministry of Finance and Economy, for example, Samsung can immediately draw up a list of their employees who are personally acquainted with the person in charge of this approval. These employees are mobilised for lobbying purposes. Each year, Samsung's employees must submit the names of notable people whom they are personally acquainted with (*Chosun*, 28 Nov. 1994).

Samsung scrupulously maintains these personal networks, which are made up of thousands of opinion leaders such as high-ranking government officials, senior journalists, academics and politicians. During festive seasons, expensive gifts are offered to them. From time to time, Samsung offers overseas trips or research grants to win them over. High-ranking government officials and senior journalists often say that Samsung is 'smart'. Yet the admiration is mixed with apprehension that Samsung is 'redoubtable'. They appear to hold a view that 'in a sense, Samsung's power surpasses that of the KCIA during the military regime. If you are in the bad books of Samsung, you will have a tough time

⁹⁸ Those chaebol owners who bribed tens of millions dollars were released on bail and eventually received suspended sentences.

for a long time' (*Hankyoreh*, 20 Apr. 1995).

What were the reasons for Samsung's superior position compared to Hyundai, LG or Daewoo, who were more or less of the same size as Samsung? One of the reasons is that Samsung is connected to the media network through *JoongAng*. The foundation of the *JoongAng Media Network* shows a capitalist's participation in politics through the press. With regard to the reasons for entering into the media network, the previous chairman Lee Byungchul wrote in his autobiography:

[In turbulent periods in Korean politics] I was accused of having accumulated my wealth in an unlawful manner, taking no account of entrepreneur's mission and contribution to the society. As I keenly felt that businessman's power was very weak and limited, I decided to be a politician. But after one year's deliberation, I gave up my ambition and turned to the media. I have sought ways to promote good politics, discourage bad politics and to contribute to the harmonisation and stabilisation of society with a force stronger than that of politics. I decided to set up a comprehensive mass media company (Lee, B. 1986: 182-183).

JoongAng was founded in 1967. It owned 5 of the 8 super-high speed rotary presses that were in Korea at that time. *JoongAng* printed a massive number of copies, many of them freely distributed. It soon became one of the major papers of nationwide circulation. For the initial five years, *JoongAng* sustained a huge amount of net loss. However, it could afford to do so because it had Samsung's backing.

In July 1996, while the competition between *Chosun* and *JoongAng* intensified, an employee of a distribution agent⁹⁹ of *JoongAng* stabbed and murdered a worker of a *Chosun* distribution agent. This incident escalated into *Chosun*'s attack against Samsung. For three days, *Chosun* published 37 articles criticising Samsung. The press and the chaebol, the two power bases in Korea, are usually on good terms mediated by the advertising. However, the unfortunate incident unsettled the balance and an all-out war was being waged. Samsung responded by withdrawing all their advertisements from *Chosun*. As the two sides gradually came to an understanding that indiscriminate attacks would be harmful to both sides, a ceasefire was achieved. The overall assessment was that

⁹⁹ Each of nationwide newspaper companies in Korea has individually several hundreds distribution agents.

although *JoongAng* sustained some loss, it nevertheless defended its position from an allied attack from *Chosun*, *DongA* and *Hankook*. After the incident, newspaper articles critical of the chaebol became even more rare.

When a newspaper company is an affiliate of a conglomerate, as pointed out by Curran, it would '[result] in no-go areas where newspapers were reluctant to investigate for fear of stepping on corporate toes' (Curran and Seaton 1997: 82). When the group's owner is practically controlling all affiliates of the group, which is the case with many of the chaebol in Korea, the problem becomes aggravated. Not only is investigative reporting discouraged, newspapers are mobilised to defend affiliates from legitimate attack and criticism. Newspapers are even used to prepare the ground for business operations of an affiliate. They can be used as a public relations arm of the chaebol. On the occasion of public prosecutions in respect of the chaebol's bribes mentioned above, newspapers owned by the chaebol vociferously raised the complaint that the public prosecution was seriously undermining the economy. In a meeting of chairmen of the chaebol at the Federation of Korean Industries, a complaint was raised that newspapers owned by some members of the FKI are putting the blame on other members who do not own any newspaper (*Hankyoreh*, 11 Nov. 1995).

Organisational Culture and Decision Making

Samsung is sometimes described as a cult-like organisation because it has an organisational culture which does not allow any criticism of the management. Those who met with people at Samsung in connection with some major issues involving Samsung such as its entry into car industry, nearly all agree that 'employees of Samsung speak in one voice regardless of their rank or position' (personal communications, 1993-1995).

This organisational atmosphere is partly connected to Samsung's policy against labour unions. In order to avoid organising labour unions, Samsung offers the carrot of high salary and uses the stick of cracking down any attempt to organise a labour union. Samsung abuses the provision of Labour Standards Act which requires that there be only one labour union at one work place. Samsung takes the initiative to set up a pro-management labour union thus preventing the organisation of hard-line labourers.

The provision in question has been the topic of continued controversy. ILO has already recommended nine times that this provision be repealed. Nevertheless, the provision still remains in force due to Samsung's effective lobbying (*Ohmynews*, 2 Apr. 2003). If there are still some employees who attempt to organise a union, Samsung resorts to persuasion and threats to prevent the organisation for labour union. In 1995, the German Branch Office of Samsung Electronics was brought to a labour court for having attempted to prevent the organisation of labour union in this manner.

Due to the neo-liberal inclination of Korean society, however, quite a lot of people are hostile to labour unions and support Samsung's anti-labour policy. The strategy of the 'First class industry Samsung' had the consequence of instilling in the mind of many Koreans a conviction that 'no labour union means excellent corporate performance'. The view of the ruling political group also coincided with this optic. On 4 September 1993,¹⁰⁰ President Kim Youngsam first met with Samsung's Chairman Lee Keunhee among all owners of the chaebol. President Kim explained his decision to see Chairman Lee, 'From now on, I intend to see entrepreneurs who have satisfactorily dealt with labour unions first' (*Donga*, 20 Sep. 1993). Negative views against labour unions may stem from a lack of understanding of democracy. When one understands that 'democracy is a political process whereby conflicts and dissonances are identified, expressed and eventually resolved to achieve integration of society',¹⁰¹ denial of labour unions would be undemocratic as it merely suppresses the conflicts rather than resolves them.

One striking example representing Samsung's organisational features is the change of working hours to 7:00 am until 4:00 pm. At that time, Samsung was fully engaged in 'quality management' following Chairman Lee's instruction 'to change everything except your wife and children'. His instruction to put forward working hours by two hours resulted in a radical change of life style for 180,000 employees plus their family members: Samsung employees started work at 7:00 am¹⁰² which, in turn, offered them substantial free time in the afternoon when the work finished at 4:00 pm. The normal working hours in Korea were 9 to 6. Such an overnight change of the employment conditions affecting

¹⁰⁰ At the time, President Kim Youngsam was adopting 'Strengthening competitiveness' in place of 'Reform' as the key concept of his ruling discourse.

¹⁰¹ Presented by Professor Choi Jangjip in a debate 'Assessing the First 100 Days of the New Government' held on 29 May 2003.

¹⁰² In Korea, seven o'clock in the morning is seen as very early. This is related to the fact that the Korean Standard Time follows Japan which is located in east of Korea.

hundreds of thousands employees was possible because Samsung's affiliates had no labour union. Individuals who live in a repressive world cannot participate in decision-making even crucially affecting their own life.

After the introduction of new working hours, the production team for Samsung's internal newsletter carried an article that surveyed responses of employees' partners. The article contained negative views of the changed working hours, reporting that partners were experiencing inconveniences as they had to wake up much earlier than before. Those who were involved in the publication were moved to other departments. Copies of the newsletter which had already been distributed were recalled. The offending article was deleted from the newsletters. The chief public relations officer of the group held a meeting convening about 30 employees who produced newsletters and gave instruction that care should be taken not to include articles which are against the management policy of Chairman Lee. From the point of view of Habermas' theory of communicative action (1981), this gives a good example where the 'life-world' is controlled by the 'system'. The room for communication from below is extremely limited.

Samsung's rigid attitude toward critical voice is not limited to internal communications. Critical views of non-governmental organisations voiced against Samsung can rarely be reported in the media because of Samsung's influence on the media as the major advertiser. When 43 law professors lodged an accusation alleging unlawful evasions of inheritance tax by Chairman Lee's family members, the event was very cursorily reported in only *Hankyoreh* and *Chosun* for appearance's sake. The incident involved potentially collusive sale of unlisted shares of Samsung's affiliates at a considerably reduced price to a son of Chairman Lee thus avoiding inheritance tax.¹⁰³ The incident had a far greater news value than what those inconspicuously cursory reports would suggest. *Hankook* in fact had a column by an external columnist entitled 'No more illegal inheritance for chaebol' in the first edition of its prints on that day. However, Samsung successfully lobbied to have it removed in further editions of prints (*Hankook*, 27 Nov. 2000).

Suppression on criticism leads a situation where important decisions are made in an

¹⁰³ Unlisted shares of Samsung's affiliates were transferred at a low price to Chairman Lee's son. The shares were subsequently listed with a huge windfall to the son. The son paid 1.6 million dollars of inheritance tax in respect of 4.5 million dollars of unlisted shares. When the shares were listed, they were worth 3 billion dollars. With these operations, the son effectively took control of most of Samsung's affiliates.

authoritarian, rather than democratic, manner. There were many decisions in Samsung which depended not on debates but on the personal will of the chairman. No doubt, if the decision turns out to be the right one, Samsung's organisational culture provides an excellent locomotive for bringing the project to a successful completion. Samsung's decision to invest in semi-conductor was a good example. If, however, the chairman's decision turns out to be a wrong one, the consequences will be dire because there is no mechanism for putting a break to the drive.

Samsung's decision to enter into car industry after it has already committed its resources to ship building, petro-chemical products and aviation industry is a pertinent example. Since Samsung - with its superior intelligence ability - was fully aware of the situation of car industry in Korea where already five manufacturers were engaged in a cut-throat competition, there can be no explanation for Samsung's decision to enter into that market apart from Chairman Lee's personal will and doggedness. He has a keen interest in cars.¹⁰⁴ He wanted to turn his personal passion into a business project. Once he made up his mind, no one in Samsung could change it. The *Manager*, a German monthly magazine for management, wrote that:

Chairman Lee has no need to obtain executive directors' approval. He is under no scrutiny from auditing directors. When he makes investment decisions, he often does it without much preparation almost as if he is betting in a gambling game.... The quasi-military organisations of Samsung carry out Chairman Lee's orders unflinchingly (*Manager*, Oct. 1997).

PR and Lobbying: Key Steps toward the Car Industry

Samsung's effort to enter into the car industry took the form of a public relations campaign accompanied by heavy lobbying. Samsung appears to have recognised that, going by the logic of industrial policy, Samsung's case was too weak to persuade the government's industrial policy team including the Ministry of Commerce and Industry

¹⁰⁴ Chairman Lee owns nearly all kinds of world best cars such as Mercedes's, Porsche's and Ferrarri's. He was rumoured to be a speed maniac who enjoyed driving a Porsche in a German Autobahn at more than 200km per hour.

(MOCI). The government at that time took the view that the chaebol had entered into too disperse and wide a range of industries with the result of diminished competitiveness of Korean industries in general. The government was pursuing a policy where each chaebol was urged to specialise in some chosen areas rather than expand its operation into nearly all areas. The government had a statutory means of enforcing its policy. The relevant statute allowed the government to deny license for the proposed foreign technology transfer if it should be damaging to national economy. For its car manufacturing project, Samsung was relying on a technology transfer from Nissan of Japan.

Samsung had the strategy of rallying favourable public opinions through public relations campaign in the first place. And those who are opposed to Samsung's proposal would then be personally approached by Samsung's lobbyists. Samsung took a round-about approach to lessen adverse public opinions. This is why in 1990 and 1992, Samsung attempted to enter into commercial vehicle (such as lorry) manufacturing. In fact, the applications were made and pursued by Samsung Heavy Industry and the group's public relations (PR) department rather than by the team for car manufacturing.

In 1997, the *Journalists Association Newsletter* of Korea, uncovered a confidential document entitled 'Report of Activities Relating to the Press' which was written by Samsung Heavy Industry in 1992. The document shows how the PR staffs bribed journalists and guided the overall tone of the news reports. According to the Report, the PR staffs have 'induced news reports on the backlog and long waiting list for commercial vehicles whereas the statement of automobile labour union which is opposed to Samsung's entry was given a low profile thanks to persuasion and lobbying efforts directed individually at journalists.' The Report also states that in order to lessen the opposition to Samsung's entry to the industry, those media which use the expression 'car' in reporting Samsung's attempted entry were made to use 'commercial vehicle' instead.

The Report also has a section on 'analysis of individual media's reporting patterns'. Four out of the 16 media - such as newspapers, broadcasting companies and press agents - were classified as favourably disposed. The Report adds that most of these favourably disposed media were initially opposing Samsung's proposed entry to the commercial vehicle manufacturing industry. The Report concludes that the lobbying efforts of Samsung made them favourably disposed. Six media are classified as neutral. It is stated in the Report: 'These media were initially opposed to Samsung's entry, but our lobbying

made them neutral'. The remaining 5 media are classified as negative. It is explained: 'These media had weak ties with us in the first place'. Regarding one paper, in particular, the Report stated as follows: 'The paper reported Samsung's proposed entry to commercial vehicle manufacturing as a strategy to enter into car manufacturing in a round-about way. The paper purports to oppose Samsung's entry to the industry' (*Journalists Association Newsletter*, Aug. 1997).

The Report also has a chapter 'Actions to be taken in relation to the press'. In this chapter, it is recommended that: 'Contacts with editors of economic affairs department must be maintained in the form of quarterly meetings with our executives. At least twice a year, gifts should be offered to them too'. Similar recommendations were made with regard to journalists reporting Samsung's proposed entry (*Journalists Association Newsletter*, Aug. 1997). Maintaining 'contacts' would require offering *chonji* in the context of the Korean press. In the end, Samsung succeeded in entering into commercial vehicle manufacturing in 1992 with an official promise from the chief executive of Samsung Heavy Industry that 'no attempt shall be made to enter into car manufacturing.'

For Chairman Lee, however, the entry into commercial vehicle manufacturing was simply a stepping-stone toward entering into car manufacturing. In 1993, the 'Quality management' was declared, working hours were put forward by two hours and a radical quality control measure was introduced whereby if a single faulty product is spotted, the whole production line will be stopped. Chairman Lee was advocating a revolutionary reform of mentality. As we have seen in the previous chapter, Chairman Lee's outspoken style was under the spotlight of the media. 'Learn from Samsung' was a familiar phrase for the whole nation and even for the government. President Kim Youngsam was also shifting the ruling discourse from 'Reform' into 'Internationalisation' and 'Strengthening competitiveness'.

As the economy entered into a slump, the political climate was becoming favourable to the chaebol, especially to Samsung. Chairman Lee took notice of this and became bolder in his speech. In Tokyo, he met with a correspondent of *DongA* and expressed his interest in entering into car manufacturing. He said, "Our country's survival depends on exports. The leading companies should not be tied down by a criticism about their aggressive expansion into a wide variety of business areas or by the government policy for

business specialisation.”¹⁰⁵ (*DongA*, 4 Aug 1993). He was defiant to the criticism about Samsung. Other chaebol interpreted Samsung’s management reforms as ‘preparing the ground for further expansion into more business areas’ (*Kyunghyang*, 11 Aug. 1993).

Riding on the tide of ‘internationalisation’, *JoongAng* laid paving stones for Samsung’s entry into car manufacturing. *JoongAng* had a special report, ‘Car industry: In need of a greater drive’. It was asserted: ‘Considering that it takes two years to build a new production plant, it can be said that the investment in production facilities is lagging behind the ever increasing demand for cars’ (*JoongAng*, 17 Nov. 1993). In a seminar organised by the Korea Institute for Industrial Economics & Trade (KIET), Professor Otti of Lancaster University and Dr Yoo Seungmin of the Korea Development Institute (KDI) claimed that ‘the argument that Samsung’s entry into car manufacturing will result in over-investment is wrong, considering the increase in demand for cars in the worldwide market’. Their claim was given a high profile in the all newspapers (e.g. *JoongAng*, 26 Nov. 1993).

The tone of the press which had been critical of Samsung’s entry into commercial vehicle manufacturing now took a favourable turn. On an analysis of views expressed in the editorials of newspapers regarding Samsung’s proposed entry into car manufacturing at the time, it is possible to say that *DongA* was opposed, *Chosun* was neutral, *Hankyoreh* was supportive with reservations, and *JoongAng* was enthusiastically supportive. In an editorial entitled ‘Too many car manufacturers already’, *DongA* warned about the weakening of competitiveness of Korean car manufacturers in the worldwide market. It recommended that the government should ‘restrain the construction of new production plants’ (*DongA*, 28 Apr. 1994). *Chosun* had an editorial entitled, ‘Premises for Samsung’s entry to car manufacturing’. It was argued that ‘if Samsung insists on entering into car manufacturing, it should at least get rid of some of its affiliates as a precondition for undertaking car manufacturing’. The editorial concluded that ‘the real issue which must be closely examined is over-investment or surplus of production facilities’ (*Chosun*, 28 Apr. 1994). *Hankyoreh* had an editorial entitled, ‘Controversy about Samsung’s proposed entry to car manufacturing’. According to the editorial, ‘it is not easy to say whether Samsung’s proposed participation would improve or weaken the Korean car industry’s

¹⁰⁵ The business specialization policy was to guide the chaebol to restrain their unrelated-diversification and concentrate on 3~4 specialized business fields.

competitiveness. Allowing all contenders to compete can be a way of life in the era of internationalisation'. The editorial added an argument that Samsung must show its determination to concentrate itself on car industry by selling off some of its disparate affiliates' (*Hankyoreh*, 28 Apr. 1994).

However, one needs to go beyond the editorials, as readers will treat analysis articles as reflecting the stance of the newspaper. *Hankyoreh* and *Chosun* had analysis articles which were more critical of Samsung than their respective editorials. For example, *Hankyoreh* had an analysis article, 'More to lose from Samsung's entry' (*Hankyoreh*, 27 Apr. 1994). *Chosun* had an article, 'More negative points - public opinion and the government opposed as well' (*Chosun*, 8 May 1994). In the case of *DongA*, however, news articles such as 'Debates on Samsung's entry into car manufacturing' (*DongA*, 30 Apr. 1994) took a more neutral stance than the strong opposition voiced in its editorials. *JoongAng* was, of course, enthusiastic about Samsung both in its editorials and in news articles. The other major papers also showed a considerable rift between editorial writers and reporters.

Why, then, did such internal drift occurred? First, the issue itself was complex and controversial, and was often understood and analysed differently depending on viewpoints about the market and the state. At the same time, these different individual views were full of confidence, which made intense conflicts inevitable. These conflicts were extremely hot, particularly when the time had come for concrete decisions, even though concessions had been made to the overall issues such as ideological dispute. Finally, the media was divided thanks to the desperate lobbying effort by Samsung and other car companies. As the lobbying efforts of the existing car companies were patchy and uncoordinated, they could not overpower Samsung who had the unmistakable goal of carrying out the wish of its owner. Indeed, the incoherence in almost all newspapers, except *JoongAng*, was to a large extent attributable to Samsung's aggressive man-to-man lobbying.

Manipulating 'Public Opinion'

In March 1994, the Strategic PR Team within the Secretariat of Samsung's Chairman prepared 'New Communications Plan for Samsung Group'. According to the

document, which was exposed by *Hankook* two years later, Samsung understood that favourable public opinion was the key for entering into car manufacturing. It appears that Samsung was using the newspaper (*JoongAng*) owned by its affiliate to this end. The plan lists the following actions to be taken:

To run special reports in *JoongAng*; to form a favourable public opinion about Samsung's entry into a new business area; to establish a close relationship of cooperation with the press, research institutes and the academia; to make concentrated efforts to maintain good contacts with academics, journalists and government policy makers (*Hankook*, 20 July 1996).

The fact that the plan was drawn up by a team of Chairman Lee's secretariat, rather than Samsung Heavy Industry, indicates the strong determination of the group as a whole to pursue Samsung's proposed entry into car manufacturing.

In order to turn the public opinion in their favour, Samsung drew up a list of about 3,000 persons who were considered to be influential in shaping public opinion. Samsung then looked for its employees who were personally acquainted with these opinion leaders. These employees of Samsung were mobilised to get in touch with the so-called opinion leaders. In these meetings, Samsung's case was presented and constant efforts for persuasion were made. For those who would not be persuaded, Samsung was studying possible alternative measures (*Hankyoreh*, 21 Apr. 1995). A public relations director of one of the car manufacturers at the time complained:

Samsung's public relations campaign was tenacious. We were having difficulty in finding a person who could present a counter-argument (personal communication, May 1994).

Commissioning certain academics to write columns in newspapers is an effective means of shaping public opinion in a chosen direction. Academicians' columns about a particular economic policy are delivered to the readers in a packaging which has the aura of expert knowledge. The included messages can have a greater impact on readers who do not have any detailed knowledge of the matter. It is also convenient for the newspaper

company because these columns can be used to deliver certain messages which the company itself is reluctant to be openly associated with. The newspaper company can say certain things without having to do the talking for it. If these contributed columns are commissioned due to the connection between the news source (a chaebol, for example) and the newspaper, there is a serious risk of distorting the policy options. Of course, there is the usual disclaimer, 'the views expressed in the contributed columns do not necessarily reflect the views of the paper'. However, such a thing is only a device for the above-mentioned 'strategic ritual' to display 'objectivity'.

There were an increasing number of external columnists contributing columns supporting Samsung's entry into car manufacturing. For example, Professor Kang Chulgyu contributed a column (*DongA*, 15 May 1994) where he argued that 'the attempt to regulate new entry can have negative side effects of restraining competition'. He was in favour of Samsung's proposed entry into car manufacturing on the condition that Samsung take voluntary steps to avoid concentration of economic power.

Even if a newspaper maintains an appearance of impartiality by publishing two opposed columns side by side, it is not necessarily a guarantee of impartiality. Articles listing the 'pros and cons' of Samsung's proposed entry (*DongA*, 30 Apr. 1994, for example) were in fact favourable to Samsung which was attempting to overturn the government's decision not to allow Samsung to manufacture cars. These articles had the effect of re-opening the case which had already been closed. *JoongAng* had a special focus article about the pros and cons of Samsung's proposal. Their articles formulated the issue as if it was a contest of consumers versus manufacturers (*JoongAng*, 27 Apr. 1994). The articles concluded that 'although there can be many other criteria, the ultimate conclusion should depend on a consideration of consumer benefit and the order of market economy'. Their point was that while the regulation of new entry is for the benefit of the existing manufacturers, Samsung's entry would benefit consumers. It was Samsung's argument.

However, such an argument was appealing to many readers as the public interests were increasingly focused on 'consumption rather than production'¹⁰⁶ (Parsons 1989; Manning 2001). After several of these columns and news reports, Samsung commissioned a survey by Korea Gallup. Samsung used the results of the survey to put pressure on the

¹⁰⁶ Using this concept, Samsung advertised its new car in 1998 with an assertion, 'When it's made by Samsung, it's different.'

government. Major papers also reported the survey. According to the survey, 69.3% of respondents supported Samsung's entry into car manufacturing. Their reasons were that Samsung's participation would result in: 'improved quality and technical innovation'; 'fair and equal opportunity for business'; 'development of national economy'; 'benefits from Samsung's good reputation'; and 'widening of consumer's choice'.¹⁰⁷

Contorted Triangle: Dragging Politics into the Fight

Samsung's attempt was met with a resistance when the then Minister of Commerce and Industry, Kim Chulsoo, secured in May 1994 the President's decision not to allow Samsung's entry. The key policy makers were still hostile to Samsung's expansion. Minister Kim and Director General for Machinery and Basic Industries, Lee Keunwoo, were still opposed to Samsung's proposal. Their reasons were clear:

As there is already a shortage of experience technicians, Samsung's entry will bring about excessive recruitment competition. Also, too excessive competition among domestic car manufacturers would be inevitable, which will mean that not a single one of them could ever become a leading car manufacturer in the worldwide market (*Hankook*, 2 July 1998).

However Samsung would not sit back in resignation faced with this much of resistance. As the first round proved unsuccessful because of the opposition from specialist bureaucrats, Samsung chose the strategy to win over politicians and to make them put pressure on the Ministry of Commerce and Industry. The project was now being pursued by a special task force 'Planning Group for 21st Century' headed by Lee Pilgon of the Chairman Lee's secretariat. It was decided to appeal to the popular sentiment of people in Busan area which was the political base of President Kim Youngsam. Samsung had the experience of securing a license to enter into commercial vehicle manufacturing during the presidency of Rho Taewoo by announcing that the vehicle assembly plant would be built in Daegu, which was the power base of the then President Rho.

¹⁰⁷ 'Survey of people's attitude to Samsung's entry into car manufacturing', Korea Gallup, 2~3 April 1994.

This time, Samsung promised to build the car assembly plant in Busan. Shinho Industrial Park, which was chosen as the proposed site, is located near Busan, the second largest city of Korea. As a result, the land price was high. Shinho Park also had unstable ground as it was built by land-filling on the shallow seabed. It was an architectural nightmare to prepare the ground for the construction of the proposed plant. Tens of thousands of concrete piles had to be used. The cost of building the plant would already be four times as much as that of Hyundai's Asan plant or Kia's Hwasung plant. Nevertheless, doubts about the feasibility or viability of the project were silenced by Chairman Lee's instruction to secure the license at all costs.

In order to carry out and coordinate the plans to mobilise the citizens of Busan, seven of the high-ranking employees of Chairman Lee's secretariat were sent to Busan. One of them recalled, "It was very easy to guide the public opinion. As the local economy was in a slump, everyone was saying that the plant must be built here to create jobs. Local papers and citizen groups took the initiative and contacted us' (*Donga*, 13 Apr. 1998). They launched a movement to collect one million signatures from citizens of Busan. Citizens' meetings, marches and demonstrations were given a high profile in major papers.

In August, a public debate was held by Institute for Industry and Management Research attached to Seoul City University. The event provided a strong theoretical support for Samsung. Yoo Seungmin of Korea Development Institute denounced the government's regulatory policy:

Suppose the government prevents Samsung from entering into car manufacturing and tells it to concentrate on petro-chemical products, electronic goods, electric appliances and machinery which it does well at present. What if, however, in five or ten years, investment in these latter areas turns out to be disastrous for the nation? Will the government pick up the bill? (*Hankook Kyungjae*, 20 Aug. 1994).

Professor Shin Bongho also argued:

When a company enters into a market and fails to survive, it is the company itself which will suffer most. Therefore, whether or not to enter into a market is a question which the company must decide for itself.... The concerns expressed by the

government as well as by the existing manufacturers about the ills of excessive competition are mostly unfounded. They do not appear to be fair and impartial concerns (*Hankook Kyungjae*, 20 Aug. 1994).

Public debates organised by academics may have an appearance of fairness and impartiality. Depending on the selection of participants, however, these debates are certainly capable of producing one-sided views about a policy issue. Professor Kang Chulgyu, who organised the above-mentioned debate, has strong convictions in market economy. As mentioned earlier, he had already contributed a column to *DongA* urging that Samsung should be allowed to enter into car manufacturing. In such a case, it may be suspected that the public debate is held in order to put forward a particular viewpoint. Moreover, the press can select the contents of the debate in reporting them. If certain views were emphasised at the expense of other views, the readers are exposed to news items which have gone through two stages of distortion. As Manning feared, ‘much of the material journalists work with in producing news items is thoroughly contaminated with values, partial descriptions and professional spin’ (Manning 2001: 68).

Samsung announced ‘Samsung’s Business Plans for the Development of Busan Areas’ that it would develop a new port, build a new hospital and make many other investments in Busan area if it is allowed to enter into car manufacturing (*DongA*, 26 Aug. 1994). Samsung also maintained frequent contact with influential politicians from the Busan area who were bound to be sensitive to the wishes of the people of Busan. The politicians with whom Samsung maintained ‘good contact’ included the Chief Secretary to the President, the Secretary General of the ruling political party and the Minister of Home Affairs. It was about six months before the local government election. One could not find a more opportune moment.

In October, Park Jaeyun, who was the Chief Economic Adviser to the President and who was in agreement with the Minister of Commerce and Industry regarding Samsung’s proposal, was suddenly replaced by Han Yiheon. It was rumoured in the industry that ‘supporters of Samsung were being promoted in the government’ (*Chosun*, 3 Dec. 1994). Lee Keunwoo, a high official who was dealing with Samsung’s application in the Ministry of Commerce and Industry (MOCI), testified in an interview undertaken for this thesis:

As Han Yiheon kept meeting with Lee Pilgon of Samsung who was heading the task force for this matter, Han came to play the pivotal role in changing the mind of the President (interview, 22 Mar. 2003).

In a National Assembly inspection of the MOCI, many of the ruling party's assemblymen were aggressively questioning Minister Kim Chulsoo who was opposed to Samsung's entry to car manufacturing.

In November, when the discontent toward the government was rising in Busan, Mr. Han visited Chairman Lee Keunhee:

Han: If you wish to enter into car manufacturing, you need to come up with convincing arguments and make concrete and tangible efforts. It would be counter-productive merely to put pressure on the President.

Lee: What kind of efforts do you mean?

Han: In 1993, Samsung made a promise of corporate reorganisation. But there has been no visible result in this area. The negative public opinion about Samsung's aggressive expansion must be dealt with first of all before you can expect to have a favourable opinion about the proposed entry into car manufacturing (*DongA*, 13 Apr. 1998).¹⁰⁸

On 27 October, Samsung announced a plan for reorganising its business structure whereby its 50 affiliates would be consolidated and reduced to 24 affiliates. The remaining question was to find a decent excuse to overturn the government's own decision which was taken half a year earlier. The discourse of 'Globalisation' which came to the surface at the time provided just that. As discussed in chapter 3, *JoongAng* played an important role in promoting the discourse of 'Globalisation'. After announcing 'Globalisation' as the government's comprehensive policy objective after attending the APEC summit meeting in Indonesia, President Kim Youngsam was returning to Korea. In the airplane, he convened the ministers who were accompanying him and asked the Chief Economic Adviser, Han Yiheon. The scene of the meeting was 4 years later disclosed in *Hankook*:

¹⁰⁸ It was disclosed in *DongA* a few years later.

President Kim: It is now a global era with no frontiers. If Samsung's proposed entry to car manufacturing is conducive to strengthening the competitiveness of Korea, I suppose we need to give a go-ahead. What do you say to that, Mr. Han?

Han¹⁰⁹: You are right, Sir (*Hankook*, 6 July 1998).

The MOCI was completely excluded from the decision making. Once the new decision was taken, the MOCI's involvement was limited to securing a pledge from Chairman Lee that Samsung would not be engaged in recruitment practices unduly damaging to the existing car manufacturers.

On 2 December, the government announced that Samsung would be allowed to enter into car manufacturing. The announcement was read by the Vice-Minister of Commerce and Industry who were favourable toward Samsung. Minister Kim who refused to change his personal conviction was removed one month later. The Director General for Machinery & Basic Industry who had been dealing with Samsung's application was not even notified of the announcement. A few working-level bureaucrats within the Ministry who were favourable toward Samsung were later recruited by Samsung as directors. On 5 December, Samsung lodged its application for the introduction of car manufacturing technology, releasing an additional plan for corporate reorganisation to reduce their affiliates.

What we need in order to look at more carefully in this tug-of-war between the government and the chaebol is the role of the press. The press, which is in the policy triangle consisting of the government, the chaebol and the press, is expected first of all to bring to light the heart of the matter and then to help the process of rational decision making by providing opportunities for fair and reasonable debates. From this point of view, the Korean press posed many problems.

Regarding Samsung's strategy to mobilise the people of Busan, such a strategy can be criticised as an abuse of public opinion with a view to distort policy options. However, no newspaper was critically investigating the negative aspects of Samsung's strategy. Instead, the press faithfully followed the wishes of Samsung by reporting the citizens'

¹⁰⁹ Han Yiheon later ran to become an assemblyman from Busan. During the campaign, he claimed that Samsung Motors' plant was built in Busan thanks to his efforts.

meetings and demonstrations. The press, in fact, was mobilised by Samsung.

Also, the repeated announcement of Samsung's business reorganisation plans and 'Business Plans for the Development of Busan Areas' were mainly a public relations stunt rather than genuine plans for concrete actions. However, the press failed to appreciate it and instead reported those announcements with a great deal of pomp and excitement. Samsung announced in 1993, 1994 and in 1998 immediately after the economic crisis, several plans for reorganising its business operations and consolidating its affiliates. Yet few of these plans were actually implemented. The number of Samsung's affiliates actually increased in the meantime.¹¹⁰ As we have seen, most papers recommended that Samsung be allowed to enter into car manufacturing but the recommendation was on the condition that Samsung takes steps to restructure its business. Eventually, it can be said that such conditions that appeared in many articles were no more than 'strategic rituals' to justify their recommendations.

In particular, *JoongAng*, which was an affiliate of Samsung, enormously contributed to the Samsung's entry. For example, regarding Samsung's announced plans for restructuring; Professor Chung Guhyun was invited to contribute a column which interpreted the plans as the 'start of genuinely professional managerial system' (*JoongAng*, 28 Oct. 1994). Professor Song Byungrak of Seoul National University was also invited to contribute a column where he argued that 'the biggest electronic industry is the car industry'. Of course, he had Samsung Electronics in mind. He asserted that 'domestic competition is necessary for globalisation' (*JoongAng*, 7 Dec. 1994). On the day of the announcement of the government's approval of Samsung's proposed entry, *JoongAng* had an editorial which argued:

Car industry now moves out of the oligopolistic control of the market. A proper competition will now begin for consumers' benefit and for the development of national economy. It is evident that benefits will go to consumers and the fruits of economic development will make the nation's economy grow. This is our gesture of globalisation (*JoongAng*, 3 Dec. 1994).

¹¹⁰ According to a survey of Fair Trade Commission, the number of Samsung's affiliates which was 48 in 1991 increased to 55 in 1996 and to 64 in 2001.

Also, in an editorial which appeared on the day the application for technology import was accepted, it was asserted:

It is indeed very fortunate that the government attempts a major shift in its industrial policy on the occasion of Samsung's entry into car manufacturing (*JoongAng*, 8 Dec. 1994).

Out of 10 major papers, *DongA*, *Hankyoreh* and *Hankook* had relatively more articles critical of Samsung's attempt to enter into car manufacturing. In the case of editorials, even *Hankyoreh* and *Hankook* did not offer opposition.¹¹¹ However, *DongA* was ardently opposed to the attempt. On 4 December appeared an editorial, 'Reconsider Samsung Motors!' On 7 December appeared another editorial, 'Coherence needed in economic policies'. On 9 December, it had yet another editorial where it was asserted: 'Labour unions of car industry need to refrain from strikes - Samsung needs to reconsider its attempt to enter into car manufacturing'.

As explained earlier, labour unions, citizen groups and other pressure groups did not play a significant role in the policy decision making process. Labour unions of the existing manufacturers held large-scale meetings and demonstrations in protest to Samsung's attempt, but they failed to attract the attention of the press.¹¹² Citizen groups were equally powerless. The Citizen's Coalition for Economic Justice, for example, revealed its weakness when the Coalition's Busan Branch announced its support for Samsung's proposed entry to car manufacturing. Hardly a coalition, in fact.

By contrast, the press played a very influential role within the policy community in connection with Samsung's entry. Influential as it was, however, the press's role was negative rather than positive in bringing out the key issues and conducting rational-critical debates. In fact, the press knowingly or unknowingly went along with the chaebol's strategy for manipulation of public opinion. By doing so, the press played an active role in breaking down the public sphere.

It is true that the government's policy decisions are not always influenced by the

¹¹¹ According to the *Gazette of National Union of Media Workers* (Dec. 1994), *DongA* and *Kookmin* (minor paper) were the only two papers which voiced opposition in editorials.

¹¹² In order to understand why labour unions mostly fail to attract the attention of the press, see Aeron Davis (2002).

reports of the press. When the policy makers firmly ignore negative or critical reports of the press, the influence of the press is going to be limited. Samsung's failure in its first round of attempts can be a case in point. However, as pointed out in chapter 1, the press's influence on the government's policy making can unfold itself in multi-steps. For example, in its second round of attempt, Samsung made use of the politicians and the press which in turn put pressure on the policy makers. The then Director General for Machinery and Basic Industries, Lee Keunwoo, in an interview undertaken for this research, made the following remarks which are of some interest:

At first, some papers published contributed columns which criticised the Ministry of Commerce and Industry in the name of 'free competition'. But that was all right. Although they put forward an argument that industrial policies are an anachronism in the global era, I could ignore it because it must be from a few professors who know nothing about the real nature of the chaebol and the practical issues facing the industry. However, when Samsung began to manipulate public opinion and most papers started to side with Samsung, I felt cornered. All my friends and even my wife were asking, 'Why is it that only you are against Samsung Motors?' I did feel the power of the press. When the chaebol mobilise the politicians and the press to change the mind of the President, what good does it do to have firm convictions as a specialist bureaucrat? (interview, 22 Mar. 2003).

The reason for Samsung's success in the second round of its attempt was that it managed to have the press on its side and caused dissensions within the government. As a result, Samsung secured the hegemony in the policy community made up of the government, the chaebol and the press. Policy makers initially rejected the agendas which were set by Samsung. When the ruling political groups adopted them, however, the policy makers were influenced. The press's influence in this case worked in two-step flow. In the course of making policy decisions, those agendas would usually manifest themselves in the form of policy alterations. When the imbalance of power is too great, they are reflected into the final policy with very little alterations.

'Scapegoat' and Catastrophe

Samsung's entry marked the beginning of the disaster for the Korean car industry. The car companies started to make a great deal of pre-emptive investment in order to leave out Samsung's chase. The yearly capacity of assembling cars expanded from 1.44 million in 1993 to 3.50 million in 1997. It was expected to increase up to over 4 million in 1998 taking account of the new production by Samsung. The operating ratio of equipment was only 50~60% in 1996, and yet more than 110,000 cars remained unsold. Approximately 10 trillion Korean 'won' (10 billion US dollars) of the new investment remained as debt without creating any revenue. A government research institute's warning¹¹³ about over-investment turned out to be true.

When the Big Three chaebol of Samsung, Hyundai and Daewoo began to compete in the car industry, the first victim to fall was the firm specialising in car-manufacturing, Kia, followed by the smaller producer, Ssangyong. Kia was the least 'chaebol-like' conglomerate in the sense that its companies were run by professional management staff rather than by the chairman's family members. Kia, together with Hyundai, was deemed to have the most advanced technologies in the industry. Yet it could not survive in the market which was distorted by the chaebol's unfair trading practices such as cross-debt guarantees between affiliates and cross-subsidiary trade.

Samsung also ran into trouble. They had already spent 2 trillion won (2 billion dollars) on the construction of the assembly plant; they lost 87% of the original capital (805 billion won) three years after the establishment of corporation in 1995 due to the accumulated deficit. The loyalty to Nissan was as high as 280,000 won (280 dollars) per car. At the time, selling a car meant the loss of 1.53 million won (1,530 dollars). It was also difficult to ensure the transition of technologies from Nissan and to find parts-suppliers. Samsung's sales strategy hinged upon the 'traditional' way of mobilising its own employees. One car was allocated to a common clerk; five cars to a manager; and certain numbers to the parts-supplying companies. Such illegal practice was later exposed by the Fair Trade Commission.

On realising that it was impossible to survive on its own, Samsung began to attempt

¹¹³ KIET under the Ministry of Commerce and Industry was opposed to Samsung's entry fearing the possibility of overinvestment, whereas KDI under Ministry of Finance and Economy supported it.

to take over Kia. On 21 May 1997, *Seoul Kyungjae* reported exclusively the ‘Report for Restructuring the Domestic Car Industry’ written by Samsung, which claimed:

Kia’s debts have increased and there will be little financial aid from other affiliated firms of the group as it has no competitive firm apart from the car manufacturer. Accordingly, the whole structure of the domestic car industry should be reformed centring on the leading groups which have better possibility of growth (*Seoul Kyungjae*, 21 May 1997).

The report was interpreted as ‘the government should help Samsung take over Kia’, ensuing the conspiracy claim between the government and Samsung. Although the public sentiment moved for Kia, it appeared to be Kia who was more damaged from it. The news report that the eighth biggest group was in financial trouble accelerated the demand for loan repayment from non-bank financial institutions that refused to renew the loan arrangements with Kia. At this point, some raised doubts that Samsung might have leaked the report intentionally. A manager of a security corporation commented later, “After the Samsung’s report was revealed, the rumour that Kia has come to an end spread rapidly” (*Hankook*, 15 Aug. 1998). Samsung explained that the report was not an official document but was written for the sake of internal discussion.

However, on 22 August another report was revealed, entitled ‘The Present State of Seedling Projects and the Future Plan’ produced by the Secretariat of Samsung. The report was dated on 4 March, indicating that it was made a month prior to the previously revealed one. This report emphasized a particular strategy to ‘undertake Kia by gaining favour of public opinion in the take-over and by establishing the cooperative relation with the government’.

Preceding this, an internal report of the Ministry of Finance and Economy was disclosed on 4 August under the title of ‘Government Position to Handle Kia Motors’. It explicitly highlighted that the government intended to arrange the take-over by the third party after dishonouring it (*Hankook*, 15 Aug. 1998), which convinced people of the conspiracy between Samsung and the government.

The conflict between the government and Kia over the resolution of either ‘court

receivership' or 'composition'¹¹⁴ took more than two and a half months, bringing about a great deal of loss to the finance market as well as Kia itself. It damaged the credit status of the nation, which was later conceived as one of the significant reasons that caused the financial crisis. The decision should have been made far sooner since either way had good and bad aspects at the same time. However, Kang Kyungsik, the DPM of Economy, and Kim Sunhong, the Chairman of Kia, did not make any compromise. Whereas the government tried to replace the top management by the 'court receivership', Kia conceived of the government's suggestion as the plan to hand over Kia to Samsung. Kia had deep suspicion on the DPM Kang who formerly worked to induce Samsung Motors' plant to Busan.

In fact the decision should have been made by the creditors. Whilst announcing publicly that the decision would be made by the private sectors involved, Kang intervened in every way. While he allowed Jinro and Ssangbangwool to have the 'composition' by mutual agreement between debtors and creditors, he forced the banks and the merchant banking corporations involved to reject Kia's proposal for 'composition'. On one hand, attributing the fundamental problem to Chairman Kim, DPM Kang considered Kim's immediate retirement as the only solution without making any effort to compromise. On the other hand, Kim just tried to maintain his leadership in Kia, not showing any responsibility for the group's crisis.

It is noteworthy that the press played a substantial role in the policy community concerned with the Kia issue. *JoongAng* explicitly represented Samsung's interest through its articles showing favour to Samsung: for instance, 'Composition seems gone off' (5 Oct. 1997) and 'Financial clouds expected to be sorted out soon' (5 Oct. 1997). These articles were intended to deliver the message that the possibility of composition was bleak and the option of court receivership should be taken soon so as to stabilise the financial market. In light of the timing of these articles, they appear to have contributed to pushing public opinion toward court receivership. From the perspective of Samsung, it was important to block composition, because that would enable current management to stay, thereby making it more difficult for Samsung to take over Kia. The effort of *JoongAng* continued. Many columns, including one by Kang Wisuk, 'Responsibility of the government for free market economy' (*JoongAng*, 6, Oct. 1997), and an interview article with DPM Kang,

¹¹⁴ Composition is an institutional arrangement which aims to resolve loan repayments through dialogue between the debtor and the creditor, and, unlike court receivership, does not assume the retreat of the current management.

entitled 'Kang who has enemies on every side amidst economic difficulties' (*JoongAng*, 20 Oct. 1997), encouraged him to move forward.¹¹⁵

A year later, in the serials of 'Secret Stories of Civil Government 5 Years' in *Hankook*, it was pointed out that the articles of *JoongAng* played a certain role in disengaging the relationships between the banks and Kia. It reads:

In the interview of *JoongAng*, the Kia's Chairman Kim was reported to say that "the government and the banks intended to kill me and the company". However, Kim was furious when he heard about the interview article after the first edition was printed out, denying and pointing out the story which obviously intends to cause the serious estrangement of Kia from the government and the creditors. The title of the interview was replaced in accordance to Kia's strong objection, but the interview itself was circulated next morning in Seoul as such. It was not surprising that the government officers and the creditors involved were angry (*Hankook*, 24 Aug. 1998).

DongA stood in opposition to *JoongAng* in a series of editorials, by claiming that: 'No to third party's take-over of Kia' (6 Aug. 1997); 'Composition: The only resolution for Kia issue' (27 Sep.); and 'Some reasons why Kang should go now' (21 Oct.). *Hankyoreh* seemed ambivalent to the reader due to the different angles between an editorial writer's columns which were hostile to Kia, on the one hand, and economic affairs department's coverage which was sympathetic to it, on the other. Most of other papers were also unable to maintain the coherent internal opinion. In several papers, views were split even within the same department between 'Samsung's original sin' and 'Kia as mainly responsible'. That was an extra inning of the conflicts which happened when Samsung initiated their action to enter into car industry. At that time, the economic editor of one of the major newspapers remarked in a private meeting among economic editors:

I kind of got the feeling that the government and the media were trapped thanks to

¹¹⁵ Hong Seokhyun, the chairman of *JoonAng* and a brother-in-law of Chairman Lee Keunhee, was appointed as the secretariat of DPM Kang in 1983. When DPM Kang was appointed as the Chief Secretary to the President, Hong again joined him as his assistant. This shows how special their relationship has been.

the chaebol's propaganda and lobbying about the car industry. We have never seen the media divided as now, have we? In my newspaper, editorial writers talk about 'market logic' but reporters handling car industry raised their eyebrows, complaining "what the hell the market logic is about when the whole Korean car industry is dying". Even when we managed to get together for a drink, it ended up with a fighting and it was hard to control. It was no longer about logic, but it became all about emotional conflicts (personal communication, Apr. 1994).

In retrospect, DongA was the one newspaper who had maintained its anti-Samsung tone from the entrance of Samsung into car industry to the Kia issue. By contrast, JoongAng was consistent in maintaining its pro-Samsung tone. Most of the other newspapers either became pro-Samsung or could not voice a consistent position due to internal conflicts. The press did not lead the rational discussion by failing to assess the points of Samsung and Kia issues.

On 22 October Kia entered court receivership; on 29 October Chairman Kim resigned. At that very moment, however, Hong-Kong based Peregrine Securities was preparing the report of 'Get out of Korea, now' (*DongA* 23 Oct. 1998). Kia's debt of 7 trillion won (7 billion dollars) had been changed from assets to insolvent bonds, which came to be a substantial cause for financial crisis. Later in 1997, the average debt rate of the car industry hit 717%, the highest among all industries. A month later, the whole Korean economy came to be aided by the IMF. Samsung Motors also had the debt of 3 trillion won even before producing the first car.

After all these vicissitudes, Kia came to be merged into Hyundai; Samsung into Renault; and Daewoo into GM. Only Hyundai remained alone as a Korean car maker in a car industry where five chaebol pit. Lee Pilgon, former Chairman of Samsung Motors, in an interview after resigning from Samsung, said, "I hope the conglomerates have learned lessons from this event that they should invest more carefully", and added "I am the main culprit as far as the problem of Samsung Motors is concerned" (*Chosun*, 12 July 1999).

Two Bigots of the Steel Industry

*Decision-making in Two Dynasties*¹¹⁶

Another example which demonstrates the media failure and the resulting economic tensions can be found in the steel industry. In this episode, two chaebol were involved: Hyundai and Hanbo. Both wanted to enter into the steel industry, but Hyundai failed and Hanbo succeeded. The successful Hanbo was eventually faced with bankruptcy, setting a stepping-stone toward financial crisis. In investigating the causes of such dramatic failure, the first step should be to examine corporate culture of these chaebol.

Chung Juyung was so absolute a monarch that his nickname was 'Kingly Chairman' within the Hyundai group. His four younger brothers and 10 or more sons and nephews were all in chairmanship, but there was no one among them to speak out without reserve to Chung's face. Even Seyung, Chung's younger brother and 50 years' business partner who had led Hyundai Motors into a world-class car maker, used to say, "It is my elder brother that I am most awed by" (*Maeil Kyungjae*, 11 May 1994). A former secretary in Chung's office recalled:

Even chairmen and chief executives of Hyundai affiliates were always cowed in the presence of 'Kingly Chairman'.... Before they entered his office to get his signature, they usually asked to me, "How is he feeling now?" On hearing that he was not feeling so well, they would retreat from the room without hesitation (*Pressian*, 22 Feb. 2003).

In Hyundai's headquarters, offices were allocated to chairmen according to their familial rank; from Chung's own on the top 14th floor to the others; downstairs. Patriarchy was a norm in Hyundai, so Chung's sons should use the back doors instead of the front doors. Hyundai was controlled completely by the Chung family, but Chung rejected flatly the criticism from the outside on the managerial succession within the family by saying that 'my sons and grandsons are professional managers, for they

¹¹⁶ Donald Kirk, a former Seoul correspondent for the International Herald Tribune, published his book on the Hyundai group, of which the title was 'Korean Dynasty: Hyundai and Chung Juyung' (Kirk 1994).

graduated from business schools and have been involved in the management for over 10 years' (Huh 1999: 224). In this regard, Kim Keewon pointed out:

In the chaebol system, chairman enjoys the ultimate power of top decision-making until death, and his blood relative succeeds him only because he is chairman's blood relative. Therefore it is impossible to reproduce top management in a steady manner and to make a rational decision in this pre-modern monarchical dictatorship of the chaebol (Kim, K. 2001).

Chung's charisma was based on his achievements in establishing Korea's largest chaebol with 62 affiliates,¹¹⁷ as a result of diligence and passion of a primary school graduate who had ran away from home. We can never overestimate his contribution to Korean economic growth. However, Chung, a leading actor of Korean miracle in the 60's and 70's, had continued to fail in the business ever since the 80's. Along with the establishment of Hyundai Electronics, Hyundai Petrochemical, and Hyundai Timber in the 80's, running for the presidency and joint ventures with North Korea in the 90's were examples of such failures. What were the reasons for such failures of Hyndai, which had created a series of success stories like Hyundai Construction, Hyundai Motors, and Hyundai Heavy Industries for 30 years since its establishment?

First, we can take into account changes in its external business environments. In the 'age of development' under Park Chunghee's leadership, profits were something guaranteed only if a business got a license or bulk order from the government. In the 80's, however, this became impossible due to increased competition and market liberalization, both internationally and domestically.

Second, we should point out the failure in the decision-making system within the Hyundai group. In spite of environmental changes, Hyundai relied upon only Chung's personal passion and sense of business. There was little room for professional managers in managing the group. Chung would push forward with his idea even when the idea needed further high-standard expertise and close examination. In his autobiography, Chung himself wrote, "They [Chung's aides] know that once I made up my mind, it will never be reversed by any means" (Chung, J. 1998: 226). In response to the criticism of reckless

¹¹⁷ In terms of the number of affiliates, Samsung had 61 affiliates in 1997, one less than Hyundai's.

business expansion, Chung kept on saying, “It is just a nonsense made by frogs in a small well [that do not know the big ocean] to disapprove of the concentration of economic power simply on account of the size and the number of business lines” (Chung, J. 1998: 372).

Hyundai showed very negative attitude toward labour union and suppressed labour movement frequently. Chung said, “[Korean] labour laws are bad because they capped the maximum labour hours to 44 hours a week without considering the situation in which workers should work more” (*Hankyoreh*, 20 Nov. 1991). He was displeased with industrial actions, and kept on saying that he had accepted as much as paid and had done as ordered when he had been a grain store worker (Huh 1999: 345). According to Chung, employees have only to follow the management’s instruction, and do not need to intervene in the management.

An example of Chung’s arbitrary decision against all objections from others in Hyundai was his entering politics in 1992, which was mentioned in chapter 2. This was triggered by the government order to sell off Hyundai’s real estates deemed ‘possessed for a non-business purpose’ and additional tax collection from Hyundai Construction. Making the most of Hyundai group’s money and organization, Chung won 31 seats in the National Assembly in two month right after the formation of the Nationalist Party. Moreover, he drove on running for the presidency. He integrated the politics and the economy entirely and boasted of the party membership of all Hyundai employees and 2.5 million employees of Hyundai’s subcontracting companies and their families.

Munhwa-ilbo, a Hyundai-owned newspaper launched in 1991, functioned as the party’s bulletin. With the slogan of the ‘President of Economy’, his election pledges such as ‘national income of 20,000 dollars’ and ‘supply of half-priced apartments’ were absurd enough, but some voters, disappointed with the existing politicians, anticipated his presidency. Rumour had it that, at the later stage of the election campaign, Hyundai affiliates would intentionally close down their businesses and become insolvent in order to cause the public feeling that the government was oppressing Hyundai group.

Chung’s great gamble to acquire the political power using his economic power turned out to be a failure early on.¹¹⁸ Nevertheless, its consequences harmed the Korean

¹¹⁸ Chung Juyung won 388 million votes (16.3%). Kim Youngsam was elected by wining 997 million votes (42%).

economy as well as Hyundai in an extended period from then on. It was revealed that Hyundai Heavy Industries had diverted 43 billion won (43 million dollars) of corporate fund to political fund, and Chung and over 100 Hyundai managers were investigated or prosecuted. Within the Hyundai group, some guessed that Chung would regard those prosecuted as martyrs and promote them to an important position and that a company with no punished employees might be treated unfavourably in the next annual personnel change. A senior executive of Hyundai in a private meeting recalled:

Who would resist the corporate frenzy driving all the employees into fervor of election? All have worked with real enthusiasm, donating parts of our salaries to the Party. It seems to me that we were all hypnotized collectively (personal communication, 23 Dec. 1992).

When Chung returned to management and chaired an executive meeting in 15 March 1993, he directed the executives as follows: “To recover the damaged image of the group, build as many signboards as possible along the highway. Each affiliate should form professional sports teams¹¹⁹ within the limit of company profit (Huh 1999: 110).

Hanbo is another chaebol whose corporate culture is very close to Hyundai's. Hanbo and Hyundai are different from other chaebol in terms of the official name of the Chairman. Like Hyundai's ‘Kingly Chairman’, Hanbo group called Chairman Chung Taesoo ‘Chairman-General’ in order to distinguish him from other chairmen. As Chung Juyung's eight sons inherited the corporate control, Chung Taesoo's three sons took a chairmanship in three respective sectors.

The two Chungs were similar in the sense that they regarded their companies as their private property and employees as their subjects or servants. For example, Chung Juyung said “I am spending my money” when he used the corporate money for his presidential election (*Chosun*, 11 Dec. 1992), Chung Taesoo said in a trial, “it is natural for a lord to dispose of the crops in storage that servants cultivated and harvested” (*Hankyoreh*, 16 Apr. 1997). It is strange that all Hanbo affiliates had the same anniversary of the establishment, but that the date changed every year. Since Chung had changed the

¹¹⁹ Hyundai has created professional sports teams in almost all sports areas popular to Koreans (e.g. football, baseball, basketball, volleyball, and Sseereum – a type of traditional wrestling).

anniversary dates of acquired companies to his date of birth, which was based on the lunar calendar, the unified anniversary would change year by year.

Employees were thought of as an object to infuse the corporate policy into, not an equal partner of mutual communications. A corporate bulletin is a way of facilitating communications within a company. However, Hanbo's bulletin of January 1999, the month of its bankruptcy, coloured its future as rosy forecasting 'Hanbo Steel expects 170 billion won in black in 1999' (*Hanbo Family*, Jan. 1999).

It is not too much to say that the business expansion of Hanbo almost depended upon Chung Taesoo and his sons' lobbying and PR activities. Business feasibility analysis was considered as a waste of money and time, and a prudential manager was regarded as lacking a positive drive. They thought that feasibility and profitability of business was something that could be improved by lobbying. 'Sooseo Scandal' in 1991 illustrates the fact that Hanbo maximized its business profitability by having Sooseo region's land use plan altered. It was made public that celebrities in politics and the press had been bribed with a huge amount of money. It was well known to the press that Hanbo's senior staff in charge of public relations presented an extremely generous *chonji*.

We can infer also from Chung's plan to establish a press foundation the fact that he considered public relations and lobbying as the keys to his business. Although Hanbo was merely ranked among the 30 biggest chaebol, he intended to hold the advantage of the Big Four¹²⁰ which were each running a press foundation at that time. It was only a month before the bankruptcy of Hanbo that Chairman Chung held an establishment ceremony for the press foundation, assuring a donation of 5 billion won (5 million dollars) 'to return profits to society'. A good relationship with the press was crucial in concealing the problems of its 'family management' and 'lobby management.'

Hyundai's Attempt for the Steel Industry

How did power game between Hyundai and the government proceed as the former attempted to plunge into steel industry? What was the role of the media in the process? To

¹²⁰ The press foundations established by Samsung, Hyundai, Daewoo and LG have bestowed many generous benefits to journalists.

answer these questions, for a start, it is necessary to examine the background of the project and decision making process of Hyundai. This is because the internal factors such as Hyundai's willingness to propel the project and their unity play a significant role in a tug-of-war of the policy community. What must be investigated in the following are factors such as tendency of the policy authorities and media environment surrounding Hyundai.

In March 1994 Hyundai resumed their steelworks project which they had not developed any further since a draft plan of 1978. The restart can be explained by the chaebol's eagerness for business expansion and Chung Juyung's political judgment. Chairman Chung convened a press conference in Tokyo voluntarily to announce his plan to build a large-scale steelworks at Ulsan in the southeast of Korea. Then this enormous investment project of 7.7 billion dollars for the construction of three steel furnaces, occupied the front pages of newspapers in both Korea and Japan. This was also a sign of Chung's ambition to rejuvenate the group after his failure in politics.

Another motive was the competition with Samsung, which was preparing for its business expansion into the car industry. The situation was that Samsung invaded heavy industries such as shipbuilding, heavy equipment and construction which had been traditionally Hyundai's business realm while the latter entered into light industries such as electronics and semiconductors which had been the main business areas of Samsung. Samsung's encroachment on the car industry meant that Hyundai stood in a one-sidedly defensive situation because the car industry was a stronghold of Hyundai.

However, paradoxically, Samsung's ardent endeavour to enter into car industry was in a sense beneficiary for Hyundai to expand into the steel industry. Once Samsung was allowed to take up the car industry, it would undermine the business specialisation policy advocated by the Ministry of Commerce and Industry. As a result, Hyundai would be able to raise the principle of equity. It was out of this calculation that Hyundai did not raise strong objections about Samsung's entry into car industry. In fact, while other car companies including their labour unions were desperate to obstruct Samsung's entry, 'Ulsan car plant of Hyundai kept silent' (*Hankyoreh*, 9 Dec. 1994). Hyundai retreated from the united front at an early stage. However, both attempts by Samsung and Hyundai were thwarted by the obstinate objection of the MOCI that adhered to the business specialisation policy.

Yet as Samsung finally succeeded in entering into the car industry and Kim Chulsoo

was dismissed from the post of the Minister, Hyundai reinvigorated their project to enter into steel industry in 1995. In 1996 Chung Monggoo,¹²¹ the eldest son of Chung Juyung, took the lead in promoting the steelworks project. His move can be seen in relation to the strife among the second generation chairmen of Hyundai surrounding inheritance and leadership. By driving the project of entering into the steel industry which had been the main aspiration of the group for twenty years, Chung Monggoo tried to obtain his father's credit, extract funds from his siblings' companies and become the chairman who lead the whole Hyundai group. Yet for this very reason, Hyundai underwent an internal split and lost the driving force to enter into the steel industry. His brothers were negative about the steelworks project for the reasons that it would bring in little practical profits and it would not fit into the separation of affiliates.

However, Chung Monggoo embarked on the project under the aegis of his father. He employed the tactics used by Samsung when they entered into the car industry. The political circumstance was also very similar to that of Samsung; the presidential election drew near. A difference might be found in the fact that Hyundai leaked to the press two places, rather than one, as candidate sites for the steelworks. The two proposed sites were Gunsan in the west coast and Hadong in the south coast of Korea, where there has been a long-standing regional conflict. The two regions started vigorous campaigns for inviting the steelworks in their own region to the extent that heads of the local governments even mobilized their administrative staff for the campaigns. Hyundai assigned their employee whose homes were either Gunsan or Hadong a task of obtaining signatures in the petitions - one thousand for a department chief and three hundred for a mere clerk - in their trips to their home at the Mid-Autumn Festival. Although Hyundai had already internally decided the site as Hadong, their public relations team pretended as if the site had not yet been decided. For instance, the general tone of news reports at the time was well reflected in the following: 'Two regions came up as the competent sites proposed for the steelworks, yet the final decision is to be made' (*JoongAng*, 18 Sep. 1997).

However, the financial crisis in November overshadowed the controversies surrounding the construction of the steelworks. The failure of Hyundai's attempt is viewed rather as a fortunate incident for Hyundai as well as the Korean national economy. A high ranking employee of Hyundai in a private talk with the present researcher said:

¹²¹ As the eldest son, Mongpil, was killed in a traffic accident in 1982, Monggoo became the eldest.

It was a great fortune that we did not get the permission to establish the steelworks. If the permission had been given and Hyundai had invested heavily at the outset, it would have taken much longer for the whole Korean economy to get out of the IMF ruling (personal communication, Dec. 1997).

Although Hyundai's entry into steel industry was prevented by the financial crisis, we cannot attribute the whole 'achievement' to it. To clarify the circumstances in which Hyundai, which could enter into every industry they wanted, was unable to expand into steel industry over twenty years, the characteristics of the members of policy community and their interaction must be investigated.

First, it was a significant factor for Hyundai's failure that there existed a few core members who supported the business specialisation policy in the government and a public steel company. The potential competitor of Hyundai was the Pohang Steel Company (POSCO: public enterprise) with competitiveness in the world. The former chairman of POSCO, Park Taejoon who was a strong man in the ruling party obstructed Hyundai's entry into steel industry. It means that Hyundai's reliance on political power, unlike Samsung, could not be very effective. After Park receded from the power, high officials in charge - such as the Minister of Commerce and Industry, Kim Chulsoo and the Director General for Machinery and Basic Industries, Lee Keunwoo - upheld the business specialisation policy and were not persuaded by chaebol's logics. The MOCI argued that 'Another steelworks with integrated furnaces would result in oversupply and would not be environmentally friendly due to its antiquated technologies.'

Second, Hyundai's unskilled public relations and lobbying activities might have been a factor. Unlike shrewd Samsung, Hyundai gave reporters the impression that their public relations practices were carried out in a 'bulldozer style'. For instance, Jhe Jeong-im who was then an economic journalist wrote:

The higher staffs of Hyundai were lobbying by holding golf games in which the owners, the management staffs and the senior journalists of major newspapers were invited....The junior reporters' articles that criticized Hyundai were sometimes thrown into a bin by the editors. At the time some directors of Hyundai showed a

kind of attitude that ‘it is no use how many reports you write’. Such arrogance provoked anger among journalists (Jhe 2002: 159).

Hyundai was rather insensitive to minute information, as captured in Chairman Chung’s remark: “Don’t be concerned about such details but push it through from a broad view” (*Chosun*, 28 Nov. 1994). A general evaluation was that Hyundai was no match for Samsung in terms of lobbying skill. In this regard, Lee Keunwoo, then Director General for Machinery and Basic Industries of MOCI, reflected as follows:

At that time, I became a main target of lobbying by both Hyundai and Samsung as I was charged with car and steel industry. In comparison with Samsung, Hyundai’s lobbying skill was amateurish (interview, 22 Mar. 2003).

Although the car industry of Samsung and the steel industry of Hyundai could be approached from the same logic of ‘free competition’, most stubborn controversialists who supported Samsung Motors remained silent about Hyundai Steel.

Third, some evidence can be inferred from the failure of Hyundai that even a small number of newspapers could cast a great influence on the policy making process if they made a certain issue an agenda by reporting it intensively. In frustrating Hyundai’s entry into the steel industry, it can be observed that *Hankyoreh* played such a significant role. The newspaper tenaciously delved into the problems of Hyundai’s expansion into the steel industry by publishing approximately eighty reports and commentaries about this during the period of three years when Hyundai were promoting the project. Examples include ‘Industry policies swaying from the root’ (23 July 1994), ‘Dashing-forward taking advantage of the revival of economy’ (12 Apr. 1997), ‘Hyundai Steel seizes the opportunity of the election wind’ (20 Oct. 1997). In particular, its exclusive report of the internal document of Hyundai, ‘The Plan of Operation for Entry into Steel Industry’ (12 Apr 1997) triggered consequent reports of other newspapers (e.g. *Seoul-shinmun*, 13 Apr. 1997), and contributed to drawing public attention into steel industry. *Hankyoreh* also tried to bring the problem of steel industry into public discussion by serializing several articles under the title of ‘Scrutinise, Hyundai’s Entry into Steel Industry’ (1~4 Nov. 1997).

While *Chosun*, in terms of economic affairs, reported on Hyundai Steel rather neutrally, it stirred up public opinion from the perspective of environmental problems. At the last stage when Hyundai and the Kyungnam Province agreed Hadong as the site for the steelworks and put pressure on the central government, *Chosun* covered in two pages the actual environmental damages expected in the district (*Chosun*, 21 Nov. 1997). The satellite photo of Guangyang Bay aroused people's visual imagination about how much worse it would be if Hyundai Steel was built in the already congested industrial area. Other newspapers were not absorbed into the issue, covering only a few facts, except for *Munhwa-ilbo*, an affiliated company of Hyundai, which argued that Hyundai Steel should be allowed on grounds of the principle of equity. Yet it was regarded as an uncommon voice. *Munhwa* was a newly established newspaper whose influence cannot be compared with that of *JoongAng* in establishing the Samsung Motors.

Fourth, the role of civil organisations was not insignificant in obstructing the establishment of Hyundai Steel. Hyundai succeeded in leading the campaign of inviting the steelworks in Hadong County, yet they did not expect that the residents of Namhae County, which faces Hadong across Guangyang Bay, would carry out such a strong boycott. In particular, fishermen of Namhae Island waged a vigorous boycott campaign against the construction plan, for instance by staging a performance-style demonstration which depicted the damaging effects of the steelworks to the eco-system including the fishing ground and the shore field (*Chosun*, 21 Nov. 1997). They, in alliance with various nationwide environmental organisations, also raised the issue of the 'social cost' for constructing the steelworks. This process demonstrates how influential, in some cases, civil organisations' activities could be in the process of policy making.

A Detonator of the Financial Crisis: Hanbo Steel

An investigation of the process in which Hanbo entered into the steel industry and was finally confronted with bankruptcy shows that mistakes had occurred repeatedly at every critical moment, which could have been avoided or at least minimized if effective and rational discussion had been in place. Not only Hanbo themselves, but also financial institutions, the government and the political authority made imprudent decisions on the

issue. This process is also illustrative in showing what disaster could be brought if the members of the policy community do not properly play their roles.

First, the greatest problem is found in the structure of decision making within Hanbo. There was little internal capability to control Chairman Chung who had overconfidence in the merit of expanding business. It was possible to some extent through the politics-business collusion that the apartment construction company founded in 1974 could become to rank among the top ten chaebol in 1996. Through the lobbying, Hanbo were able to take out bank loans as if they were withdrawing their own money. And yet it was seen as Chairman Chung's 'ability'. Turning into a vicious circle, some of the bank loans were spent in lobbying and public relations activities. Hanbo even took over the insolvent enterprise, the Yuwon Group, on the condition that they had to invest 5 trillion won in Hanbo Steel. This decision seemed to be based on the prediction that the bigger they are, although with larger debts, the greater voice they could make against banks. In short, they put blind belief in 'too big to fail'. Chairman Chung's remark represents such consciousness. As a summons by the Prosecution Offices drew near, he hospitalised himself and said audaciously, "Hyundai and Samsung who have borrowed 50 or 60 trillion won, are perfectly alright, what matters about a mere 5 trillion won (5 billion dollars)?" (*Chosun*, 31 Jan. 1997).

Second, as a high official in the Ministry of Finance and Economy said, "the chief criminal of the Hanbo situation is 'political finance', not 'government-ruled finance'" (*Chosun*, 25 Jan. 1997). The political circles were at least accomplices. The so-called 'Hanbo list', which was revealed in the process of investigation after bankruptcy of Hanbo, included 56 politicians. It exposed why 'most assemblymen had kept silent in spite of demanding a lot of material about Hanbo in the annual parliamentary inspection of the administration' (*DongA*, 26 Jan. 1997). Demanding such material might be a signal to send to Hanbo who they wanted to contact. Besides, it came to light that Hanbo kept the 'secret political money' of the former president, Roh Taewoo, which was received from the chaebol.

Third, the Government and the Financial Supervisory Service played a little role. The COREX method that Hanbo imported was a new technology with low-pollution, but it did not suit mass production. In an interview, Lee Keunwoo, then Director General for Machinery and Basic Industries, said:

I stood against import of the COREX method, but Hanbo succeeded to receive the permission. I wondered to whom they lobbied. As the import of new technology could enjoy the tariff preference, Hanbo seemed to push forward with their plan without serious consideration (interview, 22 Mar. 2003).

In 1995 a researcher of the Institute for Management under POSCO wrote: 'Hanbo Steel would suffer a loss of tens of million dollars every year after completion'. After the report was leaked, he received disadvantage in personnel affairs (*Hankyoreh*, 27 Jan. 1997). Jaeil Bank and Seoul Bank increased their loans for Hanbo in 1994 even after receiving reports from credit assessment institutions, which warned a default risk in relation to the loans to Hanbo. In the end, the Presidents of the Banks turned out to be bribed by Hanbo (*DongA*, 30 Jan. 1997).

It was one of the main problems that even though such early warning systems were institutionally established they did not function in an efficient way to provide the basis for rational decision making. The press also did not reach beyond reporting unknown episodes even after it turned into a grave issue. The press showed very weak features in investigating report, as far as the chaebol were concerned, because of many constraints mentioned earlier.

The press sometimes played a significant role in irrational decision making through distorting the reality beyond dereliction of its duty. When Hanbo Steel started in business, all the newspapers carried praising articles such as 'The biggest industrial complex of the west coast - a happy dream' (*Hankyoreh*, 21 Feb. 1993) and 'The era of electric furnace will be opened' (*JoongAng*, 16 Jan. 1995). These were probably understandable given that it was difficult for reporters to recognise Hanbo's problem at the time.

However, even in the very summer of 1996 when Hanbo was caught in a 'trap of business expansion' and ran into bankruptcy, the press was still manufacturing its image as 'a prosperous group'. One of the reasons was that the press relied heavily on the information provided by Hanbo as a news source. The other reason was due to the power of advertising. Hanbo endeavored to change the negative image related to the 'Sooseo Scandal' by means of advertisement. Hanbo's massive investment in PR brought about the instant boom in the newspaper advertising market which was suffering from depression.

This coincided with the period when many newspapers reported a great number of positive stories about Hanbo, such as ‘A dreamy steelworks of the 21st century, the grand construction work is going smoothly’ (*Segye*, 14 Aug. 1996).

Hanbo sometimes paid the expense of overseas coverage activities for many newspapers. In real circumstances, it seemed that they tried to disguise their financial dilemma. For instance, the *Kookmin*, *Kyunghyang* and *Daehanmaeil* on 18 October 1996 gave special coverage to Hanbo’s participation in natural gas exploration of Siberia. In fact, these articles showed that the reporters who traveled the Siberia region at Hanbo’s expense, as Jhe Jeong-im explained, ‘played faithful roles according to their scenario’ (Jhe 2002: 127~129). Even in June 1997 when the Korean economy was suffering from the aftermath of Hanbo’s bankruptcy, *Hankook* carried a big article interviewing a new successor of Hanbo, Chung’s son, taking an opportunity of 100 days after being inaugurated as a chairman. The title of the article was ‘Banner of transparent management, reform of Hanbo obtained visible results’ (*Hankook*, 18, June 1997).

In January 1997, Hanbo became finally bankrupted and the malignant loan became the first detonator leading to the financial crisis. A massive wave of bankruptcy weakened the Korean economy so considerably that the Asian currency crisis in the autumn of that year could easily affect Korea. It also needs to be noted that the Hanbo scandal was a turning point toward the crisis in that it involved the then President’s son and thereby damaged the government’s authority. As the call for ‘the retreat of the state’ gathered more support, the government capability of handling economic issues was seriously dwindled. Hanbo, which imposed its debt of 5 billion dollars over the Korean economy (eventually taxpayers), was sold to a risk capital management company called ‘AK capital’ at the price of only 370 million dollars in 2003.

Conclusion

We have seen that the chaebol, individually a corner of triangle of the policy community, have numerous defects with the internal decision-making system. The damaging effects of unilateral decisions by chaebol owners are not confined to the chaebol

themselves. In their single-minded attempt to achieve their decisions, the democratic decision-making system in the society tends to be weakened or destroyed, and the costs arising from this are shifted to other parts of the society which have not been given any opportunity to express their views.¹²² As Pateman and Dahl pointed out, it is desirable that the democratic principle of participation and equality is applied to those organisations operating in the private sphere because they, as 'private governments', also exercise their power (Pateman 1970; Dahl 1985). In view of this, the neo-liberal argument that 'the principle of democracy is applicable to the public sphere, while the principle of liberty should be applied to the private sphere' is not convincing.

As is seen from the cases of Samsung, Hyundai and Hanbo, management systems with 'despotism' and 'nepotism' may have the advantage of providing a strong driving force to achieve business goals 'without distraction', but are also the cause of sclerosis in enterprise decision makings which require effective communication for their success. In addition, such management systems tend to rely more on a PR team. Pathological tenacity is often praised as 'impulsive forces' while family management is translated to 'brotherhood'. Once PR is used to cover up the problems inherent in pre-modern the management system, it will not contribute to improving public relations but contribute to making matters worse. Early revelations of these problems would provide an important avenue for problem-solving within the company and also in the society. Democracy within the organisation is the core value which the company should develop to promote rational decision making.

The government, which is supposed to prevent company misbehaviours through establishing proper institutional arrangements and ensuring effective supervisions, was not capable of playing these essential roles in the aftermath of 'the retreat of the state'. Similarly, political parties and congress, which are assumed to resolve social conflicts based on democratic principles, have been captured by the chaebol, often causing more tensions to the already volatile situation. The chaebol have successfully involved politics and politicians, which turned out to be leverage for policy distortions. Politicians in power were so single-mindedly interested in their local constituents and their political future that they made successful attempts to host the Samsung car factory in Busan and the Hanbo

¹²² With regard to governance in the chaebol, Hong Duckryul concluded that the centralised governance within the organization and factory despotism becomes a key issue in Korean society and therefore democratic principles should be expanded to economy and society (Hong 1997b: 231~264).

steelworks in Dangjin. However, they ended up with terrible loss for the very local constituents.

The tug-of-war in a policy-making process requires the presence of a fair umpire and arbitrator. As it should be based on truth, it is essential to locate and disseminate the facts, thereby promoting rational discussions. Such roles are exactly what are expected from the democratic media in the policy community. For resolving policy conflicts in a democratic process, the media should explain the merits and disadvantages of alternative policy options and their potential effects, while ensuring the delivery of the views of people concerned in a fair manner and ultimately the rational operation of public sphere.

However, we have seen that the function of the Korean media was rather vulnerable to numerous constraints, especially when it came to the chaebol and industrial policies. Even worse, it is often the case that, as the power of money became unprecedentedly strong, the media were actively involved in distorting information and disrupting rational discussions, thereby misleading policy decisions. The chaebol, as news sources, were increasingly capable of controlling the media and exercising greater influence in policy decisions. Indeed, the power of the chaebol over the media has tended to increase since the 'struggle for democratisation' of 1987. This is largely in line with the deregulation drive concerning chaebol-related policies and the further concentration of economic power since the democratisation. This means that the chaebol, as news sources, have strengthened and consolidated their position as financial resources for the media. Yet, as the failure of Hyundai in its adventure into the steel industry demonstrates, the success in the tug-of-war with the media is not always guaranteed for the chaebol.

The cases of Samsung and Hanbo show that unilateral and even arbitrary decisions made in the absence of internal democracy within the company could survive critics and oppositions from the media and the government. Samsung and Hanbo mobilized all kinds of PR efforts, often manipulated public opinions, and eventually quelled the opposition of techno-bureaucrats by mobilizing politicians. At almost all stages of these processes, the media were involved. Some were critical, while many others were misled or volunteering to be supportive and cooperative. In these cases, media reports influenced policy makers directly or through politicians in a multi-stepped way.

In short, once the public sphere at different stages was paralysed, undemocratic and irrational decisions could be adopted and implemented without being curbed. The wrong

decisions of the chaebol, which are made when the local public spheres (*Öffentlichkeiten*) within the chaebol is broken down, could blow up industrial policies of a country. This is because the chaebol have the power to control the wider public sphere (*Öffentlichkeit*) where government policies of a country are discussed and determined.

The huge amount of defunct debts created by Hanbo (5 trillion won), Kia (7 trillion won) and Samsung (3 trillion won) continued to suffocate the financial market in Korea. In particular, a considerable proportion of these debts involved foreign currencies to import new technology from abroad, which apparently contributed to the foreign exchange crisis in late 1997. The business specialization policy became questionable as Samsung entered into the car industry, and the chaebol were now on the high road of business expansion without a break. The further market expansion of the top chaebol, particularly through internal transactions and financial oligopoly struck blows not only to small and medium enterprises but also to middle-ranked chaebol with somehow solid technological capabilities. Thus, it should come as no surprise that these middle-ranked chaebol such as Halla, SSangbangul, Jinro, Chunggoo and Woobang fell into insolvency one by one, and the Korean economy was rapidly approaching the economic crisis.

Silent 'Watch-dog'

Introduction

As to whether it was the general enterprises or the financial institutions which played the decisive role in bringing about the foreign exchange crisis, views vary greatly among scholars. Those who tend to recognise the chaebol's usefulness emphasise government failure or government-managed financial system, in particular (e.g. Jwa et al. 2000). Those who are critical of the chaebol, on the other hand, focus their attention on market failure. They argue that the chaebol's overinvestment was the main cause of the crisis. Cho Wonhee, for example, claims that 'considerable portion of loans extended to the industry turned out to be barren, generating no profit, and then the industrial panic led to credit panic and eventually to financial panic' (Cho 1997: 9).

The divergence of views is noticeable within government departments too. The Ministry of Finance and Economy (MOFE), which oversees financial institutions, appears to take the position that the industry's overinvestment was the cause of the crisis. However, the Ministry of Commerce, Industry and Energy (MOCIE), which is responsible for providing support to the industry, tends to argue that the under-developed financial system was to blame. In a sense, these conflicting views¹²³ are advanced in an effort to absolve the relevant Ministry.

The bad loans of financial institutions are, as discussed in the previous chapter, mostly due to bad performance of the industry. Nevertheless, if financial institutions had had a properly functioning credit and risk assessment mechanism and used it in making loans, some of the more outrageous instances of overinvestment could have been avoided.

The analysis offered in this chapter is based on an assumption that both the industry and the financial institutions contributed to the deterioration of the situation. In particular, as their shortcomings were combined, the Korean economy inexorably led to the crisis.

¹²³ Regarding this, further discussions based on interviews will be attempted in chapter 6.

The previous chapter attempted an analysis focusing on the industry. In this chapter, we will focus on the financial system as it is the other responsible party of the crisis. We shall see how rash decisions to de-regulate financial industry led to mushrooming of weak financial institutions. It will also become apparent why the government departments have failed to carry out their duties while the foreign exchange crisis was rapidly and palpably approaching.

We shall have a close look at the role of the press, in particular. This chapter deals with whether the press adequately fulfilled its role by giving an advance warning and what impacts the press had on economic change. Regarding the relationship between the economic news reporting and the economic performances, there are many studies as we reviewed in chapter 1. Many of these tend to show that economic news with an unduly negative tone could distort economic reality and eventually could make the economy worse (e.g. Glassman 1993; Kim K. 1997; Blood and Phillips 1997).

However, the opposite is also possible. Economic news could be overly optimistic and therefore fail to report the symptoms of approaching crisis. In this regard, the Korean case requires a close examination. In an era of economic opening-up, it is also of interest to observe how a financial or capital market responds when the domestic media and foreign media adopt different tones of economic news reporting.

For an adequate assessment of the media's impacts on the performance of economy, it would be necessary, as argued in chapter 1, to examine not only the micro-economic variables, such as consumer sentiment, but also broad issues about economic policy and economic thought. The preceding two chapters offered an account of how the press provided support for neo-liberalism which became the main-stream ideology and how neo-liberalism influenced the decision making for industrial policies. This chapter will attempt to investigate the process through which neo-liberalism was translated into government policies for financial industry. For this purpose, one should begin by closely examining how Korea made the decision to become, and eventually became a member of the OECD. We will then examine how policy decisions were made and enforced regarding financial industry and foreign exchange, and what role the media played in that context. We will also see how the communication and decision making processes functioned within the government as well as in the larger society of Korea, and eventually what influence they had on economic changes.

Rush for Financial Liberalisation

Toward the OECD

To a certain extent, the financial industry should take credit for the brilliant economic success of South Korea which took place over the past 30 years. High saving propensity and targeted credit allocation to strategic industries were virtually fuels for sustaining high economic growth. Why, then, did Korea decide to discard this policy which was being regarded as a model for economic growth for many developing countries? The policy transformation was so abrupt and comprehensive that such changes cannot be explained solely by a new climate for financial industry.

The all-out transformation of financial policies can be explained as realisation of the logic of globalisation which occurred against the backdrop of neo-liberalism. As discussed in chapter 4, President Kim Youngsam's 'Globalisation Plan' was announced at the end of 1994 without any preparation. However, it turned out to be an all-purpose tool for the chaebol and ruling interest groups to promote and protect their interests in all fronts of the government's activities and policy formation. Conservative newspapers such as *JoongAng*, which is an affiliate of Samsung, took the initiative for agenda-setting. Arguments were advanced to remove various regulatory frameworks which were preventing duplication and overinvestment. It was also advocated that the government's economic departments should be trimmed down and that Korea should become a member of the OECD. President Kim's 'Globalisation Plan' was thus taking shape.

De-regulation of financial industry suddenly became an unavoidable task of the time which must be accomplished without further delay. In the era of globalisation, the chaebol were portrayed as the most globalised entities in Korea. It was the government's task, they said, to remove obstacles which may be in the chaebol's way. The argument was aimed at reducing the government's role in matters concerning financial industry and the chaebol. However, the Korean case shows that de-regulation of financial industry could be dangerous if it results in removal of vitally important regulations and weakening of the supervisory mechanisms. Especially if it results in collusive mergers between industrial capital and financial capital: the outcome could be devastating.

In fact, the Korean government initially maintained a somewhat moderate and

considered approach to de-regulation of financial industry. The government proposed 'Three Phases toward De-regulation and Opening up of Financial Industry' when it was engaged in the 'Financial Policy Talks' with the United States in the early '90's or in negotiations under the Uruguay Round. However, when the negotiations with the OECD began, the timetable for phased de-regulation was drastically shortened and brought forward. Korea aimed to secure the membership of OECD by 1996 and OECD's main concern was to remove state barriers against free movement of capital and services. In order to meet the requirements of the OECD, Korea would have to introduce de-regulatory measures which were sure to deal fatal blows to its relatively under-developed financial industry and capital market. Whether Korea should nevertheless become a member of the OECD should therefore have been a highly controversial issue arousing heated debates and public discussions where various policy alternatives are explored.

What happened was the opposite. Securing the membership of the OECD was one of Kim Youngsam's promises made in the presidential election campaign of 1992. Kim made the promise because it projected a 'fantastic image of a developed nation' and was thought to increase his chances of winning the election. However, the problem is that, under a strong presidential government like Korea, such an election promise can have a great deal of driving force of its own. Although it was just one among numerous other promises and there was no way of knowing whether the electorate really supported this particular promise, the government went ahead with plans to secure the membership of the OECD, claiming that it was the government's 'promise with the nation'. Opposing views were simply ignored.

Some officials within the government were skeptical about the hasty attempt to secure the membership of the OECD. Nevertheless they dared not raise their voice. Chung Euidong, former Public Information Officer of the MOFE, said:

The government failed in the risk management because of its rash and premature efforts to join the OECD while the Korean economy was not up the standards of the developed countries. But no government officials would openly challenge the presidential promise (interview, 20 Mar. 2003).

Koo Bonryong, former Deputy Minister for Trade and Investment Policy of the

MOCIE, also recalled:

It was something which was not going to bring much benefit but had to introduce a great deal of obligations. Nevertheless, the government pushed it through without any policy debates (interview, 21 Mar. 2003).

In fact, government departments and agencies were actively engaged in the public relations campaign to emphasise positive aspects of membership of the OECD. For example, a report prepared by KIET, a research institute under the MOCIE, stated that 'the membership of the OECD is the stepping stone for Korea to enter into the League of Developed Countries'. The report also claimed that 'de-regulation of movements of capital will have favourable consequences as the increased in-flow of capital will put the overall balance of the Korean economy in the positive (KIET 1996).

Most papers uncritically reported and repeated these promising claims. They even went ahead of the government and published over again columns urging to secure the membership of the OECD (*DongA*, 12 Oct. 1993; *Chosun*, 12 Nov. 1993; among many others). When Mexico, after becoming a member of the OECD, faced a crisis because of sharp devaluation of the peso in January 1995, a view was expressed that this must be taken as a warning that Korea should 'slow down' its efforts to secure the membership of the OECD (e.g. *Hankyoreh*, editorial of 16 Jan. 1995). A conservative paper, *JoongAng* dismissed this view in a column by saying that 'certain papers and government officials are attempting to use the fall of the peso as an excuse for delaying the opening up of the market' (*JoongAng*, 21 Jan. 1995).

The press took it upon itself to puff up an image of a developed nation. Serialised articles such as 'The Way of International Citizen' (*Chosun*, Dec. 1993) and 'Look Outward!' (*JoongAng*, Jan. 1994) poured out. In an article entitled, 'Foreign exchange control beats the world record', *Chosun* advocated for revolutionary abolition of foreign exchange control. The article came with sensational and hyperbolic subtitles such as 'Restrictions on foreign remittance and foreign travel expenses - No such restrictions abroad'¹²⁴ and 'Blocking foreign loans for domestic companies - Domestic companies suffer' (*Chosun*, 10 Sep. 1994). Deficits in the travel balance were at 500 million dollars

¹²⁴ Many developing countries also restrict foreign remittance to alleviate chronic dollar shortage.

in 1993. However, they increased to 1.1 billion dollars in 1995 and to 2.6 billion dollars in 1996, as a sharply increasing number of people began to travel abroad and their spending habits became more and more extravagant.

Mushrooming of Financial Institutions

The period between 1994~1995 saw numerous financial institutions mushrooming. It was the period when the government actively took steps to join OECD. At the end of 1995, around 30~40 institutions in each type of financial service (bank, securities, insurance, lease, investment, and merchant banking) were milling around in the small financial market of Korea. The argument was that tougher competition would better prepare Korea for the opening up of the financial market. Yet the reality was that the Korean financial market was teeming with small fish. The attractive theory that 'those who survive the competition will emerge as big fish' turned out to be an empty slogan because 'financial institutions do not die alone'. If a financial institution goes bankrupt, it will have serious repercussions on the national economy. The government had to intervene with life-supporting measures.

Merchant banking corporations were once regarded as the 'the goose that lays the golden eggs'.¹²⁵ However, in 1997 they fell in the aftermath of de-regulation. At first, in 1992, the government had to withdraw its decision to allow certain chaebol to set up merchant banking corporations. By contrast, in 1996, the chaebol discreetly but effectively achieved what they wanted, as 15 investment & finance companies in Seoul were allowed to become merchant banking corporations. Many of those investment & finance companies had been set up by the chaebol and they now became merchant banking corporations. These merchant banking corporations operated as the chaebol's cash box enabling them to over-invest. They had little experience or expertise in international financing business. Nevertheless the government allowed them to borrow from foreign lenders. They contracted short-term loans at a relatively low interest rate from foreign lenders and used the fund to offer long-term loans at a higher interest rate. The practice

¹²⁵ Merchant banking corporations were allowed to engage in short-term financing, lease, underwriting and issuance of securities, foreign exchange business and any other financial services which do not fall within the proper business areas of banks. They were referred to as 'department stores for financial products'.

was repeated until a large scale mismatch of repayment dates triggered off the process leading to the financial crisis.

It is important to have a close look at the factors affecting the government's decision to allow investment companies to become merchant banking corporations. It was an important policy change which cannot be explained as being due to the change of market situation. In fact, the logic of the market does not give any satisfactory explanation because merchant banking corporations in 1996 were already facing a tougher market. There were 6 of them in 1992, whereas by 1996, 15 of them were competing. The decision to further increase the number to 30 - moreover, 20 of them were affiliates of the chaebol - cannot be explained or justified by any economic arguments. The important differences between 1992 and 1996 are that robust debates took place within circles of people who made policy decisions and that the press was carrying out its critical role in 1992, but, in 1996 neither of these took place.

When the Ministry of Finance announced the 'Development Plans for Merchant Banking Business' in June 1992 and suggested that 2 or 3 more merchant banking corporations would be set up in addition to the existing 6, all papers except *JoongAng* were critical. At that time, unconfirmed information was being circulated within the financial services circles that Samsung and two other chaebol were attempting to set up merchant banking corporations. *DongA* published an article, 'Chaebol likely to fund the election campaign are suspected to benefit from favouritism' criticising the Finance Ministry's announcement (*DongA*, 17 June 1992). *Chosun* joined the criticism with an editorial, 'Reconsider the decision to allow more merchant banking corporations' (*Chosun*, 18 June 1992). Animated debates took place in the Deliberation Committee for Development of Financial Industry. Many of the civilian members of this Committee took the view that the Finance Ministry's decision was likely to lead to excessive competition and that it was undesirable for the chaebol to enter into merchant banking business. The Finance Minister backed off and withdrew the decision.

In 1996, however, a strong pressure for de-regulation of the financial services industry appeared in the wake of Korea's joining of the OECD. The Deliberation Committee for Development of Financial Industry could not resist the pressure of the time. Major newspapers were urging the government to take more liberal measures toward de-regulation of the financial services industry.

It did not take long before adverse side effects of the distorted policies for the financial services industry started to emerge. Most merchant banking corporations 'competed' to provide long-term loans for the chaebol, without adequately reviewing the viability or profitability of over-ambitious investment proposals and, as a result, they found themselves in danger of bankruptcy together with the chaebol. As the cash flow problem of merchant banking corporations was spreading to financial industry at large, the Bank of Korea in October 1997 decided to offer special loans amounting to 1 trillion won (1 billion dollar) to 16 merchant banking corporations including the chaebol's affiliates. It was apparent that these loans had very little chance of being repaid.

The dire consequences of a policy decision which was quietly made in a closed chamber without any public meetings or public debates were going to fall on the general public. Yet that was not all. One month later, Korea asked for emergency loans from the IMF, which demanded that the number of merchant banking corporations be reduced from 30 to 10.¹²⁶

The chaebol's ownership of banks was another topic which had long been discussed in the 'policy community' consisting of the government, the chaebol and the press. In order to be rid of regulatory restrictions, the chaebol have, since the early '80's, persistently demanded that entry restrictions on financial industry be lifted. As it was a time during which 'the retreat of the state' was hailed as the way forward, some of the restrictions on entry and operation were removed. The chaebol quickly secured a foot-hold to move in to the financial services industry by setting up non-banking financial institutions. They also bought considerable portions of shares of banks although they could not own the banks because of the restriction on ownership of a bank. Accordingly, economic research institutes run by the chaebol or the Federation of Korean Industries as well as neo-liberal economists endlessly argued that the ceilings on the ownership of shares of banks should be abolished.

Chaebol's ownership of banks continued to be a hot issue throughout 1997 - starting from the setting up of Committee for Financial Reform in January until the financial crisis hit the nation at the end of the year. DPM Kang initially attempted to completely remove

¹²⁶ In the early 80's, it was the then Minister of Finance, Kang Kyungsik, who increased the number of investment and finance companies (the predecessor of merchant banking corporation) from 9 to 24. However, in 1997 when he served as the Minister of Finance and Economy again, he had to reduce the number of merchant banking corporations due to the financial crisis. Paradoxically, he, an avowed advocate of market economy, had to reap as he sowed.

the ceiling on chaebol's ownership of shares of banks or to raise them considerably higher. Yet the Committee proposed that the ceiling be raised from 4% to 10%. Thereupon, *JoongAng* argued in its editorial that 'if one should choose to insist on the rather weak claim that concentration of economic powers is a matter for concern, one should nevertheless accept that at least someone should be allowed to own enough of the shares to have a sense of responsibility' (*JoongAng*, 25 May 1997).

However, all other major newspapers, even though they also advocated for deregulation of the financial industry, were on the different footing, saying that the proposed 10% was too generous for the chaebol. Choi Chunglim, the Head of Editorial Room of *Chosun*, emphasized in a column, 'chaebol's ownership of banks is the last thing one can agree with' (*Chosun*, 3 Apr. 1997; also see *Hankook*, 8 May 1997 for a similar article). In the previous year, *Chosun* invited Paul Volker, former Chairman of Federal Reserve Board of the U.S, to give a public lecture. The lecture was reported under the title, 'Separation of chaebol and banks is desirable' (*Chosun*, 18 May 1996). Lee Hunjai¹²⁷ also contributed an article to a newspaper and claimed:

It is not only the 'ownerless' banks which are in difficulty. The merchant banking corporations and insurance companies which clearly belong to an owner are in greater trouble. Companies whose ownership is concentrated on an individual suffer from the owner's reckless attempts to expand the company, generally low ethical standards, and inheritance of managerial control to incompetent heirs of the owner - all these are nearly fatal to the companies' (*Hankyoreh*, 1 Dec. 1997).

In the end, the government abandoned the proposed increase of the ownership ceiling. As discussed in the previous chapter, the chaebol are usually in a position to influence the press as they are the main advertisers for the press. It is therefore often the case that the chaebol and the press forge an alliance to put pressure on the government to make decisions which are in the interests of the chaebol. However, this does not always work. If the majority of the newspapers reveals the problem and presents it as a topic for public debate, the alliance of the chaebol, the newspapers they control, and the advocates

¹²⁷ He was to be appointed Chairman of Financial Supervisory Commission in the next government and to lead the restructuring of financial industry

of market economy within the government can lose the driving force. The unsuccessful attempt to raise the ownership ceiling of shares of banks is an exemplary case.

Financial Industry Controlled by Industrial Capitals

It would be a narrow sighted analysis to conclude that because the ownership ceiling for shares of banks was maintained, the attempt of industrial capital to control financial industry became powerless. The chaebol could have their men appointed as non-executive directors of banks and thus have a say in the bank's management. They have already owned a number of non-banking financial institutions as well. Based on a number of statistical data,¹²⁸ one can calculate the ratio of total assets by each sector of financial institutions. As the ratio of commercial banks dropped from 67.21% in 1980 to 37.38% in 1995, in inverse proportion to it, that of non-banking financial institutions rose considerably. As the chaebol were now controlling the non-banking financial institutions, their overall influence on financial industry actually increased as the government's influence was in decline. Top ranking chaebol such as Samsung, Hyundai, LG and Ssangyong became comprehensive financial services groups whose business areas included merchant banking, securities, insurance, mutual savings & finance, factoring, venture capital, credit card, and investment management.

Industrial capital's control of financial industry caused serious ill effects. The biggest problem was collusive tradings between non-banking financial institutions and their sister companies, which disrupted the market and eventually undermined the competitiveness of both sides. Financial institutions affiliated to chaebol thus functioned as short-term cash flow pipes for the chaebol. They ended with bogus assets consisting of unrecoverable loans offered to their mother company.

The mother company's debt-equity ratio was also soaring. The total borrowings of the top 30 chaebol went up 3.9 times between 1993 and 1996. The proportion of short-term borrowings increased from 47.7% in 1994 to 63.3% in 1996. Non-banking financial institutions which are affiliates of chaebol often had poorer performance than their

¹²⁸ Source: *Monthly Bulletins of the Bank of Korea*, *Monthly Reviews of the Insurance Supervisory Service*, *Monthly Reviews of the Securities Supervisory Service*, and various issues.

competitors who are unaffiliated to a chaebol.¹²⁹

In a favourite climate created by the de-regulation of the financial industry, non-banking financial institutions mushroomed and enjoyed symbiotic relationship with industrial capitals while their collusive deals were largely away from the government's scrutiny. However, it was bound to be short-lived. Considering that industries in Korea rely heavily on financial market rather than the stock market to raise funds, abrupt opening up of financial market was more than likely to disrupt the financial market and undermine the stability of the industries. Neither the government nor the press was seriously concerned about these potential pitfalls lying in the way of de-regulation. This is a case which shows the importance of rational debate in avoiding potential risks lying ahead of us.

The Arrival of Currency Crisis and 'Unsound Dog'

Economic Cycle and Reporting of 'Economic Crises'

News reports dealing with economic cycles pour out during an economic slump. As argued earlier, these reports tend to be in the negative tone and present an account which is more pessimistic than the reality. It is primarily due to news reporters' sense of duty and somewhat obsessive penchant for criticism. Criticism of the present situation usually accompanies a pessimistic outlook upon the future. The same can be said about the reporting of economic cycles. While the economy is in a slump, one tends to have a pessimistic outlook. When the present economic situation is at its worst, the darkest outlook is most likely to prevail even if the economy might in fact be preparing to recover. This is due to the limitation of the human faculty which is accustomed to extrapolative thinking inferring the future from the past and the present.

According to a time series analysis (Wu et al. 1996), while the economy is moving toward a slump, news reports regarding economic cycles have a great deal of influence on

¹²⁹ According to Yi Jonghyun, this was due to 'adverse selection and moral hazards' which can be explained by using the theory of asymmetric information (Yi, J. 2001).

people's economic perception. On the other hand, while the economy is recovering, news reports about the performance of the economy have relatively little influence on people's economic perception. During such a period, one tends to rely not so much on news reports as on one's own experience in perceiving the economic recovery. Accordingly, Kim Seunghyun argues as follows:

In a slump, economic news reports and the public's economic perception influence each other to form a negative spiral. The press tends to exaggerate the seriousness of the situation and offers a more pessimistic view; the public is likely to accept it as a truthful account (Kim and Kim 1997: 61).

They explain such a reporting manner by the press function of 'warning or enlightenment'. Yet news reports during an economic slump cannot fully be explained with reference to the above-mentioned 'penchant for criticism' or to the function of 'warning or enlightenment'. If one has a close look at the process through which economic news reports are prepared and reported, one can see that the function of warning and reporter's professionalism are considerably restricted by other factors such as time limit imposed by the deadline, lack of expertise in analysing statistical data, and the customary practice observed in the preparation of news articles.

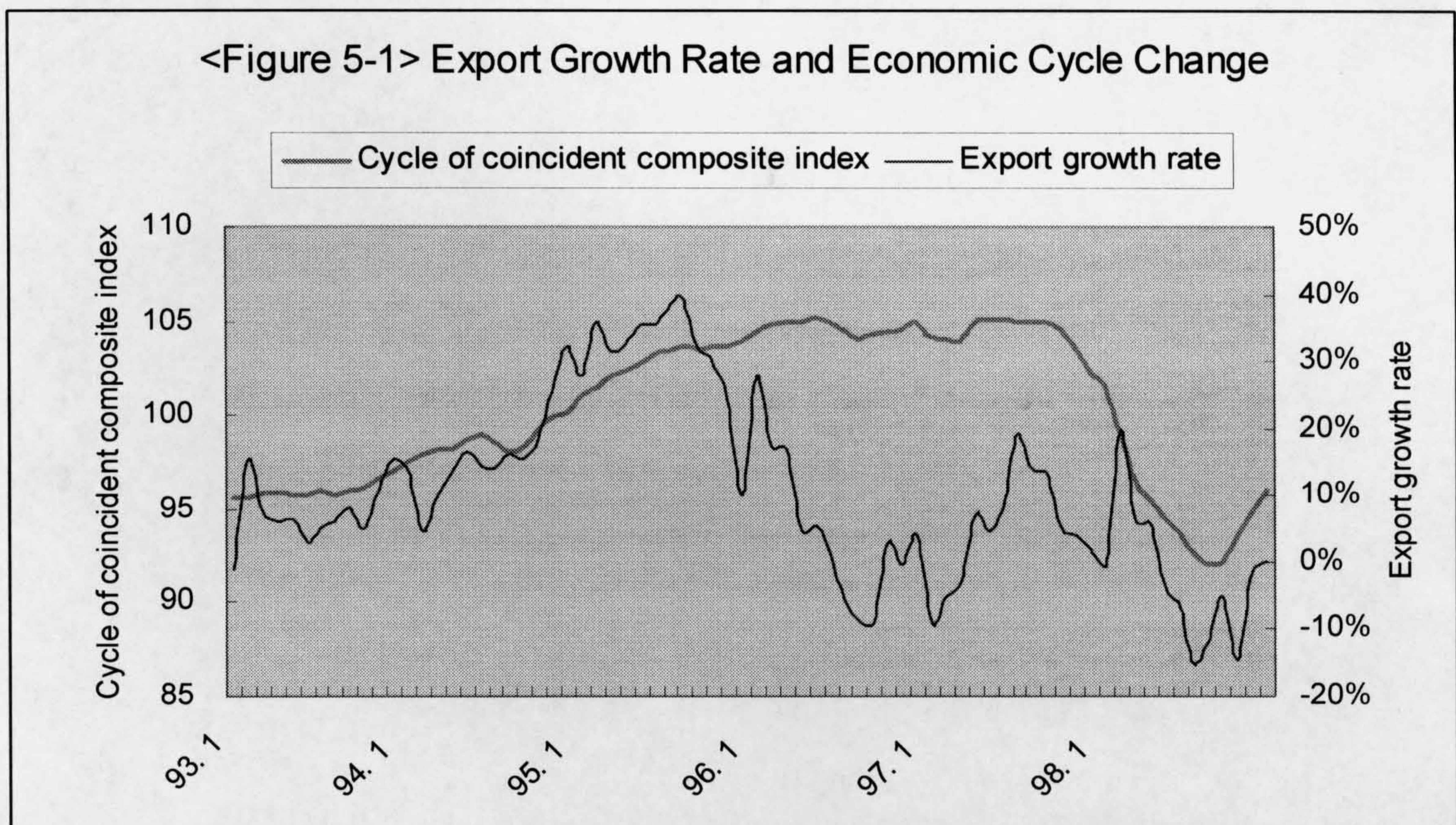
News reports about economic cycles are no exception. News articles which merely report the information provided by the government or the central bank may appear to be free from subjective interpretation of the report. However, that may not always be the case. For example, the outlook for possible changes of the economic cycle is made taking account of leading composite index. Nevertheless, in interpreting the index, the reporter's subjective opinion is bound to affect the conclusion. Feature articles and reportages are far more likely to convey subjective views of the reporter who might knowingly or unknowingly exaggerate certain aspects at the expense of the rest. Many of economic news reporters confess as follows:

Once we receive the instruction to prepare an article about an issue, we are under the pressure to 'come up with a news'. Inevitably, we focus on extreme or extraordinary facts which are sure to make a news (personal communications, 1997-1999).

Although the individual facts may all be accurate, their selection and concentration will give a seriously distorted account of the state of the economy.

The ‘warning or enlightenment’ by the press can easily be abused to promote the interests of news sources. The concentrated news coverage on the supposed ‘economic crisis’ which poured out in the first half of 1993 after President Kim Youngsam’s inauguration, as argued in chapter 3, reflected the chaebol’s wishes to neutralise President Kim’s aggressive reform programmes and to transform them into ‘pro-economy’ programmes. The press responded to the chaebol’s wishes and exaggerated the economic slump with articles that came with dismal titles such as ‘Eliminated from the league of the 4 Dragons: our economy’ (*JoongAng*, 10 Mar. 1993) and ‘Endless fall into economic slump’ (*Chosun* 9 Apr. 1993).

However, <Figure 5-1> show that the slump was at an end and the economy was preparing to recover. The government, however, was pressurised by overly depressing economic news reports. Accordingly, economic reform programmes were replaced with programmes to boost the economy. Comprehensive measures were introduced to boost the economy. Eventually, they created economic bubbles and gradually undermined the health of the Korean economy in the years that followed.



* This Figure is drawn from the statistical data of Korea National Statistical Office.

Reports of 'economic crisis' resurfaced in 1996. As shown in <Figure 5-1>, pessimistic news reports of the time were triggered off because the balance of trade began to shrink as the export was languishing. Nevertheless, cycle of coincident composite index,¹³⁰ which takes account not only of the export index but also of production, sales and labour market indice, continued to fly at a high altitude even though this was partly due to bubbles. As the diminished export was eventually to have a great deal of influence eventually on the performance of the economy, the news reports expressing concerns about languishing export could not be dismissed as an entirely false warning.

However, the problem is that exaggerated reports can immediately affect and distort economic policy decisions. The flagging performance of the export index could equally have been reported in a calmer manner as a transient phase in economic cycles. Nevertheless, most papers cried out 'Total deadlock' (e.g. *Hankook Kyungjae*, 3 July 1996) and 'All-out economic crisis' (e.g. *Chosun*, 29 July 1996) and demanded the government to take remedial measures. There were a few voices that the government must be wary of short-term policies to boost the economy. *Hankyoreh*, for example, argued that 'Economic team need not fret' (editorial, 29 June 1996). However, the view failed to have any impact. In the end, the DPM of Economy, Na Woongbae who was advocating long-term policies for stable economic growth had to resign on 8 August. In September, the newly appointed the DPM Han Seungsoo announced 'Comprehensive Measures for Economic Cycle Change'. The salaries for high ranking government officials and employees of chaebol-owned companies were frozen.

It is important to study the background of the sharp turn in economic policy: who advocated it and how the proponents of the policy change gained momentum in the government circle. In the government organisation, it is the responsibility of DPM of Economy to formulate and finalise economic policies. However, his influence could at times be very limited. Not infrequently, he may be removed without even having an opportunity to pursue his own policies. In this connection, it is interesting to note that news reports expressing concerns about diminished export and impending slump initially appeared to give voice to the chaebol's demand. The articles were written by news reporters who are 'assigned' to the chaebol. *DongA*, for example, published a feature

¹³⁰ This is obtained by removing the trend index from coincident composite index. It reflects the economic cycle of the time. If it is above 100, the economy is in a prosperous stage. Below 100 is thought to indicate sluggish economy.

article 'Free falling export' where the Chairman of Korea Trade Association is quoted as saying that the government should cut interest rates and scrap regulations on getting foreign loans¹³¹ (*DongA*, 3 Apr. 1997).

The long-established practice was that news reports about economic cycles were prepared by reporters assigned to the Ministry of Finance and Economy. However, during those days in 1996, reporters assigned to the Ministry were actually writing news articles refuting the news reports authored by pro-chaebol news reporters. Mr Park Jeonghoon, for example, was a reporter of *Chosun* assigned to the Ministry. In his news article, the DPM was quoted as saying that 'although the economy may not be in good shape, the present situation does not warrant news reports which appear to suggest that a catastrophic disaster is just around the corner'. He wrote that 'most of all, the present situation does not justify short-term policies although that is what those news reports implicitly advocate' (*Chosun*, 29 June 1996). Mr Park also conveyed the remarks of an unidentified source in the government:

It appears as if the political parties, some government departments which are not directly responsible for economic affairs, the chaebol and the press have all formed a united front to puff up the image of economic crisis (*Chosun*, 29 June 1996).

It was the same united front which, in 1990, succeeded in having Mr Chosoon, a pro-reform DPM, removed and replaced by Mr Lee Seungyoon, a staunch advocate for growth-driven economic policies.

Kim Kyun's analysis shows that from July 1996, most papers concentrated their efforts to identify the causes for poor performance of the economy. They pointed the finger at 'high cost, low efficiency'. From September, 'high wage' began to be singled out from the list of four high-cost items, namely, interest rate, land price, labour cost and transport cost (Kim, K. 1997: 33). In mid-September, the Office of the President advocated a 'Movement to Raise Competitiveness by 10%' and eventually the Federation of Korean Industries succeeded in achieving a freeze on wages in the form of an announcement, 'Declaration to Freeze Total Amount of Wages'.

A diminished rate of return caused by the chaebol's overinvestment and the

¹³¹ A huge amount of short-term foreign debt turned out to be a main cause of the currency crisis.

increased financing costs resulting from sloppy and collusive financial deals were all swept under the carpet and hastily laid out in the name of remedial measures to boost the economy. Instead, ‘wages’ were singled out as the main culprit for the economic crisis. We shall see that frequent cries about the supposed ‘economic crisis’ made the public far less sensitive to the approaching dangers even when the dangers were real. Also, as the ‘wages’ were wrongly chosen to take all the blame for poor performance of the economy, the real causes for economic trouble were left unchecked and they eventually led to the ‘true’ crisis.

Decision without Discussion

The foreign exchange policy of 1996-1997 was one of the decisive factors which pushed Korean economy into the path to financial crisis. The failure of the foreign exchange policy can be explained by defects in the government’s mechanisms for inter-departmental communication and policy decision. These defects emerged as side-effects of comprehensive re-organisation of government departments which followed President Kim Youngsam’s so-called ‘Globalization Plan’. For example, the Economic Planning Board was merged with the Ministry of Finance to form the Ministry of Finance and Economy (MOFE).¹³² The MOFE thus became a super Ministry which is responsible for taxation, budget and finance as well as economic planning and coordination. As there was no other Ministries which could compete or provide check and balance, the MOFE began to make decisions which could not be reviewed or corrected by other government departments.

Before the mergence, there were lively debates between Ministers about macro-economic policy choices. Such a tradition of healthy debates was not repeated between relevant sections within the MOFE. The leanings and styles of the DPM and concurrently the Minister of the MOFE turned out to provide policy guidelines which were not easy to challenge. One of the DPM, Hong Jaehyung in fact instructed that ‘sections within the MOFE should speak in one voice’. A newspaper pointed that out:

¹³² The new government which took power after the currency crisis decided to divide up MOFE. The Financial Supervisory Commission and The Ministry of Planning and Budget were therefore separated from MOFE.

Policy decisions which were made in the absence of lively debates and the mechanism of check and balance could become dogmatic. ... If the decision making process within MOFE is problematic, the MOFE could end up being a dinosaur with a huge body and a small brain (*Hankyoreh*, 23 Feb. 1995).

Few people paid heed to such criticism. Other Ministers did not want to appear to be in conflict with the MOFE as well. The Minister of Trade, Industry and Energy, Park Jaeyun, for example, instructed his staff 'to avoid making statements about issues without prior consultation with the MOFE or if their views differ from those of the MOFE' (*Hankook*, 28 May 1998). This is partly due to the attitude of the press which denounced even the smallest signs of disagreement - which is inevitable in any policy coordination process - as revealing the 'Departmental interests in conflict' (e.g. *Seoul-shinmun*, 19 Sep. 1993) or 'Departmental cacophony' (e.g. *Segye*, 19 May 1993). The press had very little tolerance for dissonance between government departments, even though it is nothing short of inevitable when trying to work out a policy alternative.

Such attitude of the press had the result of depriving the public of the opportunity to participate in the decision making process for public policy. While the public had no information about the pros and cons of a particular policy choice, the policy was publicly announced in its final form. The serious defects of the communication and public participation mechanism were largely ignored by the press and they were therefore left in ignorance. The press did not take it upon itself to provide an alternative forum for public debates regarding the economic policy choices. After the currency crisis hit and Kim's administration was over, there were journalistic activities to uncover outrageous episodes of communication failures affecting Kim Youngsam government's policy formation. However, by then it was too late.

The delay in devaluation of the Korean won (₩) provided another cause for the currency crisis of 1997. Here also, it appears that the delay was due to defective or dogmatic decisions which remained unchallenged for too long. The export decline in 1996 and trade deficit were rapidly increasing. Under these circumstances, the views of the Ministry of Trade, Industry and Energy (MOTIE) were repeatedly ignored by the MOFE. Strong won was maintained at about 800 won for US dollar. It was only at the end of 1996 that the MOFE started to recognise the problem. The MOFE thus allowed the exchange

rate to fluctuate over a wider range and attempted to buy dollars. However, this time, it was the Office of the President which opposed. The Senior Secretary to the President for Economic Affairs, Lee Sukchae, is known to have intervened by saying “how are you going to keep the prices under control if the won is devaluated? And what about losses from exchange rate fluctuation? You had better withdraw the proposal for devaluation.” There may well have been other reasons too. A former official who worked for the Senior Secretary testified, on the condition that his identity was not revealed, as follows:

The Office of the President seemed to fear that if the won is devaluated, per capita income might fall below \$10,000, which had a great deal of symbolic and political meaning for the government (*Hankook*, 29 Aug. 1998).

In a country where political and executive powers are concentrated on the President, the Senior Secretaries to the President can exert considerable influence on policy decisions. Under such circumstances, rational and robust debates about economic policy alternatives become rather difficult. President Kim Youngsam has long been a ‘freedom fighter’ who mounted unswerving opposition against the authoritarian government. However, he had no experience in economic policy issues. His Senior Secretaries for Economic Affairs such as Park Jaeyun, Han Yiheon and Lee Sukchae, wielded a great deal of power as they had enjoyed the absolute confidence of President Kim.

In March 1997, President Kim had to face political embarrassment because it emerged that his son was implicated in ‘Hanbo bribery scandal’. President Kim attempted to get out of the political difficulty by cabinet reshuffle. DPM Kang Kyungsik and the Senior Secretary Kim Inho were thus newly appointed. Mr Kang was the sixth DPM during Kim Youngsam’s presidency.¹³³ Because of such a frequent change of Ministers, economic policies during Mr Kim’s presidency lacked consistency and often missed the timing while consistency and timing are perhaps as important as actual contents of an economic policy. In a Presidential system of government, it is the President who should ultimately be responsible for the success or the failure of various policies. Nevertheless President Kim’s response to his political embarrassment and failure of policies was always

¹³³ As Mr Kang also had to resign three months before the end of President Kim’s term, there were seven Deputy Prime Ministers during Mr Kim’s five year term.

a cabinet reshuffle.

The press is also partly responsible for the confusion caused by frequent cabinet reshuffle. Whenever the government appears to experience difficulty - whether it is policy-related or caused by incidents beyond human control - the press urges the government to appoint new people. *Chosun*, for example, had an editorial 'Time to consider a cabinet reshuffle' published only 5 months after Kim Youngsam government was sworn in (*Chosun*, 29 July 1993). The editorial claimed that the new government's economic team appeared to lack the leadership. Professor Kim Kwangwoong pointed that:

As the press insisted on a cabinet reshuffle whenever the government was experiencing a difficulty, it would be wrong to put all the blame on the President for the frequent cabinet reshuffle. People seem to have too high an expectation for 'the right person' (*Monthly Chosun*, Jan. 1998).

The economic policy team under the leadership of Kang Kyungsik and Kim Inho took a stance which clearly favoured market economy. Mainstream newspapers welcomed them. Their characters also appear in the following passage from the 'Kang's Memorandum' which was subsequently seized by the Public Prosecution Bureau:

We were both regarded as the best known economic policy makers who have a firm conviction in market economy. We did not at all think that there would be much divergence in our approach or solutions. Indeed, the press referred us as 'fantastic duo' (Kang's Memorandum, 7 Mar. 1997).

However, the problem was that they both had too similar views and leanings. When the government's pro-market policies began to show a number of adverse effects, two of the staunchest advocates of market economy came to occupy the leading posts in the government's economic team.¹³⁴ DPM Kang was described in a newspaper as 'a person whose conviction hardens as he faces greater opposition' (*Hankook*, 31 Aug. 1998). Under

¹³⁴ Both of them studied law at Seoul National University. They both had an uncompromising policy stance. They both worked in the Economic Planning Board where neo-liberalism was dominant. They both went to the United States and even to the same school, Graduate School of Administration at University of Syracuse, for further training.

normal circumstances, such a strong character of a policy maker can be an important virtue as it can provide the necessary driving force for the policy. However, his leadership was ill suited to a critical situation in that he could not respond to rapidly changing circumstances in a flexible manner.

It was due to DPM Kang's style and the rigid climate of the MOFE that the Korea Institute of Finance (KIF) was forced to withdraw its report which contained a fore-warning about the foreign exchange crisis. Upon Kang's appointment in March 1997, KIF published its periodic report 'Economic Outlook' and pointed out that 'there are possibilities that the country might be in default in a few months' time, and if the problems with Hanbo are not swiftly dealt with, there might be a sudden out-flow of capital.' The MOFE issued a stern statement against KIF. KIF decided to withdraw all the copies of the report which had already been distributed. KIF also had a press release explaining and excusing itself. From the next month, the monthly issue of 'Economic Outlook' ceased to appear. Choi Gongpil, the chief researcher responsible for the report, made the following remarks in an interview undertaken for this research:

I know that DPM Kang himself expressed his displeasure to the Director of KIF. The decision to withdraw the distributed copies was made accordingly. MOFE often intervened to prevent discussions about the difficulties facing national economy. I myself was forced to discontinue research activities on foreign exchange. It is almost comical to see that when the economy is about to enter into a difficult period, the research output from governmental or semi-governmental economic research institutes sharply decrease. They keep quiet (interview, 30 Mar. 2004).

In fact, KIF is an organisation which was set up by Korea Federation of Banks. It is neither a government department nor a semi-government organisation. In other words, the MOFE put pressure on a private organisation and had it withdraw the copies of the report it distributed. The MOFE intervened in this manner to distort the public opinion. DPM Kang may be an advocate of market economy; nevertheless, when it comes to 'free market of opinions', he had no intention to let the market decide.

Although DPM Kang advocated market economy, he was not consistent in applying his creed. He sometimes did not hesitate to intervene. He often went ahead with a decision

ignoring the opposition from officials who are better acquainted with the issues involved. Some of the decisions undermined the stability of the financial market.

On 25 August 1997, for example, the statement he gave about governmental guarantee of foreign loans of financial institutions was not only against the so-called 'principle of market economy' but also against the advice of carrier officials. He often abandoned his conviction about market economy in order to support the chaebol and financial institutions when they were in serious trouble. Although government intervention was eschewed by advocates of market economy, they relied on the government to clear up the mess created by market failure.

On what ground did DPM Kang come to hold such a strong conviction? It is partly due to the advice of neo-liberal economists surrounding them. Kang also turned a deaf ear to those who held different views. The 'Memorandum' where Kang recorded his meetings to collect 'views regarding economic issues' shows that he met people who all had pro-market views or advocates of free trade. Many of them, as mentioned earlier, were directing economic research institutes funded by the chaebol and played a leading role in making economic policies of the time. Others were economic columnists for mainstream newspapers propagating neo-liberalist ideas in Korea. DPM Kang wrote in *Kang's Diary* (Kang 1999b) on the day (15 Mar. 1997) he met these economists, 'After meeting with these experts, I could have an even greater conviction that the policies I had in mind are in the right direction'.

After DPM Kang had collected the views of proponents of neo-liberalism, under the name of 'public opinions', he had the MOFE prepare in two months '21 Tasks of the Government'. The report was presented to the President. *Kang's Diary* for that day (20 June 1997) described that 'the report proposes measures to set up the framework of market economy comparable to that of advanced countries and to remove accumulated obstacles to proper functioning of the market.' His report did contain helpful suggestions about many problems with the Korean economy. However, it also contained copycat proposals uncritically modeled after Anglo-American solutions and proposals based on positive assumptions about market economy and the open market. One could also raise doubts about the strategy of pursuing the kind of long-term plans at the end of the presidential term and while the economy was not in good shape.

During the ensuing six months until the currency crisis, the MOFE made a great

deal of efforts to propagate these policy plans. There were many 'Discussion Meetings' for each subject area. However, they were used to explain and propagate the policies already decided. No genuine discussion took place. The Discussion Meeting on Restructuring of Prices, for example, was held in a resort town well known for its hot springs. About 40 people including reporters assigned to the MOFE were invited to a tourist hotel where the Discussion Meeting was followed by sumptuous entertainment. A public broadcasting media (*KBS*) was also used weekly to inform and propagate policies in 4 subject areas which are likely to attract the attention of the general public such as 'social welfare in an aging society'.

On 2 September, the government staged a high-profile event entitled 'Progress Report on 21 Tasks' at Incheon International Airport, which was being built with the ambitious aim of becoming the air traffic hub of North-East Asia. President Kim attended the event to ensure maximum publicity for the event. The MOFE also published and distributed a booklet and audio-visual materials entitled 'Tasks of the Government to Achieve Open Market Economy'. From October on, DPM Kang himself started a lecture tour all across the country. According to *Kang's Diary* (11 Oct. 1997), he instructed the MOFE 'to organise support groups for market economy because a couple of lectures are not going to be enough to change the minds of people, and an overall change in social climate is what we need.'

DPM Kang was particularly enthusiastic about financial reform. The Committee for Financial Reform was chaired by Park Seong-yawng, who was the honorary chairman of Kumho Group. Park was assisted by the Deputy Chairman - Kim Byungju - who was a staunch advocate of market economy. Comprehensive de-regulation was already decided. However, the problem was the bill for amending the Bank of Korea (BOK) Act which was agreed upon behind the curtain among a few persons concerned, including DPM Kang. The officials of the Financial Policy Office of MOFE were concentrating all their efforts to go ahead with the proposed bill. They argued that separation of the Financial Supervisory Service from the Bank of Korea is of vital importance. However, the employees of the BOK felt that it was an attempt of the government to control the financial industry.

Both camps attempted to win the public opinion. They tried to persuade economic reporters and used their personal connections to approach columnists. Between reporters

of a newspaper company, those who were assigned to the BOK disagreed with those assigned to the MOFE. The press was keen to report the tug-of-war between the two camps rather than to guide and lead rational debates on this issue. The struggle went on for as long as 5 months without a conclusion. Citizen groups, professors of economics and the Federation of Financial Labour Unions all joined in the long-drawn struggle. When the bill was eventually put in the National Assembly, employees of BOK decided to have a sit-in protest in the Assembly. It took place on 14 November 1997. Comprehensive breakdown of the financial market was just around the corner by then. The two institutions responsible for the financial market were too pre-occupied with the tug-of-war to notice anything else.

The IMF, which demanded opening up and de-regulation of financial and capital market, is also responsible for its failure to encourage public debate about possible impacts of such a policy. The IMF's Independent Evaluation Office recognised this belatedly in its 'Evaluation Report of 2003 regarding Indonesia, Korea and Brazil':

In all three countries, the IMF's role as confidential advisor was not very effective in persuading countries to modify their policies even when key vulnerabilities were identified. The IMF was not provided with much sensitive information required for effective surveillance. ..., the IMF probably could have been more effective in influencing policy if it had made its analyses public so as to contribute to a wider policy debate (IEO 2003: 3).

Reporting the Crisis: Bashing vs. Patriotism

While the control tower of economic policy making was pre-occupied with long-term policy plans and departmental tug-of-war, and while even the press guided public gaze to these issues, the foreign exchange crisis was ravaging Thailand, Indonesia and moving toward northeast. On 23 October, share prices in Hong Kong fell by 14% in one day. The following day, the wave was felt in Korean stock market which plummeted. The crisis was in view.

It is necessary to have a close look at the news reports in and out of Korea,

movements of financial market and the activities of news sources during the ensuing three weeks or more. In particular, there is a necessity to scrutinise the tripartite relationship among the press, the market and news sources. Foreign news reports during this period were unfavourable to Korean economy. Domestic news reports criticised the negative reports of the foreign media and attempted to defend the government's position. When the foreign exchange crisis actually hit, the domestic media had to be faced with severe blame. As mentioned earlier, *JoongAng* published an article entitled 'Words of repentance' written by an economic news reporter (*JoongAng*, 1997). However, we need to reexamine more systematically who is to blame and how much to blame.

When share prices in Korea plummeted on 24 October, credit rating agencies in the United States - Moody's Investors Service and Standard & Poor's - downgraded the sovereign rating of Korea by one notch. Only then, did the MOFE and the BOK stopped their departmental tug-of-war and held a joint meeting to discuss the situation. Nevertheless, they could not agree upon the range of daily exchange rate fluctuation. On 28 October, Morgan Stanley Securities sent out a dispatch urging investors all over the world to withdraw capital investment from Asian market. On 29 October, Peregrine Securities in Hong Kong prepared a report, 'Get out Korea, Right Now!' Stock market was free falling day after day and foreign exchange rate was rocketing. On 3 November, the whole world learned that Moody's and S&P downgraded the sovereign rating of Korea once again.

However, one should take a moment to evaluate arguments about the reliability of credit rating agencies themselves. The Asian financial markets at the time were writhing at each stroke of credit rating announced by Moody's and S&P. Nevertheless, the question remains whether these agencies did maintain an objective standard worthy of their overwhelming influence. The announcement of the credit rating in itself has the self-fulfilling effect on the credit of the country or the company concerned. Once the Asian currency crisis subsided, Japan Center for International Finance (JCIF) published a report pointing out that Moody's, S&P and Fitch IBCA made the error of ignoring particularities of Asian markets.¹³⁵

Regarding Korea, S&P twice downgraded the sovereign rating of Korea by 7

¹³⁵ JCIF also argued that these credit rating agencies failed to foresee the currency crisis in Asian countries and that when the crisis actually came, these agencies went ahead with sensationally abrupt downgrading. They therefore exacerbated the currency and economic crises in the area (JCIF 1998).

notches and, two months later, upgraded it by three notches. With Fitch IBCA, Korea's sovereign rating went down by 10 notches and then went up by 5 notches during the same period. The sudden and sensational fluctuations of credit rating may have been inevitable because of abrupt changes to the financial market situation. However, they were essentially due to the fact that credit rating agencies arrived at their conclusion by assessing the Korean financial market and the financing structure of Korean companies with reference to Western standards, such as those of the Wall Street or the City of London. Take, for example, the debt-equity ratio. In many Western countries, companies rely on stock market to raise funds. By contrast, as Korean companies rely on loans rather than on direct financial market, their debt-equity ratio is exceptionally high. The press in and out of Korea merely repeated the credit rating announcement of these agencies. Such a news coverage worsened the financial crisis because it intensified instability of the market.

On 5 November, the *Wall Street Journal (WSJ)* and *Bloomberg News Service* ran a headline article expressing concerns about the foreign exchange reserve of Korea. This dealt a serious blow to the foreign exchange market of Korea because of the stature and prestige of these two companies. They sent a clear message that Korea would soon run out of the foreign exchange reserve. An article appearing in the *Financial Times* on the previous day, which criticised Korean government's inadequate measures to stabilize the financial market, was a slap on the wrist compared to the heavy blow dealt by the *WSJ* and *Bloomberg*. The headline article of the *WSJ* of 5 November claimed that the Bank of Korea had so far spent between 2~20 billion dollars to defend the Korean won. The intimation was that there would be little more left to the foreign exchange reserve of Korea. This is because, at the end of October, the BOK announced that it had 30.5 billion dollars as foreign exchange reserve. In other words, Korea would be left with as little as 10.5 billion dollars to play with. Eventually, the article at the *WSJ* turned out to be based on a conjecture, seeing that there is a difference of 18 billion dollars between the minimum and the maximum suggested figures. The then Senior Secretary to the President for Economic Affairs, Kim Inho, wrote in his memoirs that 'Korea had 29.2 billion dollars of reserve at that time. And 21 billion of them were immediately available'¹³⁶ (*JoongAng*, 27 Feb. 2002).

¹³⁶ Kim continued to say, 'MOFE instantly made a statement refuting the article of *WSJ*. But exact figures could not be mentioned for fear of attracting foreign exchange raiders' (*JoongAng*, 27 Feb. 2002).

On the same day, however, *Bloomberg* ran an article asserting that ‘the real figure could run near 15 billion dollars’. Again, it was based on a conjecture. *Bloomberg* went on to say that ‘Korea’s total debts are 110 billion dollars, of which 80 billion dollars will come due within a year.’ It concluded that ‘Korea will soon ask the IMF for bailout.’ However, no one in the government at that time was contemplating the possibility of a bailout by the IMF. According to Kim’s memoirs, the first time that the possibility of a bailout was mentioned in the government circle was on 7 November. It was suggested as a remote possibility among many others (*JoongAng*, 7 Mar. 2002). However, on the basis of *Bloomberg*’s report, the *International Herald Tribune* wrote on 6 November as if it was confirmed facts that Korea had foreign exchange reserve of 15 billion dollars and that it would ask the IMF for bailout. On its front page, the paper had the headline which read, ‘South Korea fears a financial crisis topping Thailand’s.’ The Korean financial market rapidly entered into a state of panic.

The Korean government claimed that these newspapers were reporting the situation of the Korean financial market in a hostile manner. The government distributed a press release and letters of protest. This was to no avail. For example, in a letter to the *Wall Street Journal* and the *Asian Wall Street Journal*, the government pointed out that the papers failed to present a due base for their allegations that in Korea bad debts had increased sharply to 20 trillion won and nine of the nation’s 11 banks would probably go bankrupt (*Korea Herald*, 10 Nov. 1997).

It was true that the Korean economy was badly suffering from overinvestment, yet some of the fundamentals were clearly better than those of the countries which already experienced currency crisis. For three consecutive months, the aggregate value of letters of credit was increasing and the monthly trade balance was about to turn positive (*Munhwa*, 10 Nov. 1997). Michel Camdessus, managing director of the IMF, also made it clear in a press conference in Paris, on 6 November, that unlike Southeast Asian countries, there was no possibility that Korea would face a financial crisis, given its strong economic fundamentals (*Korea Herald*, 8 Nov. 1997). Certainly, the signs of recovery in economic fundamentals and the remarks of Camdessus could not be taken at their face value. The recovery was too little to provide any reliable basis for optimism and Camdessus had to guard against the possibility that his remarks might cause actual harm to the already troubled economy of Korea. Nevertheless, the reports of the foreign media, as we shall see,

were certainly not without exaggeration.

These foreign papers published Korean government's response in the reader's letter section in a cursory manner. They then continued with their negative news reports about the Korean economic situation. The government and the press in Korea started to suspect their good faith. For example, *Asian Wall Street Journal* reported on 10 November that it was expected that Korea would eventually ask for emergency loans from the IMF and that the instability of the Korean won would spread to Taiwan and Japan. *Munhwa* strongly criticised this report as 'Anti-Korea news coverage' (10 Nov. 1997). Other Korean papers also joined in (e.g. *Chosun*, 8; *JoongAng*, 10). On 10 November, *DongA*, *Chosun* and *Hankook* each published an editorial - 'Korean economy under attack' (*Chosun*), 'Shaking Korean economy' (*DongA*) and 'Government should take a firm stance' (*Hankook*) - to criticise the foreign news coverage.

The reason the domestic press and the foreign press had completely different attitudes in reporting the situation was that the news source and the press each had different interests in this matter. The Korean government wanted to avoid possible attacks from speculative funds, so it was reluctant to give out information. Credit rating agencies catering for all customers including speculative funds, downgraded the sovereign rating somewhat excessively.

Korean government's secretive stance was resented by foreign reporters and led to news reports based partly on conjectures. Korea had the size of international trade which places it at the 11th place in the world (as of 1996). Nevertheless, it was not a country which attracted the attention of the world's media. Even those media specialising in economic news had correspondents stationed in Tokyo or Hong Kong to cover news in Korea. Because of this, foreign media had little or no adequate understanding of Korean economy. The reporter of *Bloomberg* who appears as the author of an article predicting that 'there is going to be a large scale bankruptcy of financial institutions in Korea' told an official of the MOFE when the latter confronted him about the article, 'the article I send to Hong Kong office is accurate. But the editorial staffs there seem to exaggerate the report adding some rumours floating about the market' (*Chosun*, 8 Nov. 1997).

On the other hand, while Korean press poured out reports criticising the apparently exaggerated news reports of the foreign press, they failed to investigate the true situation of the financial market at the time. Looking back, the shortage of foreign exchange reserve

was due to excessive borrowings of merchant banking corporations and banks to fund overinvestment of the chaebol. As discussed in the case of Hanbo or Samsung Motors, most newspapers failed to point out the problems of overinvestment. Of course, there were news articles which warned the possibility of foreign exchange crisis in 1997: 'Foreign exchange crisis: it could happen to us' (*Hankyoreh*, 5 Mar.); 'Is there really going to be foreign exchange crisis?' (*Chosun*, 3 Apr.); 'Financial disaster: is it a possibility?' (*Kyunghyang*, 24 May); 'Credit rating undermined: more serious than we thought' (*JoongAng*, 22 Aug.); 'Visible symptoms of foreign exchange crisis' (*Hankook Kyungjae*, 1 Sep. 1997).

However, even reporters who wrote these news articles did not expect the foreign exchange crisis of 1997 to be of such magnitude (e.g. Sohn 1998). Moreover, even though reporters who are directly in contact with financial institutions may have an acute sense of impending crisis, their views are often toned down by editorial staff (personal communications, Nov. 1997). As there were periodic warnings about 'economic crisis' for quite some time, reporters and policy makers, like ordinary audience, assumed that it would go away as this used to be the case. The reporter of the above-mentioned news article 'Foreign exchange crisis: it could happen to us' told in an interview with the present researcher:

Since the press had previously had periodic warnings about supposedly impending crisis, people appeared to treat it as a false alarm on this occasion as well. It was like the boy who cried the advent of wolf as in Aesop's fable' (interview, 28 Feb. 2004).

In the past, the chaebol and the press often aired warnings about supposedly impending crisis in order to influence government policies to their liking. This time, they had to pay for it.

Bias of patriotism played a role in producing columns and analyses emphasising that there was little likelihood of a foreign exchange crisis. Such reports diffused the perception of the urgency of the situation. Many of the authors of such reports were economists who were directly or indirectly associated with the government. In February 1997, *Chosun* published a column 'There will be no foreign exchange crisis' (7 Feb.) contributed by the manager of the Japanese branch office of the Bank of Korea. In

November 1997, when the crisis was fast approaching, *Chosun* published a column ‘The economy: no cause for concern’ (3 Nov.) by a former Prime Minister Nam Dukwoo.

Hankyoreh also had an article ‘No occasion to worry about foreign exchange crisis’ (8 Sep. 1997) purporting to give guidance for investing in the stock market. *Chosun* even had an article ‘Long-term savings: merchant banking corporations offer better deals’ on 1 October 1997. Only 12 days later, merchant banking corporations had to ask for loans amounting to 1 trillion won because they ran out of money to repay savings.

The groundless optimism made some of the governmental policies ineffective. For example, the government announced in May 1997 ‘Measures to restrict borrowings’. Federation of Korean Industries, however, objected to the policy. Newspapers supportive of FKI were also opposed (e.g. *Maeil Kyungjae*, 2 June; *Hankook Kyungjae*, 2 June; *Seoul Kyungjae*, 3 June). The policy was quietly dropped. Eom Nakyong who was the Deputy Minister of Finance and Economy said in an interview undertaken for this research:

The government planned to restrict borrowings for investment overseas. But the press was strongly against the policy and we had to back off. When the press determine to block a policy, the government officials have virtually no alternative but to back off” (interview, 19 Mar. 2004).

It would surely be wrong to put all the blame on the press for the breakdown of a warning system at the time of the foreign exchange crisis. Even economists actively involved in policy formation hardly ever issued a warning about the possibility of a foreign exchange crisis. Professor Jeon Chulwhan, the newly appointed Chairman of the Bank of Korea in the next government, recalled:

It is surprising to see that scholars who have no immediate personal interest in the matter showed no sensibility or understanding of the problem (*Newsletter of the Bank of Korea*, Jan. 1998).

In retrospect, the then news reporting was characterised by a contrast between the exaggerated reports of the foreign press and the over-optimistic reports of the domestic press, and as a result, the objectivity of reports was largely lacking. However, due to its

greater 'self-fulfilling' power, the reports of the foreign press were believed to be more accurate. In the international financial market where there is no longer state boundary, the world class financial news providers have influence and prestige incomparable to those of the domestic media. In this acute asymmetry of power regarding information, major investors including international speculative funds also had a dramatically different performance outcome compared to that of domestic individual investors.

The Korean case shows that the opening of a domestic financial market also had its consequences for the press. Viewed from the influence of economic news, the state boundary was no longer significant. Economic news papers and financial news agencies in New York and London came to have the power to make or break the financial market of Seoul. In the past, the influence of economic news was limited to the country concerned. For example, 'before the 1967 Wilson-Callaghan devaluation, the [British] press was a dog which did not bark' (Tunstall 1996: 369). In contrast, the 1987 financial market fall was greatly exacerbated by news reports which drew analogy to the Great Depression of 1929 (Graber 1993). Whether it was 'a conspiracy of silence' or a concerted outcry of 'scare mongering', it was the British press which influenced British financial market. However, in the Korean case, the domestic press had significantly reduced influence because of the prestige of world class news providers. As a result, the range of policy alternatives open to the government became very narrow indeed.

The Road to the IMF: Crisis of Communication

Proper functioning of communication channels is an essential prerequisite of good policy making. In a critical situation where swift judgment and decisions must be made, a reliable communication mechanism is all the more needed. It will, to some extent, prevent the decision making process from becoming dogmatic and one-sided. A close look at the process through which the Korean government reached the decision to request emergency loans from IMF shows that inter-departmental communication channels were blocked. As a result, dogmatic and over-confident decisions made by top ranking officials were left unchallenged. We shall also see that belated decisions made the currency crisis aggravated.

Even when the currency crisis was imminent, DPM Kang maintained that the

Korean economy had strong fundamentals. He did little to explore immediate measures. He did not provide the President with accurate reports about the serious foreign exchange market situation. It also appears that he was very reluctant to request IMF bailout. According to his 'Memorandum' dated 18 August, 'Lee Yunjae¹³⁷ reported to me that foreign exchange shows serious signs of trouble. I told him not to worry too much.' In his 'Memorandum' on 29 October - the crisis was imminent by then -, he wrote, 'I reported to the President and gave him an assurance that it was a global phenomenon.' Regarding the devaluation of the won, He had also been hesitant for too long even though there were repeated warnings from inside and outside the government. Only on 8 November, did he recognise that 'we may probably be in a liquidity trap' and decide upon the devaluation of the won (Kang's Memorandum, 8 Nov. 1997).

In particular, the delay in requesting IMF bailout significantly diminished the bargaining power of Korea in its negotiations with the IMF. The loans therefore came with extremely unfavourable conditions, which were to weigh heavily on Korean economy for years to come. Belated requests for IMF bailout did not even originate from DPM Kang. It was the President himself who made the decision after having informal meetings with a former DPM and some other advisers. This shows that there were serious defects in the decision making process of the government's economic team headed by Kang and Kim.

It may also be due to problems of communication that on the day of his inauguration (19 Nov. 1997) the new DPM Lim Changryul made a surprising and unexpected announcement that 'IMF bailout may not after all be necessary'. His announcement was mysterious given that the government had already agreed with the IMF that the announcement of the decision to ask for emergency loans from the IMF would be made on 19 November. Anyway, Lim's surprise remark annihilated what little credit-worthiness Korea had by then. Foreign investors were rapidly pulling out and the financial market was completely out of control. Two days later, Lim surrendered after all, announcing the IMF bailout programme. By then, however, the IMF imposed far more stringent conditions.

Why, then, was Kang so reluctant to ask for loans from the IMF? In one of his floppy diskettes subsequently seized by Public Prosecution Bureau, there is a file called,

¹³⁷ He was the Director General for Economic Policy of MOFE.

‘Project for Presidential Election’ which Kang prepared for himself.¹³⁸ When the public prosecutor questioned him whether it was due to his political ambitions that he attempted to cover up the foreign exchange crisis and avoided seeking emergency loans from the IMF, Kang replied, ‘Whether one has political ambitions or not is a personal issue’ (*Hankook*, 19 May 1998). Kang’s reluctance to ask for loans from the IMF cannot fully be explained by his personal political ambitions. However, his political ambitions were likely to have distorted the communication mechanism within the government.

The press failed to uncover the breakdown of communication. Rather than re-establishing communication channels within the government, the press continued to side with long-term, pro-market political reforms even when the crisis was imminent. For example, *JoongAng*, Samsung’s affiliate, published an interview entitled, ‘DPM Kang has enemy on every side amidst economic difficulties’ and attempted to eagerly defend DPM Kang.¹³⁹ The interview article was interspersed with subtitles taken from Kang’s remarks such as ‘The Government does not neglect the economy; it sticks to the principles’; ‘If the government intervenes simply because there are some difficulties, what it has painstakingly achieved thus far will be wiped away’; ‘The delay in resolving the problems of Kia Motors was not without substantial social costs but one cannot give up learning simply because it is costly to learn.’ The interview also reported Kang’s extraordinary claims such as ‘Ever since I took office, not a single month passed without some warnings about financial crisis. The reason I conclude that there would be no financial crisis is that from early this year, the chaebol with a large amount of debt began to change their behaviour’ (*JoongAng*, 20 Oct. 1997). The Public Prosecution Bureau also discovered that while DPM Kang was on a lecture tour across the country, a senior journalist of a major newspaper was acting as his adviser (*Hankyoreh*, 6 June 1998).

¹³⁸ He had a plan to form a moderate conservative reform party and obtain at least 25 seats in a general election and prepare for the presidential election on that basis.

¹³⁹ A corrupt connection between Samsung-*JoongAng* and DPM Kang was exposed in July 2005 through a tape recorded by a concealed microphone. According to the tape illegally eavesdropped by the Agency for National Security Planning in 1997, Samsung was alleged to have offered bribes (tens of thousand dollars) to DPM Kang through the Chairman of *JoongAng*, Hong Seokhyun. Moreover, the tape revealed that Samsung had been dealing with presidential candidates and many prosecutors to lead them to pro-Samsung, by offering a huge amount of bribes through Chairman Hong.

Conclusion

As one of President Kim's campaign promises, the government strove to secure the membership of the OECD and secured it perhaps too early. The membership opened up the financial market and misguided people with fantasies about advanced countries. Most people simply thought that Korea was finally admitted to join 'the club of advanced countries'. Few people realised that it could deal a serious blow to national economy and would eventually lead to financial crisis. Those few people's concerns and warnings were hardly audible because of the loud fanfare of major newspapers which were feverishly celebrating Korea's membership to the OECD. There was simply no forum for rational-critical debates.

Financial institutions which mushroomed in the 'favourable' climate of de-regulation were inevitably engaged in bleeding competition. As a result, the financial market had a very low rate of return. When the chaebol were allowed to enter into financial industry, the healthy tension between financial capitals and industrial capitals was replaced with a collusive connection between them. This ultimately undermined the chaebol as well as their financial institutions. In particular, merchant banking corporations used short-term foreign loans to offer long-term loans for domestic firms. This resulted in a massive scale mismatch of maturity for these loans. It was through this opening that the foreign currency crisis which started in the southeastern Asia arrived in Korea. The press had largely failed to make an issue out of the rapid de-regulation of financial market and potential dangers of market opening. Some of the newspapers were actually urging the government to quicken the pace of opening up the financial market.

In 1993 and 1996, the press gave an exaggerated account of the possibility of an economic crisis. The pessimistic news reports led to short term measures to boost the economy. Also, the news reports singled out wage as the main culprit of economic slump. Because of the inaccurate analysis, other aspects of the economy were left out of the scrutiny. The economy as a whole thus became more susceptible to the financial crisis. When the crisis actually hit, the Korean press took patriotic stance. They faithfully reported the government's 'explanations' and downplayed the imminence and magnitude of the crisis. In contrast, world class economic news providers based in New York or Hong Kong went ahead with scathing reports of the Korean situation. Because of these

self-fulfilling reports, the Korean government's attempt to stabilise its financial market was rendered powerless. These reports did play a decisive role in worsening the financial market situation. In an increasingly borderless free market world economy, the financial market of a country cannot protect itself from the influence of world class economic news providers.

In making policy decisions regarding foreign exchange rates or whether to ask for emergency loans from the IMF, the breakdown of communication channels within the government led to undue delays in policy formulation and exacerbated the crisis. The press in Korea failed to uncover the true situation of financial market. The press also failed to present a variety of views and alternatives for discussion. Some newspapers attempted to turn blind eyes to the deteriorating market situation and went on to defend long-term pro-market policies while the whole economy was thrown into the whirlwind of crisis. The Korean press in 1997 appears to have been at a great distance from the 'democratic media model'.

From Currency Crisis to Chronic Crisis

Introduction

In order to identify true causes of the Korean economic crisis, one has to look not only at the period leading to the currency crisis of 1997 but also at how the crisis unfolded itself and how it was being dealt with. If the causes were wrongly diagnosed, wrong prescriptions would be offered and the crisis would become worse. The quest for true causes of the economic crisis thus requires a comprehensive approach which takes into account the dynamism between the crisis and the measures for dealing with it.

For instance, even if a situation begins as a straightforward liquidity crunch caused by a momentary shortage of foreign currency reserve, wrong responses of the government could make it develop into financial or generalised economic crisis. On the contrary, even if the situation is bad enough to show signs of a financial panic, adequate and effective measures would minimise the number of bankruptcies and contain the situation as a short-lived liquidity crisis, which will eventually be overcome. By assessing the effectiveness of various measures employed to deal with the currency crisis of 1997, one can trace back to true causes of the crisis.

As a condition for emergency bail-out loans, the IMF demanded harsh and ruthless financial measures and sharp rise of interest rate to tighten up the economy. Later on, economists in and out of Korea accused the IMF for having misjudged the nature of the Korean crisis and thus aggravated the crisis. In fact, unlike other countries who received emergency loans from the IMF, Korea had a very healthy budgetary position. However, the IMF should not take all the blame. One has to look not only at the negotiation process between the IMF and the Korean government, but also at informal involvement of the US and Japan which took place behind the curtain. These events must be analysed from the perspective of international politics. It is also necessary to study the impact of news coverage by the press in and out of Korea of the negotiation between Korea and the IMF. This topic has so far remained largely untouched by scholars.

The reform of the chaebol during the IMF bail-out is no doubt a topic for domestic political economy. However, it must also be studied from an international political perspective. The need for such comprehensive approaches is obvious from the fact that expansionist policies of the chaebol in Korea were threatening multinational conglomerates and also from the fact that the chaebol played important roles not only in domestic politics but also in the North-South problem of Korea. It is also necessary to study how the chaebol who were the targets of reform attempted to shape and lead the programmes for reform and how the press and economists in and out of Korea contributed to policy making. With these things in mind, we shall have a look at the process of decline of Daewoo and Hyundai. It will provide a suitable opportunity to study the inter-relationship among the chaebol, politics and the media.

‘Invisible Hands’ under the Negotiation Table

A closer look at the negotiation process for the IMF bail-out loan shows that Korea had to negotiate not so much with the IMF as with the United States. The United States dissuaded Korea from exploring alternative paths and Korea was forced into the straightjacket of the IMF bailout. The Korean government hoped until the last minute to avoid the path to the IMF by negotiating loans from Japan.¹⁴⁰ At that time, Japan was preparing for the launch of Asia Monetary Fund (AMF) which was to vie with the IMF. The government was seeking to make the best use of competition between the two economic giants of the world. Deputy Finance Minister Eom Nakyong was therefore discreetly sent to Japan on 11 November. However, he had to return empty handed. Japan’s Deputy Finance Minister Sakakibara coldly declined Mr Eom’s proposal. In an interview undertaken for this research, Mr Eom said:

US Treasury Secretary Rubin had already sent a letter to the Finance Minister of Japan and made sure that nothing would come out of the meeting (interview, 19 Mar. 2004).

¹⁴⁰ Japan was not wholly free from the responsibility for the Korean crisis. When South East Asian currency crisis broke out, Japanese banks suddenly withdrew from Korean market. And this was one of the causes for currency crisis of Korea.

Rubin's letter expressed the US government's concerns about the Japanese reaction to Korean financial crisis and indicated that Japan should endeavour to reform its own financial system and take measures to boost its own economy. Earlier, at a dinner party held in the US Embassy in Japan, Mr Sakakibara had openly stated that Japan and China would work together and that it might be a hard time for the US. However, he had to throw in the towel under the pressure from the US¹⁴¹ (*Hankook Kyungjae*, 17 Feb. 1998).

The Asian financial crisis put a halt to the formation of a North East Asian financial block. President Jiang Zemin of China, during his visit to the US on 26 October 1997, agreed to purchase 3 billion dollars worth of aircrafts from Boeing and expressed his opposition to AMF. Japan was also alarmed by signs of crisis when several of its banks, security companies and insurance companies were struggling to avoid bankruptcy. Japan announced that it would sell US Treasury Bills worth 600 billion dollars. Secretary Rubin, however, was unmoved and said that such a move would not cause the value of US T-Bills to plummet. After the currency crisis was over, *Hankook Kyungjae* ran a series of feature articles entitled 'True Records of Foreign Exchange Crisis'. An anonymous high ranking official of the MOFE is reported to have said that 'Asian financial crisis was wholly orchestrated and executed by Secretary Rubin'¹⁴² (*Hankook Kyungjae*, 17 Feb. 1998). DPM Kang, just before his resignation, also said, "It seems that we were caught in a huge net" (*Hankook*, 13, Feb. 1998). He suggested again in his Memorandum that 'US interests were reflected in the Asian financial crisis'.¹⁴³

The Korean government, however, was not aware of any of these at that time. Mr Eom, upon his arrival in Japan, announced that Korea would support AMF. On 17 November, Mr Eom went to Asian Deputy Finance Ministers Meeting held in Manila. He had a meeting with the US Deputy Treasury Secretary Lawrence Summers and with

¹⁴¹ As late as mid-October 1997, Japan had detailed plans for AMF. If all went to plan, 100 billion dollars would have been raised, of which half was to come from Japan and the remaining half from China, Korea and Hong Kong.

¹⁴² Rubin was working for Goldman, Sachs & Company, an investment management firm of Wall Street before he took office as the Treasury Secretary. He became a President of Citibank when he left his position in the government. Citibank took over Koram Bank in Korea under his leadership.

¹⁴³ He wrote: A sudden phone call from Stanley Fischer (First Deputy Managing Director of the IMF) was somewhat mysterious. Moreover, Fischer used to be opposed to removing restrictions on foreign exchange rate fluctuations... But he is now arguing that the market should be allowed to take control. This is not a classic IMF approach. It rather feels like a reflection of US interests... Whether the US did or did not start the fire, one can at least say that the US was not keen to put it out (Kang's Memorandum, 6 Feb. 1998).

Japanese Deputy Finance Minister Sakakibara. Mr Eom's plea for a two-party solution for the Korean financial crisis was met by an identical reply from both Japan and the US: 'talk to the IMF'.¹⁴⁴ Mr Sakakibara used to be a staunch defender of the Yen (his nickname was Mr Yen). However he had to give up. Japan's plan for AMF was officially withdrawn (*Hankook Kyungjae*, 17 Feb. 1998).¹⁴⁵

As mentioned earlier, when the newly appointed DPM Lim Changryul was delaying the announcement of the government's negotiation for emergency financial support from the IMF and seeking alternative solutions, Secretary Rubin made an official statement urging the Korean government to take 'immediate measures'. Also, it was perhaps at the insistence of the US that the IMF demanded written confirmations from three leading candidates for presidential election. The blunt demand of the IMF reflected the concerns of financial institutions on Wall Street who had much involvement in the Korean market. It was also in the interests of big players in the US industries which wanted either to take over Korean industries or to have them downsized.

Financial support from the IMF was in the nature of bridge loans. They are for the protection of creditor banks. Nevertheless, IMF insisted in its negotiation with the debtor country that the latter must change its financial market to provide improved business environment for international financial capital. Creditor banks were therefore rewarded twice. The US involvement in Korea's negotiation with IMF must be viewed as an American effort to maximise the interests of Wall Street.¹⁴⁶

When the IMF's Asia-Pacific Director Herbert Neiss was negotiating with the Korean government, decisions reached through negotiation were often undone by the United States.¹⁴⁷ Radical de-regulation of financial and capital market, opening up of the accounting profession and other demands of Wall Street kept coming through Mr Neiss' negotiating team. It was initially agreed that 9 merchant banking corporations were to be closed down. After Mr Lipton's arrival, the agreement was changed to include 12

¹⁴⁴ They both already knew about the secret bilateral negotiation mission of Camdessus (Managing Director of the IMF) which took place in Seoul on the previous day.

¹⁴⁵ As DPM Kang wrote in his *Diary* about 6 months later, Korea did not then realise that 'Japan was non-existent in international financial market' (*Kang's Diary*, 25 Apr. 1998).

¹⁴⁶ Of the last 10 Treasury Secretaries including Mr Rubin, 9 are from Wall Street firms. This symbolises the connection between the US financial policies and Wall Street's interests.

¹⁴⁷ The US Treasury Under-Secretary David Lipton secretly entered in Korea and stayed at Hilton Hotel in Seoul, where the IMF's negotiating team led by Mr Neiss was staying and conducting meetings with Korean officials. Neiss frequently left the negotiation held on the 19th floor and visited Lipton who was staying on the 10th floor.

merchant banking corporations and 2 high street banks. Vice Minister of Finance and Economy, Kang Mansoo, who led the Korean negotiating team at that time, later told the present researcher:

Mr Neiss himself sought our understanding that he had to listen to the demands of the US because no conclusion would receive final approval without the consent of the US (interview, 19 Mar. 2004).

On 28 November, President Bill Clinton telephoned from Camp David and urged President Kim Youngsam to conclude the negotiation with the IMF in a swift manner (*Hankook Kyungjae*, 20 Feb. 1998). Vice Minister Kang went on as follows:

In fact, Secretary Rubin wanted to get more out of Korea even if it meant that the negotiation would be prolonged. But in a meeting of National Security Council, Secretary of State Albright and Secretary of Defense Cohen took the view that Korea is important to the security of the US and that the Korean crisis should be quickly dealt with. This was how the negotiation with IMF could be concluded (interview, 19 Mar. 2004).

In the Finance Ministers Meeting of ASEAN countries and 6 other nations, which was held in Malaysia on 1 December, Assistant Secretary of the US Treasury, Timothy Geithner, suggested to Vice Minister Kang Mansoo¹⁴⁸ that Korea should advance the planned opening up of capital market which it pledged upon joining the OECD. Korean government's efforts to negotiate favourable conditions from the IMF came to nothing in the end. The negotiation was concluded on 3 December incorporating most of the IMF's initial proposals and additional demands from the US.¹⁴⁹

One noteworthy thing about this process is that an important item of negotiation was

¹⁴⁸ In an interview undertaken for this research, Mr Kang disclosed further that when he met China's Vice Finance Minister Liu Jibin and asked for a loan, Liu declined by saying 'how can a country whose per capita income is 600 dollars make loan to a country whose per capita income is over 10,000 dollars?' (interview, 19 Mar. 2004).

¹⁴⁹ It was a wholly different story from what happened in 1987 in the US when the stock market collapsed and banks were left with bad debts. The US government was then prepared to inject as much as it takes to keep the market afloat. No talk of 'restructuring' the US financial market rose to surface.

omitted from public announcement of the outcome of the negotiation. When the omitted item was subsequently leaked to the press, it caused serious disruption to the financial market. Three days after the negotiation was reportedly concluded, *Chosun* had an exclusive coverage of the full text of Memorandum of Understanding regarding the IMF's emergency loans (*Chosun*, 6 Dec. 1997). It emerged that contrary to the government's vehement denial, it was in fact agreed that 'two high street banks' were to be merged or closed down. Both the IMF and the Korean government wanted to keep it a secret because they were fearful of the panic such news would bring about. To some extent, they surely had a point.

However, the secretive decision cannot wholeheartedly be supported because an early announcement of closure of ailing banks could have reduced the uncertainty of the financial market. Moreover, such a secretive decision will result in 'asymmetry of information' because those who do have good access to secret information will benefit from the loss of the general public who do not have access to the information. If the government treats the population as a mere object of its economic policy, rather than as active participants in policy implementation, much time and effort will often be wasted in the execution and implementation of the policy. Breakdown of communication channels can occur not only within the government (as we discussed earlier), but also between the government and the population.

Independent Evaluation Office (IEO) of the IMF, in its Evaluation Report in 2003, referred to the above-mentioned leak and stated that 'although this undermined the initially positive market response, it would have been better publicly to acknowledge these facts at the outset and to design the program accordingly' (IEO 2003: 44). The IEO also proposed that 'a program for restoring confidence must include a strategy to communicate the logic of the program to the public and the markets (IEO 2003: 5).

Belt-tightening Measures and Media Coverage

The 'renegotiation controversy' which occurred in the run up to the Presidential election of 18 December 1997 shows that political calculations and inadequate media

coverage could pose serious obstacles to formation of reasonable economic policies. As the IMF demanded severe belt-tightening measures and comprehensive opening up of capital and financial markets, public opinion began to show dissatisfaction about the loss of 'economic sovereignty'. Some academics began to mention a possibility of 'renegotiation' with the IMF. Kim Daejung, who was then a candidate, announced during a televised debate on 1 December that if he was elected, he would renegotiate with IMF and achieve 4~5% annual economic growth.

The *New York Times* reported that Kim was attempting to use popular dissatisfaction to his benefit in the election. The paper raised some doubts as to whether Korea would indeed stick to the terms it negotiated with the IMF (6 Dec. 1997). The *Washington Post* said refusal to comply with the agreed terms of the rescue loans from the IMF could result in more major financial chaos in the Korean market (10 Dec. 1997). On the following day, the paper ran an article where it was asserted that even if Korea should enter in a default, its impacts on the world economy or on the US interests would be minimal. The article cites some specialists' argument that Korea should better be dropped and that the allocated fund should be used to support other countries (11 Dec. 1997).

Among Korean papers, *Chosun* was most critical about 'renegotiation'. It produced one headline article entitled 'Talk of renegotiation aggravates foreign exchange crisis' (11 Dec.), two editorials (9, 11 Dec.) and many other articles highlighting the danger of renegotiation attempts. *Donga* ran a contributing article authored by Dr Yang Soo-kil, a proponent for opening up of domestic markets. In his article, 'Talk of renegotiation could only undermine Korea's credibility', he argued that 'the crucial point of the terms negotiated from IMF is that we will have the opportunity to address the problems of the financial market and the chaebol. He added that 'we ourselves have for decades wanted to do precisely that' (11 Dec.).

Also, the Director of KDI, Cha Dongsei, explained in a public lecture that 'there is no guarantee as to whether renegotiation could in any way be more advantageous to Korea'. Instead, he remarked, 'When a lion attempts to hunt down a deer, perhaps the least bad solution is to hand over a fawn although we may mourn over its loss'. He argued that 'there is no reason to be afraid of closures or mergers of domestic financial institutions' (*Hankook*, 12 Dec.). A source who was in contact with the IMF's negotiation team told a reporter that Mr Camdessus' remark (the Korean government 'disgraced' the IMF) or

Secretary Rubin's statement (Koreans are 'ungrateful') is a reflection of the degree of the IMF's mistrust of Korea (*Munhwa*, 13 Dec.).

The ruling party's candidate, Lee Hoechang, ran a campaign advertisement entitled, 'Talk of renegotiation is ruining the country'. He attempted to highlight the renegotiation controversy as the biggest election issue. Alarmed by deteriorating conditions of the foreign exchange market and unfavourable results from opinion polls, Kim Daejung withdrew his argument for renegotiation. In a video conference - with George Soros, pop singer Michael Jackson and a former US Secretary of Commerce Mickey Canter - which was staged as a publicity event nearing the election, Kim Daejung renewed his pledge that he would 'fully support the IMF's program'.

On 13 December, President Kim Youngsam had a breakfast meeting with three candidates and reconfirmed his and their promise to abide by the deal with IMF. After the meeting, he telephoned President Clinton to explain the meeting and reassured him that 'there would no more debate in Korea regarding renegotiation with IMF' (*Hankook*, 15 Dec.). President Clinton was no doubt pleased. On 16 December, Prime Minister Goh Kun convened a special meeting and drew up a governmental plan 'to restrain chauvinism and arguments hostile to the US and to the IMF'.

In short, the possibility of renegotiation with the IMF was used by domestic political factions in their attempt to seize the power. The media treated this issue merely as one of the electioneering stunts. As a result, rational and dispassionate analysis of merits and demerits of renegotiation with the IMF were not explored. The few proponents for renegotiation now found themselves accused of chauvinism. Their voice was lost. The wrongly devised support package of the IMF thus remained for some time in a safe-haven shielded from criticism.

Kim Daejung won the election held on 18 December. As soon as he took office, however, he went even further than the IMF demanded. He adopted a comprehensive platform for deregulation and opening up of domestic markets. His decision to allow lay-off and hostile M & A and full scale amendment of the Foreign Exchange Management Act make one wonder the true meaning of 'Democratic market economy'¹⁵⁰ which he had

¹⁵⁰ In fact, the words 'Democratic market economy' themselves lie in the relationship of the oxymoron in which the democratic principle of 'one man one vote' and the capitalistic principle of 'one dollar one vote' comes into conflict with each other. The expression 'Democratic' is perhaps added to dilute the resistance to market-driven economic policies

been advocating as a Presidential candidate. These measures were not included in the agreement with the IMF. With regard to lay-off, in particular, Kim Daejung himself had consistently argued during his candidacy that its introduction would be premature.

The remarkable somersault was reported in a serialised feature article, 'DJ-Nomics: Unfinished Reform' which appeared in *JoongAng*. An anecdote in this series shows the role played by American-Trained Korean Economists (ATKEs), Kim Kihwan and Ryu Jongkeun. They persuaded the President elect that in order to ensure prompt financial support from the US, Korea must do more than what was demanded by the IMF. Fully aware of what the US is capable of, Kim Daejung accepted their proposal. Kim Kihwan was thus sent to the US as a special ambassador for economic cooperation. Without seeking the Korean government's approval, Kim Kihwan gave an undertaking to his US counterpart that an earlier support from the US would be reciprocated by the Korean government's reform efforts which go further than those required by the IMF. He returned to Korea on 22 December and explained his meetings to the President elect. Later on in the same day, Under Secretary Lipton arrived in Seoul to meet with the President elect. Lipton was given a clearly satisfactory answer in this meeting (*JoongAng*, 3 Jan. 2002). Ryu Jongkeun was in attendance at this meeting and he recalls:

Mr Lipton cautiously broached the issue of flexibility of the labour market. The President elect responded immediately and unequivocally: 'For me, what is important is competitiveness. In order to ensure competitiveness of the Korean economy, labour market flexibility is a must.' Mr Lipton had a broad grin (*JoongAng*, 3 Jan. 2002).

The outcome of the meeting was immediately reported back. Two days later, the IMF and the US announced an early installment of a loan amounting to 10 billion dollars. However, even if the foreign exchange reserve was running out, it is not free from criticism that Korea offered to undertake radical measures which are bound to have profound and far-reaching impacts. Proponents of the open market claim that without such a swift move, Korea was certain to face national default. If, however, Korea had been declared to be in default, its creditors could well have experienced greater inconveniences. The US therefore could not have pushed the situation to that extent.

According to Kim Kihwan's recollection, after he had explained the near default situation of Korea to the officials of the US Treasury department, Assistant Secretary Geithner stopped him and requested him to avoid using the word 'default'. Mr Kim sensed that the US officials were having their share of worries (*JoongAng*, 3 Jan. 2002). Korea could have adopted the Russian approach. Russia declared a moratorium and was given a moment of respite. An editorial which appeared in the *New York Times* also mentioned moratorium as a viable option open to Korea. That option was indeed suggested by Fred Bergsten of the Institute of International Economics (12 Dec. 1997).

In this connection, James Crotty argued that if Korea was prepared to declare a moratorium it could have negotiated a better deal from the IMF. He pointed out:

Korea's negotiation with the IMF was quickly concluded simply because Korea accepted almost all the demands of the US creditors and the IMF. If the full list of agreed restructuring and de-regulatory measures are to be implemented, the Korean economy will be under the control of multinational capitals as is the case with South American countries. If that happens, it will be impossible for Korea to regain the dynamism and growth pattern it used to show (Crotty 1998).

It is extremely difficult to surmise what would have happened if Korea had maintained a more independent stance in its negotiations with the IMF. Was it likely that Korea was going to declare a moratorium? What would have been the consequences of declaring a moratorium? However, there is little doubt that since the possibility of declaring a moratorium was ruled out too early in the negotiation process, Korea's bargaining leverage seriously weakened. Moreover, neo-liberalist scholars took this opportunity to squeeze in their policy proposals on the occasion of negotiation with the IMF. As a result, Korea became an 'exemplary case' of the IMF bailout loan where the full list of Anglo-American capitalist measures were implemented as a condition for emergency loan.

This is in striking contrast with the case of Malaysia that refused to follow the recipe of the IMF. Instead of receiving emergency rescue loans, then Prime Minister, Mahathir, decided to control the movements of speculative international capital. It proved successful. Veneroso pointed out that 'Kim Daejung was following the US Treasury line

more closely than any other Asian leader' (Veneroso 1998).

The media failed to offer an analysis of policy measures which were being demanded by the IMF. They treated those policy measures as un-alterable or un-negotiable. Severe belt-tightening measures and large scale lay-offs were accepted as un-avoidable. When the IMF bail-out was announced (21 Nov. 1997) or final, negotiated outcome was reported (3 Dec. 1997), the press poured out emotionally charged and sensational outcries: 'A day of national shame' or 'Economic trusteeship'. When it comes to concrete measures or methods to get out of the situation, the media failed to offer any meaningful discussion. They kept reiterating personal virtues of belt-tightening, frugality and hard work.

One offshoot of such an approach is the massive scale citizens' movement for gold collecting. The movement was started by *Hankook* (newspaper) and *MBC* (broadcasting corporation). Fuelled by patriotic sentiment stirred up by humiliation of the IMF bailout, three and a half million households participated in this nation-wide effort to bring out gold from the bottom of wardrobes. A total of 225 tons of pure gold was collected. The export of the gold generated more than 2 billion dollars which greatly helped to ease foreign currency shortage of the time.

Such popular movements did have a great impact. On the other hand, however, they prevented clear headed analyses of the situation and hampered meaningful discussion about the measures demanded by the IMF. The spread of 'mea culpa' gave immunity to the chaebol. Serious instances of foreign interference with domestic economic autonomy were taken for granted. The Korean media contributed to this practice of 'personalisation' by putting the blame on every citizen for structural and institutional problems.

Although the US media during the financial crisis were loyal to Wall Street interests, they sometimes reported views which pointed out problems of the IMF's approach. For example, the *Washington Post* suggested that thanks to the belt-tightening measures forced upon South East Asian firms, Western countries were able to purchase them at a very low price. The paper predicted that these measures, in turn, would have the adverse consequence of spreading anti-Western sentiment in this area and that, as a result, the relationship between the US and Asia would be in danger of deterioration (18 Jan. 1998). The *Time* magazine and the *Financial Times* gave voice to Professor Jeffrey Sachs who was critical of the IMF's prescriptions for Asian countries. The *Time* had an article by Professor Sachs which was cynically entitled, 'International Monetary Failure?' (8 Dec.

1997). The *Financial Times* also had an article where he denounced severe belt-tightening measures as ‘overkill’ (11 Dec. 1997).

Other foreign media also gave voice to prominent economists such as Martin Feldstein, Joseph Stiglitz and Robert Wade. These scholars were largely critical of IMF’s bail-out programmes. For example, Feldstein asked, ‘Why should Korea be required to raise taxes and cut spending... when its national savings rate is already one of the highest in the world’ (Feldstein 1998). Veneroso quotes the argument of Joseph Stiglitz: ‘there is no empirical evidence that lower rates weaken a currency’. He then went on: ‘in the case of South East Asia, it is now clear that high real rates, by creating bankruptcies and depression, have caused foreign capital to flee the region, thereby weakening local currencies’ (Veneroso 1998). Wade wrote in a column entitled, ‘Asian water torture’ which appeared in the *Financial Times*: ‘unless the IMF allows the region’s economies to reflate and lower interest rates, it will condemn them to a never-ending spiral of recession and bankruptcy’ (23 June 1998).

In Korea, however, few scholars were raising doubts as to the soundness of the IMF’s approach to Korean crisis. Even if there were, they were largely ignored by the press.¹⁵¹ The Korean media gave a low profile treatment of foreign news articles which were critical of the IMF. Instead, they kept arguing for severe tightening measures by and large until the summer of 1998. Their rationale was that tight fiscal policies would be necessary to achieve restructuring of industries (e.g. *Chosun*, editorial, 1 May 1998; *Seoul-shinmun*, editorial, 26 June 1998).

However, their argument is not very convincing. As Kim and Park have demonstrated, although the theoretical expectation is that tight fiscal policies would eliminate inefficient firms, the reality is that those firms which somehow have the ability to finance would survive regardless of how efficient or inefficient they may be (Kim and Park, 1998: 380). In fact, during December 1997 and the first half of 1998, about 2000 firms went bankrupt every month. Most of them were small or medium sized enterprises which had very few means of financing. The main target of restructuring was the chaebol. Nonetheless they remained intact from this wave of restructuring. If one wishes to preserve industrial foundations and would like to deal with problems related to the chaebol,

¹⁵¹ Although there were a few articles such as Lee Chan-geun’s contribution entitled, ‘Renegotiation with IMF is needed’, which was carried in a minor newspaper (Segye, 11 May 1998).

indiscriminately tight fiscal measures may not be the answer. Instead, restructuring plans focused on the chaebol themselves could have had a greater chance of success.

Because of severe belt-tightening measures, overnight call rate went up as high as 25% and the Korean composite stock index went down from around 600 to around 300. Korean currency was seriously devalued too: 1 US dollar used to be approximately 900 Korean won, but it was now as high as 2000 won. All these indices were suggesting that a worse financial crisis might be around the corner. The IMF were forced to recognise by July 1998 that their policies were wrong, and then lowered the interest rate and toned down some of the severest measures. By then, however, numerous companies had already gone bankrupt or were waiting to be sold to foreign purchasers. In July 1998, Mr Ahn Youngseop contributed a column entitled, 'Criticising the IMF: is it a taboo?' (*DongA*, 9 July 1998). The title itself reveals that Korean media had largely been uninterested in criticising belt-tightening measures demanded by the IMF.

Restructuring and the 'Big Deal'

With regard to the restructuring of the chaebol, which should take the largest share of blame for the crisis, newspapers adopted divergent stances depending on their character and affiliation. On 3 December 1997, when the IMF's emergency loan was finally decided, *JoongAng* (affiliate of Samsung) ran an article 'Restructuring of chaebol sends shock wave'. It expressed its deep worries that 'the forced intervention of the IMF might cause confusion and many undesirable side-effects.' On the following day, *JoongAng* devoted an entire page to put forward the chaebol's arguments: 'if cross payment guarantees between affiliates are no longer allowed, companies would have to face higher financing costs because they would no longer be able to borrow from their affiliates; and if consolidated accounting practice had to be adopted, trade between affiliates would no longer be allowed and it would result in diminished turnover' (4 Dec. 1997). *Kyunghyang* (affiliate of Hanhwa) kept silent about Mr Camdessus' remark that the chaebol might have to be dismantled. A few days later, however, it had an editorial, 'Concluding the bargain under the influence of the US and Japan' and criticised Mr Camdessus' remark (5 Dec.).

Munwha (affiliate of Hyundai) had an editorial, 'Let's start again!' and argued that the newly introduced requirement of external audit would divulge trade secrets and strategies of domestic corporations. *Hankook Kyungjae*, which is owned by KFI, published a column by a proponent of neo-liberalism, Gong Byungho. Mr Gong criticised Mr Camdessus by saying that foreigners 'do not have an accurate understanding of the facts and yet assume that systems which they do not have are all wrong' (4 Dec.).

However, *DongA* had an editorial, 'The IMF's case for dismantling the chaebol' and claimed that 'the financial crisis facing the nation at the moment is brought about by the chaebol and the recovery of the national economy cannot be achieved unless structural problems and inefficiency of the chaebol are dealt with' (4 Dec.). *Chosun* had an editorial, 'Are the chaebol going to change?' and advanced an argument that 'the IMF was not far off the mark when it pointed out that the chaebol were left unchecked in their reckless borrowing practice and over-ambitious attempt to expand their business areas' (4 Dec.). *Hankyoreh* joined in and proposed that 'reform of the chaebol is our responsibility' (4 Dec.).

Meanwhile, President elect Kim Daejung met with the heads of 4 chaebol on 13 January and came to an agreement on 'Five principles of restructuring'.¹⁵² A few days later, the Chairman of the Committee for Emergency Economic Planning, Lee Hun-jai, proposed 'Three principles of implementation': i) firms must take the initiative; ii) the government proposes guidelines only; iii) restructuring will be implemented through banking and financing. The emphasis was on the third point. Mr Lee believed that tightening the flow of money would be the most effective means of implementing the restructuring of the chaebol.

However, the 'Three principles' had limits although they did have some favourable results. The shortcomings of these principle themselves, the 'wall of real politics' and the resistance of the chaebol made it difficult to stick to these principles. Most of all, the banks themselves were suffering from the same types of problems they were asked to fix. In the name of corporate autonomy, the chaebol planted their heels and refused to carry out restructuring.

In the end, the government had to come to the fore. As proposing guidelines was not

¹⁵² Five principle of restructuring: improvement of the corporate governance framework; enhancement of management transparency; elimination of cross-debt guarantees; improvement of the capital structure of firms; greater concentration in core businesses.

enough, the so-called 'Big deal' was being contemplated. 'Big deal' refer to restructuring plans to eliminate duplication and over-investment by business swap so that a company which has comparative advantage in a given business area would be asked to have the business operations of its less successful competitors. The successful company, on the other hand, would be asked to relinquish its less successful operations in other business areas. However, the chaebol as well as the KFI were opposed to the 'Big deal'. The Chairman of the KFI, Choi Jonghyun, said in a meeting with journalists that discussions about a 'Big deal' had no substance and that they would be unrealistic (*Kyunghyang*, 8 Jan. 1998).

The chaebol's apparent opposition to the proposed 'Big deal', however, must not be taken at its face value. In reality, some of them were in favour of the proposed restructuring plans. Nevertheless they all put up an appearance that they were either uninterested or opposed. The reason is that they did not want to be perceived as welcoming the proposal as they feared that it would lower their bargaining position. All of them wanted to get the maximum out of the proposed restructuring deals. In particular, Samsung, Daewoo and Hyundai had more serious problems of over-investment compared to LG or SK Group. The former groups of companies, therefore, hoped to be rid of their problems through 'Big deals'. Contrary to the media-made popular notions that the proposal for 'Big deal' came from the government and was forced entirely by the government, the idea in fact started from some of the chaebol themselves.

Indications for this can be found in classified reports prepared by Samsung and Daewoo. Immediately upon the outbreak of the currency crisis, Samsung Economic Research Institute (SERI) started to prepare for plans to overcome it. At the beginning of December 1997, SERI's report was presented to the Secretariat of Samsung's chairman. The report contains the proposal that group heads must come to an agreement whereby they would swap business operations they experience difficulty with. According to a book entitled, *The Game of Big Deal*, a SERI researcher is reported to have said, 'We wanted our proposal to remain classified because we did not want to give out the impression that the idea was to have Samsung Motors off our back' (Lee, Y. 1999).

Samsung appears to have carefully planned to build up favourable opinions for business swap. In a booklet entitled, *The IMF and the Korean Economy* which was prepared by SERI and freely distributed to the media and to the government officials on 9

December (only 6 days after the bail-out by the IMF was decided), ‘business swap’ was already being mentioned (SERI 1997: 100; 157). Two days later, SERI distributed a press release entitled ‘Financial support from the IMF and corporate responses’ and proposed as a short-term measure that ‘companies must swiftly carry out business restructuring by selling off unsuccessful operations, business swaps, or out-sourcing’ (*Kookmin*, 11 Dec. 1997). As yet, however, ‘business swap’ was presented merely as one among many alternative measures. It did not attract much attention and did not feature in a headline.

As more detailed news articles were being written by reporters who had sources close to the chaebol’s chairmen, ‘business swap’ became a hot issue. On 15 December, *Chosun* and *Hankyoreh* both had articles dealing with corporate restructuring. *Chosun*’s article was entitled ‘Unsound companies likely to be traded among the chaebol in a restructuring effort’. *Hankyoreh*’s article, ‘Urgent need for restructuring among the chaebol and among business areas’ reads more like an opinion. According to the article, ‘elimination of marginalised businesses’ which was being pursued by the government was not likely to be enough to overcome the IMF crisis. In order to resolve the problems of over-investment, the article suggested business swaps:

Businesses should be swapped among the chaebol.... Hyundai, for example, could concentrate on car manufacturing and heavy industry while Samsung could concentrate on finance and semi-conductor. And LG could concentrate on electronics and the petro-chemical industry. Unless the chaebol could work out such strategic concentration plans, it is unlikely that the economic crisis can be overcome in the near future’ (*Hankyoreh*, 15 Dec. 1998).

The reporter, Jeong Youngmoo, who was covering Samsung at the time said:

The idea was not mine. I wrote it on the basis of what I heard from several chaebol sources (interview, 19 Mar. 2004).

Economic newspapers joined in as well. On 15 December, *Maeil Kyungjae* published an article on its front page urging the chairmen of the chaebol to start negotiations for restructuring. On the following day, *Hankook Kyungjae* had an article

'Business swap among the chaebol - a possibility?' Top ranking employees of Samsung and Hyundai were quoted in the article as having expressed their agreement to the business swap. The director of Samsung's planning team, Ji Seungrim, said, 'Trimming down is no longer a viable method of corporate restructuring. Bartering business operations among the chaebol are necessary as it can concentrate resources to a company which has competitive advantage' (*Hankook Kyungjae*, 16 Dec. 1997). On 6 January, the Daewoo Economic Research Institute leaked a confidential report entitled, 'A Preliminary Study for Big Deals' (DERI, 1998). It was the first report to use the expression 'Big deal'. As the report was favouring Daewoo, other chaebol made strong protests.

The Chairman of Policy Committee of the ruling party (Assemblyman), Kim Wonkil played an important role in having the government adopt the chaebol's idea of the 'Big deal'. Upon Kim Daejung's election, Kim Wonkil, a former entrepreneur, suddenly became an important person in economic policy making. He met news reporters and high ranking government officials and tirelessly preached the virtues of the 'Big deal'. In a personal communication with the present researcher, he asserted that the 'Big deal' is the only way forward for us at the moment. When he was asked where he got his ideas from, he answered:

I did meet with many experts and managers of corporate groups. But anyone who has some knowledge of the economy would come up with the same ideas (personal communication, Jan. 1998).

President Kim Daejung was initially wary of having the government take the initiative for the 'Big deal'. As the press increased the criticism about poor records of restructuring, he changed his course and energetically pursued the 'Big deal'. His visit to the US in June and President Clinton's visit to Korea in November also provided an important driving force for the 'Big deal'. Clinton was concerned about the increasing volume of Korean exports of semi-conductor and steel products to the US. He criticised the slow pace at which restructuring of the chaebol was being implemented. The US wanted to have production facilities in Korea downsized as a means to deal with the worldwide problem caused by the surplus of production facilities.

With some difficulty and delay, production facilities in oil refinery, petro-chemical,

power plant, aircraft and train manufacturing were reduced. Formerly, 3 to 5 firms were competing in each of these areas of business. The number of firms then dropped to one or two. However, 'Big deals' did not take place or 'wrong deals' took place in car manufacturing and semi-conductor business. Partly because of this, Daewoo and Hyundai started to decline.

There was a convincing argument that semi-conductor business should be taken over by LG which had the expertise and a relatively better financial position. Nevertheless, on the strength of market share, Hyundai was allowed to take over the semi-conductor business. Hyundai's financial position seriously deteriorated as a result.¹⁵³ The 'Big deal' had many problems as it created a monopoly, but it was perhaps an unavoidable choice to eliminate problems of over-capacity in a given industry. The 'wrong deal' in the semi-conductor industry, however, dealt a serious blow to the credibility of the 'Big deal' as a policy for corporate restructuring.

There were many factors contributing to the decision for Hyundai to take over the semi-conductor industry. Of those factors, politics and the media were of particular importance. The Kim Daejung administration was keen to have the credit rating restored by corporate restructuring. The government's hasty and aggressive drive to have Hyundai oligopolise the semi-conductor industry ('Super deal') was motivated by this. The media were also encouraging this move. Hyundai had close connections with the government because of its role in the North-South negotiation. It is rumoured that, in exchange for its commitment in inter-Korean deal, Hyundai was trying to win the semi-conductor industry.

In October 1998, as the semi-conductor market began to show signs of recovery, the press had mixed views about the restructuring of semi-conductor industry. A group of newspapers advocated that the 'Big deal' was largely useless. *Chosun* had an article, 'Arguments against the semi-conductor Big deal are surfacing' (26 Oct.) and *Donga* had 'Semi-conductor market on the recovery: was Big deal necessary?' (27 Oct.). On the other hand, several papers showed frustration for the slow pace at which the Big deal was being implemented. *Hankyoreh* had an article, 'Is the Big deal really going to take place?' (28 Oct.) and *Hankook* had 'Chaebol must keep their promise' (30 Oct.). Many reporters at

¹⁵³ LG Semiconductor's debts together with the purchase price for the take over amounted to 600 billion won. By coincidence, the semi-conductor market entered into a slump. Hyundai's newly created semi-conductor manufacturer (Hynix) quickly went into court receivership and was being managed by its creditors.

that time were saying as follows:

Depending on their personal sympathy and connections with individual chaebol, reporters were engaged in a battle as champions of different chaebol (personal communications, Oct. 1998).

Under this climate, on 14 December, President Kim said in an interview with a Korean broadcasting corporation, CBS, 'The restructuring agreement among five chaebol is faced with an obstacle in the semi-conductor industry because of the resistance of a company. The company which does not abide by the agreement will be subjected to sanctions imposed by banks.' At about the same time, the credit rating agency Moody's announced that it noted with interest the delay in restructuring efforts in semi-conductor industry. Moody's accordingly decided to maintain 'negative watch' status for Hyundai Semiconductor America which is a subsidiary of Hyundai electronics.

On 6 January 1999, the Chairman of LG, Koo Bonmoo, was called in to the Office of the President. He announced to the President that LG would give up the semi-conductor industry. According to *DongA's* serialised coverage of this period, 'Secret Records of Kim Daejung Government', as soon as he took seat with Chairman Koo, President Kim introduced an economic daily newspaper and said, 'Have you read this?' pointing to an article. The article contained assertions that because of the delay in restructuring the semi-conductor industry, the nation's credit rating was downgraded and foreign investors were reluctant to invest in Korea (*DongA*, 23 July 2003). This episode shows that President Kim used to take news reports seriously.

'Big deals' did have some success in reducing surplus or redundant facilities. That was because there existed a shared understanding among those in the policy community that 'Big deals' were necessary. However, the goals they wanted to achieve through 'big deals' were different. The US, for example, wanted to see Korean companies shed their surplus capacity. The chaebol, on the other hand, wanted to get rid of unsuccessful operations and redundant employees. Some papers such as *Hankook*, *Hankyoreh* and *Chosun* put forward an argument that the chaebol owners should take personal responsibility for the crisis and that their personal wealth should be used for the 'Big deals' (e.g. *Hankook*, editorial, 20 Jan. 1998). *DongA* and *JoongAng* were critical of this

argument. They claimed that the government should offer tax relief, allow lay-offs and take other measures to create a favourable environment for 'Big deals' to go ahead. The argument for personal accountability was criticised as 'Parading with a bandwagon with little understanding of the reality' (e.g. *DongA*, 23 Jan. 1998). In the end, the personal accountability argument died down without many concrete results although it started out with much publicity. The arguments supporting the chaebol were mostly implemented.

The Chaebol, Politics and the Media

Hyundai and Daewoo had contrasting corporate traditions and cultures. Many of the differences are derived from their founders' different characteristics and management styles. Chung Juyung of Hyundai lived a life which was a legendary success story for blue collar workers. Kim Woojoong of Daewoo, on the other hand, was an idol for white collar employees. Chung started in the manufacturing industry. Kim Woojoong started in trade and financing. Most of Hyundai's companies were started by Chung himself. Kim Woojoong relied on take-overs and mergers to build his business empire.

There were similarities too. Using their remarkable industriousness and brilliant ideas, they were leading the development years of Korean economy. Both of them had a desire for power and tried to enter into connections with political rulers. In 1992, both of them expressed their interest in the Presidency. Chung actually ran for the Presidency.¹⁵⁴ Their over-ambitious business structure revealed serious financial weaknesses during and after the IMF era. Rather than adapting to the changed business environment, they went ahead with reckless acquisitions and expansions often based upon their arbitrary decisions. They both attempted to cover up their financial weakness by mobilising the press and the politics. The two groups had different starting points and took different courses of development. However, their end was similar. Both of them were declined.

¹⁵⁴ Chung Juyung distinguished himself in inviting the 1988 Seoul Olympics by mobilising Hyundai's organisation and slush fund. He became a candidate for President in 1992 with these successes. His son, Chung Mongjoon also successfully hosted the 2002 FIFA World Cup in the same manner. He also ran for the Presidency after the Korean team became semi-finalists in that World Cup.

The Case of Daewoo

Kim Woojoong's 'Global Management' attracted a great deal of attention, even for a while after the outbreak of the currency crisis. His business style was hailed as a new alternative for Korean economy. However, Kim's overseas business operations started by making personal contacts with the rulers of East European countries, Vietnam and Cambodia who all wanted to have accelerated economic growth which is often regarded as the hallmark of South Korean economy. Kim built a politically favourable business environment through boldly investing in those countries.¹⁵⁵ It was a high risk, high return business model. However, it quickly raised Daewoo's market share. Just before the currency crisis of 1997, Daewoo had 320 overseas affiliates.

UNCTAD described Daewoo as the biggest borderless corporation in the developing countries with 200,000 overseas employees and assets worth 11.9 billion dollars worldwide. *Seoul-Shinmun* had a serialised article entitled 'Global Management of Daewoo' (*Seoul*, 12-24 Aug. 1996). *Hankyoreh* had an article for Daewoo, 'The world has no border and there is no slump' (*Hankyoreh*, 30 Sep. 1996). The article was named after Kim's best seller, *The World has No Border and There is No Limit to Businesses*.

Among government officials, however, there were voices of concern about Daewoo's foreign investment strategy which relied on foreign loans. Foreign economic journals such as *The Economist* and some other papers in and out of Korea also began to show signs of concern (e.g. *Chosun*, 24 Sep. 1996). However, Kim was quick to seize opportunities and turn the table around with sophisticated publicity measures. President Kim Youngsam was visiting South East Asian countries in November 1996. Kim Woojoong took the opportunity to invite President Kim to Daewoo's plant in Vietnam. President Kim was then preaching his 'Globalisation' idea and he was duly impressed by Daewoo's achievement. At a reception held in Daewoo Hotel in Hanoi, President Kim heaped praises on Daewoo. Daewoo's 'Global management' received a high-profile news coverage. Kim Woojoong could enjoy a very enthusiastic support from President Kim Youngsam and his government (e.g. *Seoul-shinmun*, 27 Nov. 1996).

In the spring of 1997, Daewoo affiliates' share prices went up by 30% thanks to

¹⁵⁵ For example, Kim took over a bankrupt Polish car assembly plant, FSO, with loans from multinational financing firms. He exported half completed cars from Korea which were finished and marketed in Poland on a semi-knock-down basis.

several presentation and corporate promotion events held earlier in the year. Daewoo was envied by many other chaebol which were suffering from recession. A report purportedly prepared by the Secretariat of LG Group was being circulated at the time. The report predicted that by 2005, Daewoo would be at the top. Daewoo's 'Global management' appeared to be working fine.

However, the currency crisis of that winter put a halt to it. Nevertheless, Daewoo's business structure, which relied heavily on foreign loans, could not slow down. Like a bicycle which falls when it slows down, Daewoo kept borrowing in spite of the rocketing interest rate and exchange rate in order to serve debts which fall due. Most chaebol started to take belt-tightening measures. Yet Kim Woojoong remained defiant. As the chairman of KFI, Kim said that the crisis was not caused by the industry but by the weakness of financial institutions of Korea. Daewoo kept expanding.

In order to secure financial support, some of Daewoo's affiliates exported goods to their overseas branches which received and kept them in warehouses. Daewoo Motors failed to repatriate 1.5 billion dollars which it received for exported cars and used the money to repay foreign loans. Daewoo's foreign debts amounted to 10 billion dollars in total. Since many of Daewoo's overseas investment projects were still at the initial stage and the plants were under construction, Daewoo had difficulty in paying the interests accrued to its loans. Daewoo's complicated overseas financing deals were supervised by a secretive unit, known as Codename BFC, which was located in a suburb of London.¹⁵⁶

Chairman Kim made use of the media to hide the dire financial situation and approached politicians to resolve financial difficulties. He set up the 'Daewoo Communications Centre' which oversaw all public relations activities of Daewoo. The Centre was headed by a vice-president. Kim also made good use of the public relations team of KFI. During his chairmanship, Kim Woojoong kept propagating his conviction that the economic crisis was not due to reckless expansion of the chaebol. Kim knew how to deal with the media. The following is an example which Kim himself told the reporters covering Daewoo:

At one time, a newspaper kept publishing inaccurate reports on Daewoo. I asked the

¹⁵⁶ BFC stood for the British Finance Centre. A number of British trained finance experts, known as the 'London School of Daewoo members', were using all sorts of financing techniques to keep afloat Daewoo's global management.

public relations team to keep track of all articles concerning Daewoo published in a certain paper. After a year, I looked at the collected articles on Daewoo. I could see that the paper was contradicting itself on many occasions. When I later had an opportunity to meet the president of the newspaper, I presented him the collected news articles. It made a difference; I could tell. Regarding the secret fund scandal which is raging at the moment, I also asked my public relations team to keep track of the news articles (cited in Kang Joonman 1997: 100).

The 'secret fund scandal' mentioned here refers to bribery charges against the chaebol which allegedly offered large sums of money to Chun Doo-hwan and Roh Tae-woo while they were Presidents of Korea. In a roundabout way, Chairman Kim was attempting to have a chilling effect on the reporters.

In his frequent overseas trips, he was often accompanied by famous professors, novelists, leaders of citizen groups who regularly contribute columns to newspapers. His overseas journeys were then publicised by writings of his 'travel companions'.¹⁵⁷ In 1997, the dean of the Management School of Seoul National University, Professor Gwak Soo-il, contributed a column, 'Global management by Columbus of our time' (*Donga*, 30 Apr. 1997). A year later Professor Gwak and 8 other professors of management studies published a book: *The World is Open, the Future is in Sight*. It is a collection of case studies of 'Global management' strategy (Seo Jaemyung et al. 1998). The book was advertised as a 'New textbook to overcome the economic crisis'. At about the same time, Harvard Business School also published a collection of case studies about Daewoo's 'Global management'. The publication of these studies was reported in the media under a glowing title, 'Kim's new management strategy shines out in a turbulent period' (*Segye*, 20 Mar. 1998). The ills of Kim's management, which relies on foreign loans, were not mentioned in the news. However, the disease took hold of Daewoo to the marrow.

Daewoo's financial weakness was brought to the surface in the course of negotiation for a 'Big deal' in the car industry. It was ironic because Daewoo participated in the deal in order to cover up its financial problems. Daewoo counted on receiving a huge amount of government subsidy in return for taking over the debts of Samsung Motors. Samsung,

¹⁵⁷ For example, an influential philosopher, Kim Yong-ok published a book based on the talks with Kim Woojoong during their trip (Kim Yong-ok 1991).

on the other hand, wanted to have Chairman Lee's misjudgment swept under the carpet by handing over Samsung Motors to Daewoo. At that time, Samsung was incurring loss of 1.5 million won per car sold. Nevertheless the production had to continue. As mentioned earlier, Samsung made use of the regional sentiment of Busan (a South Eastern region of Korea) and put pressure on politicians to secure approval for Samsung Motors. If the plant were closed down now, there would be a serious outcry from people of the region who were particularly sensitive about the new government's close ties with the South Western region. Daewoo made use of this dilemma and asked for a huge compensation package as a condition to take over Samsung Motors.

In the autumn of 1998, however, Samsung Capital, Samsung Investment and Trust, Samsung Life Insurance, and Samsung Fire Insurance took a concerted move to withdraw loans extended to Daewoo. Daewoo was under a great deal of pressure. When Samsung's move was known to other financial institutions, they also started to follow suit simply because 'Samsung is doing it (and they must know what they are doing)'. It is said that the same happened in 1997 when Kia Motors went bankrupt and also in 2000 when the Hyundai Group was dismembered. According to *Hankook Kyungjae*, Chairman Kim's visit to Samsung's Lee Keunhee on 23 March 1999 was not so much about the pending 'Big deal' regarding the car industry as to stop Samsung's withdrawal of loans from Daewoo's companies (Chung Gyujae et al. 2002: 69).

Meanwhile, the negotiation for a 'Big deal' stood still. Valuation and fierce publicity moves from both sides had the result of revealing that both Daewoo and Samsung Motors had debts which were far greater than expected. Samsung Motors' debts amounted to 4.3 trillion won. A government official was quoted in *Hankyoreh* as having raised the possibility that Chairman Lee Keunhee might have to take personal responsibility for Samsung Motors' failure (*Hankyoreh*, 13 May 1999). When all things were brought to the surface, Samsung lost interest in the 'Big deal' and entered into court receivership. Samsung announced that Chairman Lee would inject 4 million shares of Samsung Life Insurance to the ailing Samsung Motors. Chairman Kim of Daewoo thought that the failure of the 'Big deal' was due to the failure of public relations. He complained that Samsung's unreasonable claims were received as truthful and the general public came to hold a view that the 'Big deal' did not go ahead because of Daewoo' (Chung Gyujae et al. 2002: 142).

On 29 October 1998, a warning sign appeared regarding Daewoo's financial difficulty which had thus far been kept away from the media coverage. The Seoul branch office of Nomura Securities distributed to selected non-Korean customers a confidential report entitled, 'Alarm bell is ringing for the Daewoo Group'. The report suggested that since banks and financial institutions were not to be allowed to hold corporate bonds above the newly introduced limit, Daewoo might experience serious cash flow problems or even have to face the prospect of a 'work-out'¹⁵⁸ in view of the fact that Daewoo relied very heavily on corporate bonds. The existence of the report was first made known by *Hankyoreh*, which got hold of a copy of the report 19 days later (*Hankyoreh*, 17 Nov. 1998). Despite its news value, the article was not quoted in any other newspapers. Daewoo lobbied hard to ensure that the news was not going to appear in other papers.¹⁵⁹ A few days later, all newspapers published an article claiming that Daewoo had no problem in financing (*Chosun*, 21 Nov. 1998; among many others). The article was based on a news conference held by Daewoo.

As a quick fix, Kim Woojoong resorted to politicians again. President Kim Daejung was visiting Vietnam in December 1998. Chairman Kim flew to Vietnam and invited the President to Daewoo Hotel. Chairman Kim explained that construction of plants in Eastern European countries was soon to be completed and that tight restrictions on trade loans should be relaxed so that Daewoo could meet the urgent financial needs. President Kim replied that he would positively consider the matter. According to an article entitled 'Secrets of Kim Daejung Government' which was serialised in *DongA* after transfer of power, President Kim was not in a position to refuse Chairman Kim's request because he had secretly received a huge amount of election campaign fund (*DongA*, 2 July 2003). However, in spite of President Kim's positive response, Chairman Kim's suggestion was finally refused by the government economic team pursuing the restructuring by tightening financial means. Daewoo's request could not be granted unless the government was prepared to give up the restructuring.

¹⁵⁸ 'Work-out' refers to the measure to revitalize bankrupt companies through rescheduling and adjusting their outstanding debts. The companies under 'work-out' should take necessary measures to sell properties, reduce workforce and reduce capital.

¹⁵⁹ As the news was carried in the first edition of *Hankyoreh*, an executive director in charge of public relations for Daewoo threatened the Economic Editor (the present researcher), saying that 'draw it out in the edition for Seoul, otherwise you will be sued for damages'. He also added, 'we took every measure so that other newspapers couldn't reproduce the article'.

In April 1999, Daewoo invited news reporters covering Financial Supervisory Commission (FSC) to Daewoo's Eastern European plants. It was planned to dispel worries about Daewoo's financial difficulty. Although the reporters covering FSC were all aware of Daewoo's difficulty, they simply did not write about it (Chung Gyujae et al. 2002:19). Because of Daewoo's lobbying efforts and the favourable treatment of the press, Daewoo's financial difficulty remained unreported until Daewoo announced its plan to offer additional security for the pending loans. In order to get additional loans and to have the repayment dates for Daewoo's commercial papers postponed, Daewoo had to offer additional security worth 10 trillion won consisting of shares and real estate on 19 July. Ironically, this provided the occasion to report Daewoo's financial situation.

Daewoo's creditors took steps for corporate work-out. It emerged that Daewoo's debts amounted to 50 billion dollars (62 trillion Korean won)¹⁶⁰ of which 10 billion dollars was borrowed from foreign lenders. 26 trillion won was paid to foreign payees through Daewoo. The government had to put in 29 trillion won from public funds to honour Daewoo's obligations. Chairman Kim was discreetly asked to remain in a foreign country for a while. He went abroad on 11 October and it turned out to be an exile.¹⁶¹ Daewoo's accounting statements turned out to hide 41 trillion won worth of debts. He was well known for his enthusiasm for work (known as a 'workaholic') and he was not accused of personal greed. However, he made wrong decisions unchecked by anyone in the group and he attempted to get out of the difficulty by manipulating politicians and mobilising the media. Compared to Hyundai, which enjoyed unreserved support from the government, Daewoo might feel victimised. Anyway, that was the end of Chairman Kim's 'Global management'.

The Case of Hyundai

As discussed in chapter 5, Hyundai was on the wrong side of the government during President Kim Youngsam's term. Hyundai thus was prevented from expanding its business areas. After Kim Daejung became the President, however, Hyundai started to develop a

¹⁶⁰ This is calculated at the exchange rate of the time.

¹⁶¹ Chairman Kim evaded arrest by living in foreign countries for about six years until he gave himself up to the prosecutory authorities in 2005.

collusive relationship with the government. The government sought ways to improve the North-South relationship. Hyundai's ambitious business plans about developing Keum-kang San (mountain) area for tourism for 30 years and Kaesung Industrial Park were the connecting point between Hyundai and the government. Hyundai's proposal could win approval from only the most optimistic observers. However, no one could change the mind of Chung Juyung.¹⁶²

The media was all in favour of Hyundai's North Korean projects as they were to advance the cause of improving the inter-Korean relationship.¹⁶³ Few attempts were made to investigate whether such ambitious investment plans were feasible while the Korean economy was in receipt of emergency loans from the IMF. Very little effort was made to analyse the true motives of Hyundai. For several years from then on, the press was busily engaged in reporting Hyundai's achievements in the Northern front. In June 1998, Chung Juyung crossed the DMZ with 500 cows to enter into the North Korea. In November, a luxurious cruise ship launched its voyage to the North Korea. Hyundai was hailed as the nation's most loved company for its contribution to dismantling the cold war system of confrontation between two Koreas. Moreover, Hyundai acted as a messenger between the two Korean governments so that the historic summit meeting of 15 June 2000 could take place.

However, the Keum-kang San project could not go on for long. The agreed fee to be paid to the North Korean government for each tourist was set too high. Also, the demand died down as people's curiosity for North Korea was gradually dissipated. As the payment to North Korea diminished and North Korea showed signs of discontentment, the South Korean government offered subsidy for tourists. The inter-Korean relationship did not go smoothly partly because Hyundai did not keep the secret promise to make payment to North Korean government.

The South Korean government was then engaged in a secret negotiation with the North Korean government. The government owned Industrial Bank was directed to extend loans amounting to 400 million dollars to Hyundai so that Hyundai could make payment

¹⁶² In fact, Chung Monggu, Chung's eldest son, was opposed to Hyundai's North Korean projects. Because of that, he was removed from the control of Hyundai. Chung Mongheon, the 5th son of Chung Juyung, was supporting the North Korean projects. The Hyundai group was left in his hands when Chung Juyung died.

¹⁶³ *Hankyoreh*, a somewhat progressive newspaper, was one of the most enthusiastic newspapers in supporting the Hyundai's projects.

to North Korea.¹⁶⁴ The Chairman of Industrial Bank, Eom Nakyong, was opposed to the proposed loan. Two months later, he was removed from the post. The government also introduced simplified underwriting procedures for corporate bonds, which had the obvious purpose of easing Hyundai's financial burden. Hyundai's North Korean project had complex goals.

The deterioration of the financial position of Hyundai Investment and Trust (HIT) was also a result of collusive connections between the government and the industry. Shortly after taking office, President Kim Daejung had a secret audience with Chung Juyung when Hannam Investment and Trust was experiencing financial trouble. Hannam Investment and Trust was a local financial firm in the South Western region which was the political base of President Kim. The following day, HIT announced that it would take over Hannam. Surprisingly, however, Hyundai offered an undertaking that those who invested in Hannam would be able to recover the principal amount of their investment.

Two years later, when HIT met with financial trouble, Chairman Lee Ik-chi, who was responsible for the Hyundai Group's overall financing, made sure that people were reminded of Hyundai's rescue efforts for Hannam investors. According to him, since it was the government who had initially provided the cause for HIT's financial difficulty, the government had now to help out HIT. He himself was deeply involved in President Kim's diplomatic attempts with North Korea. He served as a secret messenger for President Kim during his negotiation with the leader of North Korea. Relying on his strong connection with the President, he often complained to the Office of the President that the government's economic team was putting too much pressure on Hyundai. The Minister of Finance and Economy and the Chairman of the Financial Supervisory Commission were both attempting to have Lee Ik-chi removed. However, they were removed instead. The Chairman of the FSC, Lee Yong-geun, later recalled that he did not know that the chaebol were so strong and influential (*JoongAng*, 28 Aug. 2002).

In fact, the media and the industry ought to take a considerable portion of the responsibility for the financial weakening of HIT as well as the near collapse of the stock market. When the composite stock market index was about 500, Mr Lee Ik-chi, in particular, started his unswerving claim that within three years, the index would become 2000, and in five years, 6000. He was successful in boosting the stock market. He

¹⁶⁴ This was the biggest scandal in the inter-Korean relations. Many ex-cabinet members were imprisoned.

launched a public sale of beneficiary certificates called 'Buy Korea'. He raised 11 trillion won from the sale of 'Buy Korea'. He became a superstar of the Korean stock market.

Most papers published glowing interviews and portrayed him as a darling of the stock market. These newspaper articles typically contained unadulterated and shameless flatteries such as 'Mr Lee is nicknamed as Com-Dozer because his judgment is precise like that of a computer and his power to get things done is like that of a bulldozer' (*DongA*, 30 July 1999). He was the most popular and most wanted presenter for the road-shows aimed at prospective investors. *Munhwa*, which is an affiliate of Hyundai, devoted full-page articles for Mr Lee's investment road-shows to stir up a favourable ambience for investment (*Munhwa*, 12 Apr. 1999).¹⁶⁵ Many newspaper companies themselves were organising many such road shows and offered huge fees for Mr Lee to attend (*Pressian*, 7 Aug. 2003).

In September, however, it emerged that HIT was implicated in a share price manipulation scandal. And in the following year, the stock market sharply went down as the bubble began to burst. A huge number of investors incurred loss and Hyundai Securities was facing the threat of bankruptcy. In fact, Hyundai had been actively engaged in market-boosting measures not only to sell more beneficiary certificates, but also to raise the share prices of its troubled affiliates, so that additional offerings could bring in more funds to stave off financial burden affecting those affiliates. Most newspapers appeared to have been aware of this when they accepted Hyundai's advertisement for 'Buy Korea' beneficiary certificates. They kept quiet and Hyundai shouted out 'Buy Korea' in full-page advertisements. *Hankyoreh* almost solely ran a critical article entitled 'Why did the Buy Korea fund impound people in the stock market' (*Hankyoreh*, 9 Apr. 1999),¹⁶⁶ but they had to face Hyundai's tenacious lobbying. Kim Kyung-ai, who wrote that article, recalled:

At that time, reporters in the press room at the Stock Exchange were aware of the risks related to the stock-market boosting strategy but nobody could dare to report about this. My article was very small, but Hyundai responded too sensitively.

¹⁶⁵ *Munhwa* covered these road shows in its article entitled 'Big success of the road-show for women', describing that 'the most moving moment of this show was Chairman Lee's call for investing in the 'Buy Korea' fund to be a patriot for economic revival.'

¹⁶⁶ This article pointed out that the stock market boosting strategy was being taken by Hyundai to secure funds for the Keum-kang San project and the 'Big deal' of semiconductor, and to reduce the debt ratio below 200% (*Hankyoreh*, 9 Apr. 1999).

Pressures continued to come through the advertisement department of Hankyoreh, so I turned off my mobile phone and disappeared (interview, 15 Apr. 2005)

Hyundai Construction and Hyundai Merchant Shipping Co. were the main companies of Hyundai which were under the control of Chung Mongheon. However, both these companies had to face bankruptcy because of their unsuccessful investment in the Keum-kang San project. They also resisted and postponed corporate restructuring as they counted on their close connection with the government.

After the 'Succession war' of 2000 among the late Chung Juyung's sons, who competed with each other for managerial control, Hyundai Motors and Hyundai Heavy Industry were separated from the rest of the Hyundai Group. Except for these two companies, most of the Hyundai companies were either sold to foreign purchasers or went into bankruptcy. An opposition member in the National Assembly claimed that the government had injected a total of 34 trillion won (about 34 billion dollars) into Hyundai, of which 24 trillion won became unrecoverable (*Yonhap News*, 24 Sep. 2002). In August 2003, Chung Mongheon jumped off Hyundai's Headquarters and killed himself while he was being questioned in connection with his involvement in the government's decision to send money to North Korea.

Dead-alive Korean Economy

The restructuring of the financial sector was no less difficult than that of general industries, which was the topic of the previous section. To a great extent, the government and the press should be held responsible for the difficulty. The sales of Jaeil Bank and Seoul Bank show how much damage can be done to the national economy by the government which was too keen to recover sovereign credit rating and the press which lost the ability to provide the public with a sphere for debate. In September 1998, President Kim instructed in an economic ministers' meeting that at least one of the two banks must be sold by the end of the year. However, an official in charge of the negotiation for the sale recalled that the President's remark made in public was a blunder:

M&A negotiation inevitably involves a tug-of-war with prospective buyers. When the President sets a time limit for the sale, how do you expect us to have the bargaining power? (*DongA*, 27 Aug. 2003).

In October, the American credit rating agency S&P announced that it would maintain the rating of below-investment grade (BB+) for Korea's sovereign credit. The agency added a remark that there were positive improvements such as improved political ability of the government. S&P's rating came with a rather unusual condition that 'if the sale of Kia Motors, Seoul Bank and Jaeil Bank could go ahead before the end of the year, the credit rating of Korea might be upgraded'. An enticing piece of carrot was thus offered. If the rating could be raised by just one notch, Korea would have the investment grade (BBB-).

The Korean press had been taking the position that 'restructuring means selling Korean companies to foreign investors'. They repeated the same claim in a more sensation manner this time with news articles such as 'Poor progress in restructuring of financial sector obstructs enhancement of sovereign rating' (*DongA*, 17 Oct. 1998). Eventually, a Memorandum of Understanding (MOU) was exchanged regarding the sale of Jaeil Bank to New Bridge Capital (American investment fund) on the last day of the year. The *New York Times* praised President Kim's achievement by saying that the 'sale of the Jaeil Bank is the clearest vote of confidence which the Kim Daejung government has obtained from foreign investors' (*DongA*, 27 Aug. 2003).

The MOU which the seller exchanged in a hurry, however, had a problematic clause inserted upon the buyer's insistence. The clause provides that the asset value of Jaeil Bank shall be assessed at the market value. The apparently innocuous clause turned out to have the power to conclude the take over at a very low price. It was not fully appreciated that once the buyer was determined, it was virtually impossible to assess the 'market value'. When the Ministry of Finance and Economy opposed the take over at a low price, the President's Office directed that the take over be handled by the Financial Supervisory Commission.

At the end of 1999, a 51% share of Jaeil Bank, into which 6.8 trillion won of public

fund had been injected, was sold to New Bridge Capital at only 0.5 trillion won.¹⁶⁷ Moreover, the final contract even included a put back option whereby the seller would have to compensate the buyer for the loss which might come to light after the take over. All told, the total amount of public fund put into Jaeil Bank was 18 trillion won. If the Bank had gone into liquidation in the first place, it would have cost much less, although it might have had an impact on the financial market.

That was not all. A huge amount of public funds were injected into a number of financial institutions to improve their financial position only to have them sold to foreign purchasers or to have them liquidated. In 1998, the government had to raise 64 trillion won through issuing government bonds. Former Senior Secretary to the President for Economic Affairs, Kang Bongkyun emphasised the drastic nature of the measure taken by the government, saying that Korea was the only country which decided to put in 15 % of GDP within six months to sort out troubles of financial institutions (*JoongAng*, 17 Sep. 2002). In 1998 the current balance of Korea recorded a surplus of 40 billion dollars and the capital balance also showed a trend of improvement. In 1999 Korea's sovereign credit rating went up to the investment grade (BBB). On 15th August 1999, the Independence Day, President Kim declared, "We have fulfilled the promise that we will overcome the foreign exchange crisis within one and a half years." Of course, this attracted considerable attention and was widely covered in the media.

In fact, the improved indicators were hiding an increment of surplus due to global economic recovery and decrease of import, an influx of capital by foreign currency borrowing and sales of companies abroad. That was an example of repaying a loan by another loan and hoarding money by selling factories, but did not mean that the fundamentals of economy were getting stronger. Many such problems underlying the revised economic indicators were not addressed in the media.

A report entitled, 'The Pros and Cons of Management by Foreign Capital', issued by the Samsung Economic Research Institute in January 2001, pointed out properly the reality of the Korean economy gradually losing the growth potential. It was mentioned that the US consolidated their power on the Korean financial sector within two years of the foreign exchange crisis. In case of banks, foreign investors became the controlling

¹⁶⁷ New Bridge Capital managed to resell it to SCB (Standard Chartered Bank) for 1.65 trillion won, thereby making the gain of more than 1 trillion won (1 billion dollars) (*DongA*, 11 Jan. 2005).

shareholders of five banks.¹⁶⁸ The market shares of securities and insurance companies controlled by foreign capital are also growing rapidly.

Compared to the financial industry, the manufacturing industry benefited less from the public fund. Accordingly, the manufacturing industry went into foreign hands much faster. The portion of foreign capital remarkably increased in each of the basic industries such as car, electronics, information & communication, oil refinery, petro-chemical engineering and heavy industry. Foreign capital also went into household goods, foods, newsprint and the agricultural seeds industry. In the case of three semiconductor companies such as Samsung, Hynix (former Hyundai) and Anam, shares of more than 50 % were sold to foreigners. The controlling shareholders of 3 out of 4 oil refinery companies (Hyundai, LG and S-Oil) were foreign capitals. Besides, many buildings of big companies were sold to foreign purchasers at a cheap price because companies having difficulties in cash flow put up their buildings for sale in large numbers.

The fact that foreign investors came to buy up companies in areas which are too many to list shows that the financial crisis of Korea created a golden opportunity for them. As share prices were halved while the foreign exchange rate was doubled, foreign buyers could effectively buy companies at one quarter of normal prices as it were. Under these circumstances, the Korean government completely opened up the capital market, allowing hostile M & A, to satisfy the demands of the U.S. Some chaebol had to sell some of their best businesses¹⁶⁹ because of the pressure from the government was working under the so-called 'self-imposed' deadline for the recovery from the financial crisis. Many companies were sold out for a miserable price. However, the government arguments that 'the sale of companies to foreigners is not the outflow of national wealth but the inflow of capital'¹⁷⁰ were repeatedly disseminated through the media.

Due to those efforts, of course, the foreign exchange reserves of Korea increased rapidly and reached 96 billion dollars by the end of 2000. In relation to this, a report from the IMF estimated that the adequate reserves for Korea were 51-56 billion dollars. The

¹⁶⁸ Jaeil Bank (New Bridge 51 %); KorAm Bank (J.P.Morgan & Carlyle 40.7 %, Bank of America 9.98 %); Kookmin Bank (Goldman Sachs 11.1 %); Korea Exchange Bank (Commerzbank 32.5 %); Hana Bank (Allianz 12.5 %) as of January of 2001.

¹⁶⁹ In fact, selling the best performing companies was against the principle of 'greater concentration in core businesses', which the government proposed as one of the five principles for restructuring of the chaebol.

¹⁷⁰ A remark of Lee Keeho, Senior Secretary to the President for Economic Affairs, in an interview for *Monthly Chosun* (Oct. 1999).

report said, 'Holding very large amounts of reserves...can be a considerable drain of a country's budget' (IMF 2001: 22, 26). However, the Korean government continued with the policy of encouraging foreign investment by selling companies to foreign purchasers. In June 2002, Korea became a country to hold the fourth largest foreign reserves (112 billion dollars) in the world. The drastic policy, as the IMF pointed out, '[taken] in the aftermath of the negative experience of the Asian crisis', 'can turn out to be quite costly in the long run' (IMF 2001: 26). The Korean media's failure to recognise these problems much earlier is one of the sequelae of the economic crisis.

As the takeover by foreign capitals and bankruptcy occurred in succession, the unemployment rate increased. Foreign capitals which acquired Korean companies adopted Western style labour practice and resorted to dismissal on the grounds of redundancy to improve the financial position of the company. In the summer of 1998, employees of Mando Machinery, Hyundai Motor Company and Korea Mint Corporation¹⁷¹ went on strikes against mass dismissal. As the labour movement was blamed as one reason for the currency crisis, the media put even more emphasis on law and order. In the case of Mando in particular, it was taken over by the Rothschild group in late 1997, and the government and the media were nervous to any reaction of big foreign shareholders.¹⁷² Major newspapers blamed the strikes of Mando and Hyundai as 'illegal' (e.g. *Donga*, 26 Aug. 1998), which provoked trade unionists to protest in the front of the building of *Donga* and burn its newspapers. These newspapers reported about the losses incurred in the strike, with sensational headlines such as 'foreign capital flight in sight' (*Chosun*, 1 Sep. 1998). Two days later, the Kim Daejung administration sent in 14,000 riot police to 7 factories and quickly suppressed it.

Both the Kim Youngsam government which adopted a slogan of 'civilian government' and the Kim Daejung government which purported to be the 'people's government', refrained from resorting to police forces to crack down on the labour movement for the initial 6 months only. Inevitably, they both relied on law and order as

¹⁷¹ One year later a top prosecutor in charge of the Public Security Department made a slip of the tongue in a drinking party with reporters that "the strike in Korea Mint Corporation was an *induced* one" (*Hankyoreh*, 8 June 1999). It was revealed in the National Assembly hearing that the authorities of public security had adopted a tough internal guideline which was intended to oppress labour movements, and that induced a series of strikes through suspending wage negotiations, imposing severe restructuring, and prosecuting many union leaders.

¹⁷² Wilbur Ross, the Managing Director of Rothschild, warned that 'insofar as Korean companies are holding excessive workforce, no foreign investments would make investment' (*Chosun*, 1 Sep. 1998).

both of them were neo-conservative governments.

Some scholars criticised the Kim Daejung government's method of corporate restructuring which required a substantial injection of public funds into the financial sector. Nevertheless, their criticism was largely ignored by the press. Professor Kim Soohaeng pointed out that in order to resuscitate the Korean economy, 'there are tasks to be done to promote manufacturing industries which should be given precedence over injecting public funds into the financial sector'. He argued that industries with poor performance should be gradually phased out by depression cartels and available resources should be concentrated on the promising industries. This way, according to him, massive unemployment can be avoided. He went on:

The government appears to believe that massive dismissal would lead to restructuring and recovery. The press as well as the broadcast media are uncritically reporting the government's belief. They go even further and emphasise the groundless thesis: restructuring means dismissal (Kim Soohaeng 2001).

Former Deputy Minister of Commerce, Industry and Energy (Minister as of 2003), Lee Heebeom, in an interview with the present researcher, assessed the industrial policies of the then government as follows:

I have a feeling that the crisis started as a financial crisis but general industries ended up suffering more. Concentrating government's favours on financial institutions instead of general enterprises aggravated the crisis (interview, 25 Mar. 2003).

Former Deputy Minister for Planning and Management of the same Ministry, Kim Kyunseop also stated in an interview:

It is said that the bankruptcies of Hanbo and Kia provided causes of the foreign exchange crisis. But those companies could have survived if the government had injected a few trillion won and took over the management. Compared to Jaeil Bank and Hyundai which benefited from tens of trillion won of public fund, these

industries were given a hard deal. Once a plant stops its operation, it is no more than a heap of steel scraps. It seems to me that the press and the society as a whole went ahead and killed those companies (interview, 25 Mar. 2003).

One may disagree as to whether the crisis originated as a financial one or an industrial one. It is not a settled point whether the financial sector suffered more than the general industrial sector in the aftermath of the crisis. However, there can be no doubt that the crisis involved both sectors and yet the public funds injected into the financial sector did not trickle down to the industrial sector. The problematic nature of the government's policy choice can be explained by the fact that the rehabilitation programmes were led by the Financial Supervisory Commission and the Ministry of Finance and Economy which have authority over financial policy and supervision. The Ministry of Industry and Energy could not effectively participate in the policy making. In the implementation of rehabilitation programmes, there were also numerous problems caused by communication failures among Ministries.

As more financial institutions and general companies continued to go bankrupt, the government kept injecting more public funds. The moral hazard of publicly assisted companies as well as the government contributed to the increased injection of public funds. As of the end of 2003, the total amount of public funds injected to private companies went above 161 trillion won (about 161 billion dollars). Accumulative interest on the public funds, which was raised by means of foreign loans and issuance of bonds, amounted to 32 trillion won. So far, only 61 trillion won had been recovered through the sale of companies. It seems that around 100 trillion won will remain as a burden on the Korean people for the foreseeable future. As of the end of 2002, the government's debt was 236 trillion won, which is three times as much as the government's debts of 73 trillion won in 1997. Budgetary deficit is going to be a serious problem in the near future.

Meanwhile, average household debt was increased to 31.6 million won per household as of the end of 2003 (BOK 2004). The high amount of household debt was largely due to the government's decision to resuscitate the economy by boosting the spending. As pointed out by Professor Lee Chan-geun, when the economy showed signs of a slump in the summer of 2000, 'many economic research institutes put forward arguments emphasising the virtues of consumption and claimed that consumption-led

economic growth is truly the growth pattern of an advanced economy. The press cheered them up.’ (*Ohmynews*, 4 Dec. 2003).

President Kim Daejung also emphasised: ‘Those who have money should spend it now. Increased spending will help the economy to recover’ (*Seoul-shinmun*, 4 Dec. 2000). In the climate of deregulation, limits on the cash advance service of credit cards were abandoned. Credit card companies resorted to aggressive marketing strategy soliciting new members on the street without any credit inquiries. When the Financial Supervisory Commission attempted to ban the street marketing of credit cards in 2001, the Regulatory Reform Committee (Chairman: Kang Chulgyu) opposed. The attempt to ban reckless marketing practice was criticised as an ‘anti-market regulation’. Two years later, the country is now suffering from a ‘credit crisis’ with about 4 million people registered as ‘persons of bad credit standing’ who are unable to repay what they had spent with their credit cards.

After the foreign exchange crisis, there appeared a widening gap between the rich and the poor as revealed by the Gini’s coefficient (KDI 2004).¹⁷³ The indicator of social integration¹⁷⁴ ranked Korea as eighteenth among 20 OECD member countries (*Hankyoreh*, 20 June 2003). Korea has a very poor social safety net and yet 2.5 million households without any income earner appeared. Even among those who are employed, as many as 5 million are contract workers with no job security. In fact, in the annual policy talks with the Korean government, the IMF warned of the risk, pointing out that the portion of irregular workers as of the end of 2003 was 32.6 % (the highest among 30 OECD countries) (*Pressian*, 4 Mar. 2004). The Korean press and the chaebol have insisted until now that the flexibility of the Korean labour market should be enhanced, as it is too rigid. However, a report showed that the flexibility of Korea after the currency crisis went up to the highest level among developed countries.¹⁷⁵

In Korea, labour unions accepted labour market flexibility through lay-off in an agreement hammered out by Tripartite Commission representing labour unions, employers

¹⁷³ The Gini’s coefficient, the most well known indicator for income inequality, increased from 0.298 in 1996 to 0.358 in 2000. This is the third highest among OECD countries.

¹⁷⁴ The social integration indicator was deduced from five sub-indicators including poverty index, unemployment rate by the Presidential Office.

¹⁷⁵ The *Forbes*, a specialized magazine in management, issued their research result that the flexibility index of Korea was the third among 17 upper countries of the OECD, lower than the U.S. and Canada but higher than 14 countries such as Japan and the U.K. (*Forbes*, 30 Jan. 2003).

and the government on the condition that radical reforms were undertaken to change the chaebol system. However, the condition was not met. The proposed donation of private property by chairmen of the chaebol, which was mentioned in the process of the 'Big deal', did not materialise. Corporate reforms to enhance management transparency such as having outside directors did not go well either. Personal control of the whole group by the owner through the group chairman's secretariat continued unaltered. A correspondent of the *Nihon Keizai* in Seoul saw through the limits of the chaebol reform toward the end of 1998 when the reform was apparently pursued most vigorously. He remarked:

Following the government's instruction, the chaebol abolished chairman's secretariat. In reality, however, the secretariat continued to exist. Only its name was changed to 'restructuring office'. In most cases, they used the same office, the same phone numbers. Abolition of group chairman's secretariat was prominently reported as 'signs of dismantling of the chaebol'. Looking back now, I doubt whether it was so significant (Hashimoto, 1998).

It can be said that the government's will to reform the chaebol quickly weakened as the economy was again in a slump in 2000 and the voice of the chaebol revived. At the beginning of 2001, Kim Daejung's government launched an attack against conservative newspapers hostile to the government. It turned out to be a grand *tour de force* where the government had to mobilize the National Tax Service, the Fair Trade Commission and the Public Prosecution Bureau. This meant that another frontline was formed and the chaebol reform was relegated to the lower rung of priority. The chaebol formed a discreet alliance with those conservative newspapers and strengthened their resistance against reform. They even rejected neo-liberal reforms of the chaebol and the market.

Min Byungkyun, who is the Director of the Center for Free Enterprise founded by FKI, fired up a great deal of controversy with his column entitled 'Market economy and its enemies' which was posted on the website of the Center. He claimed:

The government is working together with citizen groups to suppress major shareholders of enterprises. They seek to increase the powers of outside directors and minority shareholders. ... The right wing groups should now arise from their

slumber to prevent the Left from monopolising state affairs' (*CFE homepage*, 2 May 2001).

He made a sweeping criticism of the policies for the chaebol reform such as restriction of mutual-payment guarantee, lowering of debt-equity ratio and the introduction of consolidated financial statements. In addition, regarding reforms of the press, he claimed that the government sought to persecute three major newspaper companies by restricting the distribution of free copies and putting a ceiling on the ownership ratio (*CFE homepage*, 2 May 2001). *DongA* cheered him up in an editorial: 'Whether he is right or wrong, it is a matter which must not be glossed over. If most entrepreneurs regard the market as uncertain and feel uneasy about the future, the result will be more serious than a mere recession' (*DongA*, 8 May 2001). *Chosun* also wrote in an editorial entitled, 'Businessmen now say what they have to say': 'Quite apart from whether he is right or wrong, his arguments have a profound significance as they, for the first time, raised to the surface deep seated concerns about ideological leanings of the government policies' (*Chosun*, 9 May 2001).

At the end of May, the government announced a set of deregulation measures for the corporate sector adopting 34 items among 72 items demanded mainly by the FKI. The tones of press comments were distinctly divided according to their financial background. Titles of their editorials make an interesting comparison. For example, *JoongAng's* editorial was entitled 'Deregulation measures ended up in temporary compromise' (1 June 2001) and *Hankyoreh* had 'Chaebol reform in a shameful state' (1 June 2001). *Chosun* carried an external column entitled, 'Government and chaebol in a closed-door compromise' (4 June 2001).

The fact that *JoongAng* took the lead in criticizing the chaebol reform can be explained by two reasons: one is that *JoongAng* was a sister company of Samsung; the other is that it shared with the chaebol a sense of being persecuted together as *JoongAng* was also suffering from investigation on tax and unfair trade. A few months later, in a series of articles focused on the Fair Trade Commission (8~12 Oct. 2001) and an editorial (15 Oct. 2001), *JoongAng* attacked the Commission, arguing that there was no need for the policy to regulate large enterprises. At the end of 2001, a weekly journal analysing media reviewed the year and pointed out that the press played 'a most significant role in

softening the tones of the chaebol reform' (*Media Oneul*, 27 Dec.).

A significant point was that after the currency crisis, the capital has increased its influence over the media while the government's influence has waned. Newspaper companies were trying to escape from the predicament by heavily relying on the chaebol rather than the government. They gave a lot of space to chaebol-friendly articles and many reporters were requested to invite advertisement. Many media companies dismissed a considerable number of journalists, making bad use of the newly introduced layoff. It became a decisive factor detrimental to journalists' autonomy. The fact that capital influence over the media has quickly enlarged is confirmed again in a survey (e.g. Korea Press Foundation 2001). The weekly media newspaper carried a special edition with the title of 'Criticism of the chaebol disappeared' and stated more aggravated management circumstance as a main reason (*Media Oneul*, 21 Nov. 2002).

Conclusion

The debate as to the propriety of the IMF's prescriptions was effectively put to rest since the IMF itself admitted its mistakes as discussed earlier. The IMF demanded that Korea trimmed down the economy and went ahead with prohibitively high interest rates. These measures worsened the financial crisis and resulted in massive drainage of wealth out of the country. The wrong policy choices after all left irreparable losses to the Korean economy.

After the foreign exchange crisis, the Korean economy seems to be caught in a chronic crisis. The recoveries are short-lived and incapable of raising the income of working classes and the employment rate. The Korean economy is suffering from the so-called 'growth without income distribution' or 'growth without employment'. Extreme belt-tightening measures, high interest rates, deregulation of capital market and accumulation of foreign currency reserve by selling companies to foreign purchasers all contributed to this result. It was more or less predictable that these policy choices would lead to a large scale bankruptcy, unemployment and draining of national wealth thus disabling the economy to make meaningful growth. The reason why the IMF nevertheless

went ahead with those policies was because the ‘invisible hand’ of international financial capital located in the US played an influential role through the Treasury Department of the US Government.

It would, however, be wrong to put all the blame on the W-T-I complex (Wall Street-Treasury-IMF). Like the case of Malaysia, Korea could have conducted corporate restructuring while maintaining a greater measure of ‘economic sovereignty’. However, the Kim Daejung government accepted all the IMF’s demands and the press gave near complete support to the government. It meant that the Korean economy was going to be comprehensively Americanised without any adequate appraisal or consent of the people.

The neo-liberalism which increased its influence since the Kim Youngsam government did in fact provide an environment for the foreign exchange crisis. Nevertheless, the same neo-liberal policy choices were adopted as a means to recover from the crisis. As a result, a more complete form of neo-liberal economic system was put in place. M & A, open market, privatisation, flexible labour market and ‘law and order’ came to be the core concepts for the government policies and media coverage.

Unlike the popular impression, the so-called ‘Big deal’ was pursued at the initiative of the chaebol rather than the government. The press also played an important role. The deals were concluded in a way least damaging to the chaebol and that was largely due to the pro-chaebol press’s brilliant performance.

Daewoo and Hyundai were the best known cases where companies who were experiencing financial troubles attempted to get out of the trouble by using politics and the press. Hyundai relied on a collusive relationship with the Kim Daejung government which was keen to make a remarkable improvement in the North-South Korean relationship. Hyundai attempted to use its political connection to get more loans and public funds to plug up the gaping holes in its balance sheets. Daewoo relied on the press to cover up the failures of over-expansive and reckless business decisions.

In the process, most newspaper companies were co-opted by the chaebol and turned a blind eye to serious financial troubles of the companies involved. In the UK and in the US too, news about financial difficulties of a company cannot easily be reported because the survival of the company is at stake (Parsons 1989; Manning 2001). The chaebol who have a strong network of influence in the Korean society had an even greater power to control the flow of such adverse information.

In particular, the press in Korea did not play a role in analysing the problems of policies prescribed by the IMF and encouraging rational and critical debate about those policy choices. Rather, Most of the press treated the IMF's policy prescriptions as 'given' and inviolable. They claimed almost in one voice that the only way to survive is belt-tightening and selling companies to foreign purchasers. Economic recession brought about financial troubles for the newspaper companies themselves. The advertisers, as a result, came to exert an even greater influence on the newspaper companies during the recession. Commercial influence over the press rapidly grew. The press has the task of keeping a watch over the derailed practices of the chaebol and the derelict duty of the government. However, the financial troubles of newspaper companies made it more difficult to fulfill the task. Companies in a free market often suffer the 'ill effects of unlimited competition', and the media industry cannot be an exception to this.

Conclusion

The examination of news reports, as Max Weber pointed out, provides a clue to the understanding of the society.¹⁷⁶ However, it is not easy for ordinary people to understand the entire aspect of society and its future direction through the media.

Amid the feverish atmosphere of 'Globalisation', *JoongAng* had a feature article 'Our life in 2005' written by an expert journalist¹⁷⁷ in economic affairs at the very beginning of 1995, which was the beginning of the WTO era. In a wishful outburst of imagination, the article portrayed the lives of a former employee of a chaebol, scouted to head a section in the Ministry of Trade and Industries in his 40s; a farmer who used to till his land in the country side but now works as a director of a farming company exporting high yield rice to the US; a branch manager of a bank who, since Korea joined OECD member countries, is able to trade in shares and real estate in foreign countries; and a housewife who is ordering a mink coat from a Danish fur dealer through the internet! (*JoongAng*, 1 Jan. 1995).

In less than three years, Korea met with the financial crisis rather than the utopian affluence and indulgence. More than 2 million people lost their jobs unexpectedly. The Korean economy, which is now celebrating the 10th anniversary of entry into the WTO and the OECD,¹⁷⁸ has not yet recovered its economic power of the past. As seen in chapter 6, even when a moderate growth in GDP was achieved, a considerable proportion of the growth tended to be taken by foreign capitals and could not translate into the increase of employment and income of the working classes. So, 'Our life in 2005' is rather painful.

However, most people do not understand where the disaster came from. When the wave of globalisation originating from neo-liberalism came to the shore of Korea, the country was praised as a good 'student' who absorbed well the wave through institutions,

¹⁷⁶ From 'Newspaper survey' (*Zeitungsenquete*) read in the first Conference of German Sociologists held in 1910.

¹⁷⁷ This expert journalist, Kim Jeong-soo, was one of the scholars who were recruited to strengthen the so-called 'expertise'

¹⁷⁸ Korea became a member of OECD in 1996, but the measures of opening-up and deregulations had been intensively introduced in 1995 to meet the qualifications for the membership.

but the outcome was miserable. Nonetheless, Korean people's support for globalization remains near the highest level in the world. According to the Pew Global Attitudes Project, 'support for globalization is strongest in Nigeria (90%), South Korea (84%) and Kenya (82%)', followed by many African and Asian nations (Pew Research Center 2003: 85).¹⁷⁹

This gap between reality and perception, as discussed in chapter 3, was created and largely extended by discourse practices of ruling groups and the media. The continuous and systematic distortion of language could lead the masses to consider 'things distorted' as 'common sense'. 'Globalisation' was put forward to the masses as the only viable survival option in a borderless age, while ignoring its negative aspects. As a consequence, people take for granted the ruling discourse which has seeped through their lives so that it has become the frame of reference for their perception and actions.

Given the 'reactionary' nature of neo-liberalist ideology, the negative consequences of globalization are more or less expected. Whereas classical liberalism played a progressive role in emancipating human beings from the feudal society, neo-liberalism has displayed its very conservative orientations, serving the vested interests, especially capitals of industrialized countries, and shifting the burdens to people, especially workers in the third world. The international mobility of capital and commodity has been eagerly promoted in the name of 'freedom', but labour mobility has been restricted within the national border in the name of 'order'. As the national economies have been integrated to the WTO system under these circumstances, they have had to compete for foreign capitals by providing more favourable environments such as deregulation and labour oppression.

There have been numerous debates on the causes of economic crisis in Korea, yet they have concentrated on economic factors, making it difficult to find a comprehensive approach which takes into account non-economic factors. Studies concerning media influences on economic changes have also been small in number within Korea and abroad. Even the existing studies tended to focus on changes in perceptions about economic reality and the media influences on audience. Very often, these studies offered the 'advice' that professionalism or expertise should be enhanced in order to reduce the negative effects of economic news reporting. In light of the limitation of these studies, this thesis has

¹⁷⁹ This research was directed by the former US Secretary of State, Madlin Albright. The research shows: 'In all of these countries, governments and business elites have advocated globalization as a means of rapidly improving the standard of living'; 'Majorities in North America and Western Europe also have a positive view of globalization, but there also is significant opposition in these regions' (Pew 2003: 85).

examined how the media can contribute to deforming the public sphere and thereby affect the economy.

Neo-liberalism has been used as the key word in explaining the Korean economy and media. As discussed in chapter 2, neo-liberalism was adopted as the mainstream ideology and accelerated the trend of ‘retreating state and expanding market’. This made it almost impossible to take democratic control over economic power such as the chaebol and the international financial capitals, which eventually caused financial crisis. The role of the media as ‘a warning system with sensors’ (Habermas 1996: 359) was greatly needed, but in fact hard to expect in Korea, for the media was also preoccupied with neo-liberalism. Economic news reports in particular were dominated by ‘market fundamentalists’ and were always under pressure from economic power. Liberal-pluralists expected that the deregulation of the media industry would increase its autonomy from the state, but the result was an increased influence of capital over the media.

However, the media have been more than a passive ‘consumer’ of neo-liberalism. As noted in chapter 3, the media have been active in disseminating neo-liberalist values and political symbols and often called for the government to accept them. It is shown that the anti-reform alliance between the chaebol and the media (especially the media) played a significant role in transforming the discourse of ‘New Korea’ (the symbol of reform) to ‘Internationalisation’ and eventually to ‘Globalisation’. Once the government’s reform drive aiming at vested interests failed and the government was trapped into the straitjacket of neo-liberalism and neo-conservatism, there emerged a triple alliance among the chaebol, the media and the government. In conjunction with the advent of the so-called globalisation era, ‘Strengthening competitiveness’ which used to be a subordinate theme, was promoted as the national agenda: an all-powerful catchphrase pushing through deregulation and opening-up. The discourse practices concerning ‘Globalisation’ and ‘Strengthening competitiveness’ were particularly strong in *JoongAng* (Samsung’s affiliate), which can be largely explained by its inherent connection to capital.

The development of ruling discourses toward consolidating vested interests can also be explained by the weakness of countervailing powers. Trade unions had not grown up to a political power, and some civil organisations even supported neo-liberal reform policies. Major media were dominated by neo-liberalists, while civic media and social media sectors remained under-developed. As a consequence, alternative voices challenging the

dominant arguments were hardly heard. Alternative voices, if any, were largely ignored by the media. Thus, neo-liberalism was literally declared as the dominant economic thought, which made it more difficult to criticise the chaebol's avarice and the government's policy drive toward 'market fundamentalism'. Through its long-term influence on economic thought, the media can be appraised to have exerted considerable repercussions on economic changes.

The case studies which concern new business entry by Samsung, Hyundai and Hanbo (chapter 4) and the failures of the Hyundai and Daewoo group (chapter 6) have shown why corporate failure continued to occur in the policy communities of Korea. The chaebol's duplicated overinvestment through borrowing is primarily related to communication problems. In the corporate governance system, which cultivated despotism and nepotism, internal democracy was hard to accomplish. In the so-called 'system-world' where 'money' and 'power', rather than 'language', are the means of communication (Habermas 1981: 476), professional managers could not properly voice their views. Other problems caused by the lack of democracy in decision making were that the undemocratic decisions could not be smoothly removed by market pressures and the costs incurred by the resulting wrong decisions would be shifted to those who were never involved in the decision-making process.

PR has been utilised as the key tool in covering up these problems and manipulating public opinion. By capturing politics with 'money', the chaebol were able to overcome the resistance of professional government officials and satisfy their expansion desire. To put it differently, the regulator (the state) was captured by the regulated (the chaebol). However, most newspapers failed to disclose these problems, and some of them criticised the government in favour of the chaebol, thereby paralysing industrial policies. This is largely because the greater influence of news sources over economic news has made it extremely difficult to undertake investigative reporting on the chaebol. Such influence of the chaebol arises mainly from their superior status as news sources and, at the same time, advertisers for the media.

The chaebol might make wrong decisions in the local public spheres (*Öffentlichkeiten*) within the chaebol. However, if the press could check them out when such decisions were floated around in the policy communities, the society would benefit from this safety mechanism. If, however, the forum for public debate is broken down, that

is, if the wider public sphere (*Öffentlichkeit*) where a country's policies should be discussed is paralysed, wrong decisions go unchecked and may be implemented to the great loss and detriment of society as a whole, not to mention the chaebol themselves.

As demonstrated in chapter 5, the fact that the financial sector, which used to be the source of economic vitality, became one of the causes of economic crisis, is also closely related to the functional disorder of the public sphere. A good example is the process of the OECD accession which accelerated the liberalisation of financial and capital markets. The government who proposed the national agenda of 'Internationalisation' promoted the OECD accession as a fast-track ticket to advanced countries. The media paid little attention to the obligations and problems associated with early accession, and some went further to call for the government to speed up deregulation and opening-up.

Deregulation enabled the already almighty economic powers (the chaebol) to secure financial sources much more easily.¹⁸⁰ In particular, undisciplined loans of merchant banking corporations led to over-investment of the chaebol, which in turn resulted in poor rates of return and increased debt ratio. The escape route for the companies which were caught in this vicious circle was short-term foreign debts. In the end, the short-term debts were hidden as the long-term investment capital and this led to a large-scale mismatch of repayment terms.

There was no mechanism to defend the national economy against foreign capitals, even though they were obviously speculative capitals with potentials of destabilising the financial market. The IMF also, as their Independent Evaluation Office confessed belatedly, failed adequately to recognize the vulnerabilities created by the uneven sequence of capital account liberalization and the risk that a change in investor sentiment could cause a severe drain on foreign exchange reserves (IEO 2003: 3).

Even when South Asian countries fell into a foreign currency squeeze, serious precaution was hardly heard in Korea. This is partly because the media had often raised the possibility of 'economic crisis' based on a shaky ground and, like a shepherd's boy, their warnings lost confidence. Another reason is that the government's economic policy group was dominated by market fundamentalists who had over-confidence in the self-adjusting power of the market. As the communication channel within the government also was considerably broken down, even the then President was apparently left in the dark.

¹⁸⁰ Other non-chaebol enterprises with potentially more profitable projects had difficulty in borrowing.

When the crisis was imminent, the Korean media tended to keep a patriotic tone, while international economic news agencies and newspapers based in New York and Hong Kong often exaggerated the Korean economic situation. In any case, the crisis broke out, and international news providers were believed to be correct. Yet this should be approached with strong reservation, for their news reports had self-fulfilling effects in the sense that they affected investment sentiments among international financial organisations and investors and thereby encouraged them to take actions so as to realise what had been reported.

In the case of IMF rescue package negotiations, as discussed in chapter 6, the media in Korea and abroad shared the same view that IMF policy prescriptions must be accepted to revitalise the Korean economy. As the IMF's prescriptions largely reflect the interests of international financial capitals, particularly those based in the US, through the US Treasury Department, they were not often compatible with the goal of a sound national economy. High-interest policy, for example, could put pressure on debtors and help financial capitals recover their outstanding loans, but caused even sound companies to go bankrupt. The policy mix of liberalising capital market and selling companies abroad was sought to accumulate foreign currency reserve, but that was no more than 'Korean sale' for foreign capitals.

The global financial institutions, credit rating agencies and the major press (mainly based in New York and London) exercised indeed considerable influence on the Korean government who was desperate to recover the country's credit rating. Korean media were also busy reproducing various reports and press releases of these institutions. Even more, Korean major newspapers considered IMF policy prescriptions as inviolable or sacred and hurried to criticise the 'renegotiation' argument, warning that it would worsen the crisis. Workers' resistance to labour market flexibilisation received aggressive and negative response from these newspapers who argued that it would be simply an obstacle to attracting foreign capitals.

It is rather obvious that the on-going globalization has provided an unprecedented opportunity for global financial capitals and the media to expand their influences, often at the expense of tensions and crises in national economies and the media. It is equally clear that, when global capitals, the media and international bodies are deeply involved in major policy decisions at a national level, it is hard to expect independent decisions which

appropriately take into account the different views and interests of national citizens. As there is no supranational institution capable of controlling these agents which do not have democratic delegation, such a task is also left to nation states. Yet, it is highly questionable how effective individual states are in controlling these ever-growing international agents.

In the so-called globalisation era, economic opening-up could be accepted as inevitable if its speed is under control and safety mechanisms are in place. However, the Korean experience powerfully demonstrates that, when multi-national capitals (who influence national economy greatly but stay out of democratic control), international organisations and the media (who contribute to protecting the interests of these capitals) are all acting together in one single direction, the resulting outcome can be devastating. In a sense, we are now living in a period when confidence in economic policies is decided not by voters but by the powerful in world market. Obviously, the IMF acknowledged their mistakes and loosened extreme belt-tightening measures, but this came so late that the Korean economy had already lost its potentials of growth.

The new government, which was elected after the outbreak of the currency crisis, accepted a long list of demands from ‘outsiders’ without careful consideration, which greatly contributed to causing a chronic crisis afterwards. They had a notable intention for the chaebol reform but it did not last long. The government once again compromised and conceded to the demands of the chaebol in the name of ‘Rescue the economy’. The crisis came with a good opportunity to reform the Korean economic system, but became embedded within the system.¹⁸¹ Neo-liberalism, which had fertilised the crisis, was again adopted as an ideological framework which guided the economic recovery progress.

The critical problem in this regard is that many policy decisions, which could determine people’s conditions of life, have often been taken irrespective of their views and opinions. As we have already seen, many of the decisions taken leading up to the crisis fall within this category. They were wrapped up under ‘public opinion’ or ‘majority agreement’, which in fact were ‘manufactured’ by the powerful in the market (the chaebol or international capitals) and major press (domestic or foreign).

As Habermas pointed out, if issues thus ‘start in, be managed from, the center,

¹⁸¹ In the culture area of Chinese characters, crisis (危機) is the compound word of risk (危險) and opportunity (機會).

rather than follow a spontaneous course originating in the periphery' (1996: 380), decisions made in such reversed processes are often faced with 'legitimacy crisis'¹⁸² because they go against democratic procedure. He also pointed out that economic crisis in late capitalist state tends to shift to a legitimacy crisis due to state intervention. In this regard, however, we need to move our focus from the matter of state intervention itself to the guarantee of people's participation in the process of determining state intervention. The Asian economic crisis reminds us that we are of course not living in the era of Keynesian state intervention and that 'the retreat of state' has gone too far.

We can say that the Habermasian public sphere is the 'arena of communication' to secure the 'legitimacy' where people, even if they sometimes have a quarrel with each other, persuade, agree, and refuse while acknowledging the differences among them. If these attitudes are not maintained among the members of policy communities, the decisions taken are not likely to have solid grounds, and will remain controversial due to the lack of legitimacy. As the Korean crisis resulted, to a considerable degree, from communication and democracy crisis, it was extremely difficult for the government to cope with.

From the perspective of 'real' democracy, the media are expected to introduce critical issues to the public sphere and encourage rational decisions to be made. When the media abandon its obligation as a warning system, offer misleading views on socio-economic realities, eventually exclude politics and distort policies, the public sphere will be severely damaged. When the Korean media were subjected to a close scrutiny relying on the normative theories about the 'public sphere' and the democratic (or public) media model, the degree of divergences turned out to be noticeable.

As a result, many important issues were not discussed in the sphere of politics, and fell into the realm of the 'non-decision'¹⁸³. Even when a decision was taken by necessity, it often lacked rationality and legitimacy. In a damaged 'public sphere', it was very difficult for many important decisions such as company decisions, government policies and IMF prescriptions to secure rationality. Besides, as their legitimacy was being questioned in the

¹⁸² Habermas proposed that 'an institution would be legitimate, only if, were the institution to be openly discussed by everyone affected by it under conditions free from constraint, it would elicit their consent' (cited in Thompson, J. B. 1995).

¹⁸³ Bachrach & Baratz (1962; 1963) introduced situations of 'non-issue and non-decision' in which issues do not arise for decision and explained that such situations are built up as a consequence of someone's capacity to ensure that they do not arise.

implementation process, these policies could not be successfully settled down.

In short, the Korean case shows that the media can contribute to deforming the public sphere and thereby have negative influences on economy which may add up to create a crisis. From this viewpoint, two traditions of media studies - the public sphere and media influence - can be combined. The need for combining economics and media studies in understanding economic change is also essential – especially in Korea where the tradition of such interdisciplinary research is weak and the economic crisis continues – in that economic changes would not be properly explained without understanding media influence on economy.

The enlargement of the media influence on economic change may not be unique to Korea, but may be to a varying degree the case in many other countries. There are good reasons to believe that such influence of the media will be significantly increasing. Above all, the media industry which was once considered as a ‘public good’ is now increasingly an important place of profit creation thanks to technological developments, deregulation and privatisation. In addition, while capitals have increased their power under the protection of neo-liberalism, the media and the state who are supposed to control capitals are being captured by them. Moreover, global alliances among economic powers and major media are being expanded and strengthened, but it is more and more difficult for nation state to act upon their sovereignty.

Given such prospect, the norm of ‘non-state, non-market’ concerning the positioning of the media system needs to be emphasised but with some adjustments: there is an increasing need for recognising a greater role of the state in the context of the market’s growing power over the state. The media certainly should secure autonomy from both the state and the market, but what can help it happen is the state under democratic control, not the market. If circumstances require, it is time to seek cooperation between the state and the media to check the over-growing economic powers.

The existing studies on media effects tend to favour a rather limited model of influence. This is partly because those studies concentrate on short-term effects and pay little attention to the influences on economic policies, and even when long-term effects are considered, the influences on economic thoughts are hardly examined. This is to some degree a result of the fact that studies concerning the world major media’s influence on national economy have not yet been accumulated sufficiently.

Given that the deformation of the public sphere is one form of media influence, however, the limitation of the limited model is clear. Once the media do not function properly so that the public sphere is damaged, a country's economy and even its democracy can be in crisis. The rapidly changing media environment in the so-called 'age of globalisation' reminds us of the importance of the economy as a subject of media studies.

Appendix: The Media used for Textual and Content Analyses

* Korean Media

Daily newspapers: *Chosun-ilbo, DongA-ilbo, JoongAng-ilbo, Hankyoreh-shinmun, Hankook-ilbo, Kyunghyang-shinmun, Segye-ilbo, Seoul-shinmun (Daehan-maeil), Kookmin-ilbo, Munhwa-ilbo, Korea Herald (English), Korea Times (English).*

Economic newspapers: *Hankook Kyungjae (Korea Economic Daily), Maeil Kyungjae (Maeil Business Newspaper), Seoul Kyungjae (Seoul Economic Daily).*

Weekly magazines: *Sisa Journal, Media Oneul (Media Today).*

Monthly magazines: *Monthly Chosun, Monthly Mal, Inmul-gwa Sasang (People and Thoughts).*

Internet newspapers: *Ohmynews, Pressian.*

Bulletins: *Journalists Association Newsletter (Journalists Magazine), Weekly Administration Affairs, Weekly Gazette of the FKI.*

News agencies: *Yonhap News.*

Broadcasting: *Korea Broadcasting System (KBS), Munhwa Broadcasting Corporation (MBC), Pyunghwa Broadcasting Corporation (PBC), Christian Broadcasting System (CBS).*

* Foreign Media

Daily Newspapers: *New York Times, Washington Post, International Herald Tribune.*

Economic newspapers: *Wall Street Journal, Asian Wall Street Journal, Financial Times.*

Magazines: *Economist, Forbes, Manager, Time.*

News Agencies: *Bloomberg News Service.*

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