

Market Power and the Downsizing of Democracy

Globalization, Communication and Economic Elites in South Korea

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Preface

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text.

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Abstract

Media and communications engage in social power relations. This thesis aims to investigate the “power value” of media and communications, focusing on the private communication practices of economic elites. The main argument is that, in the age of hyperglobalization, elite private communication plays no less important a part than mass forms of communication in shaping and maintaining economic elite power that operates in a far from transparent and accountable manner. This detachment of media and communications from the public is a symptom of the shrinking of democracy, which sanctions the massive transfer of resources to the organized interests.

For the purpose of empirical study, his thesis investigates the sites or networks of the national and transnational market forces within the historical context of the neo-liberalization of the Korean economy and society since the 1990s. The research shows, via in-depth interviews and qualitative case studies, how increasingly broader areas of the economy are becoming discursively de-politicized and how the closed communicative processes of economic elites are replacing democratic structures. Think-tanks, epistemic communities and policy networks, with their practices of private communication, lobbying and “brain sharing”, often make policy decisions that have a significant impact on the masses. The discrete culture and exclusive elite communication networks which are prevalent in the global-national investment web of intermediaries allow the growth of “invisible power”, which almost completely blocks the vigilance of the public. In the financial market, the cohesive culture, combined with the reflexive and intensive communication environment, generates a system of preferences and evaluations as well as one-sided expectations that have a tremendous impact on corporate management and the whole of society.

The study suggests that we should attend to the growing tendency of the mediation of power that is taking place with minimum reference to the public. This research contributes to the understanding of the “power value” of media and communications by providing an alternative or complementary explanation.

Table of Contents

Abstract	iii
Table of Contents	iv
List of Tables and Figures	viii
List of Abbreviations	ix
Acknowledgements	x

Part I. Surveying the Issues

1. Introduction	1
1.1 Background and Research Agenda	2
1.2 Summary of the Approach and the Research Questions	5
1.3 Structure of the Thesis	8
2. Hyperglobalization and the Paradox of Korean Democracy	10
2.1 Introduction	11
2.2 The East Asian Miracle and its Limitations	12
2.3 The Momentum of Globalization and the Crisis	14
2.4 The Structural Reforms after the Crisis	17
2.5 The Shift of Power Relations	20
2.6 The Korean Media and Social Power Relations	25
2.7 The Social Consequence of the Neo-liberal Turn	29
2.8 Neo-liberal Democracy	33
2.9 Conclusion	35

Part II. Framework and Methods

3. Mapping the Research Framework37

3.1 Introduction	38
3.2 The Rivalry between Freedom and Equality	38
3.3 Hyperglobalization and the Shrinking of Democratic Politics	44
3.4 The Media, Communications and Power	51
3.5 Omissions from the Existing Research	61
3.6 The Emerging Research Area	65

4. Approaches and Methods66

4.1 Introduction	67
4.2 Theoretical Frameworks	67
4.3 The Selection of the Empirical Field	74
4.4 Methodological Considerations	76
4.5 Methods	78

Part III. Empirical Studies

5. The Discursive Construction: The Downsizing of Politics86

5.1 Introduction	87
5.2 The Korean Epistemic Community of Economics	88
5.3 The Interpretation of the Crisis	92
5.4 The Discourse of the “Economy First” Society	97
5.5 The Anti-political, Anti-public Discourse	104
5.6 The Downsizing of Democracy	109
5.7 Conclusion	113

6. The Business Elite, Knowledge and Policy115

6.1 Introduction	116
6.2 The Business Elite and Policy	117
6.3 The Chaebols: the Dominant Korean Business Elite	119
6.4 The Knowledge and Power of the Network	129
6.5 Communication in the Business Elite Network	135
6.6 Case Study: The Chaebols' National Agenda Setting	141
6.7 Conclusion	154

7. The Financial Market: Disciplining Firms and Household156

7.1 Introduction	157
7.2 Inside the Financial Market	158
7.3 The Global Integration of the Market after the Crisis	162
7.4 The Exit Power of Financial Capital	167
7.5 The New Law of the Market	168
7.6 Culture and Communication in the Market	172
7.7 Social Consequences of the New Law of the Market	179
7.8 Case Study 1: The Rise and Fall of the “China Momentum”	181
7.9 Case Study 2: The Disciplining of Samsung Electronics	189
7.10 Conclusion	195

8: The Global-National Nexus: The Iron Triangle197

8.1 Introduction	198
8.2 The Reappearance of the <i>Arcana Imperii</i>	199
8.3 The “Fire Sale”	201
8.4 The Growth of Advisory Intermediaries	203
8.5 The “Iron Triangle” of Korea	206
8.6 Communications: Exclusive but Intensive	210
8.7 Privatization of Profit and Socialization of Loss	215
8.8 Case Study: Lone Star's Buy-out of KEB	218

8.9 Conclusion	233
9: Conclusion	235
9.1 The Purpose and Summary of the Thesis	236
9.2 The Findings and Discussion	238
9.3 The Contribution of this Thesis	247
Appendix1: List of interviewees	249
Appendix2: The Media used for Textual and Content Analyses	252
Appendix3: The Presidents of Korea and their Terms in Office	253
Bibliography	254

List of Tables and Figures

Table 2-1: The Income Distribution Index from 1990 to 2006	31
Table 2-2: Public Expenditure for Welfare within GDP	33
Table 4-1: Categories of Interviewees	80
Table 5-1: Korean Ph.D.s from the U.S.A	90
Table 5-2: The Different Explanations of the Cause of the Korean Crisis	94
Table 6-1: Frequency of Articles with Economic Discourse	146
Table 6-2: The Frames of the Media Reports about the \$20,000 Campaign	148
Table 7-1: The Increase of the Shareholding of Global Investors	163
Table 7-2: The Growth of Fund Accounts and Trust Money	164
Table 7-3: Analysis of Articles about Chairman Park	187
Table 8-1: Foreign Direct Investment and the M&A Deals	202
Table 8-2: Major Deals by Foreign Private Equity Funds	202
Table 8-3: Advisors from High-Ranking Policymakers	208
Table 8-4: Media Coverage of the KEB-Lone Star Deal	226
Table 8-5: Analysis of the Media Coverage of the KEB-Lone Star deal	220
Figure 6-1: Frequency of Articles with Economic Discourse	146
Figure 7-1: The Correlation between KOSPI and S&P 500	166
Figure 8-1: The Global-National Network of the KEB-Lone Star Deal	223

Note

* As for currency units, Korean *won* and U.S. dollar are used depending on the context. And the currency conversion is made based on the exchange rate of 1,100 won per dollar. As usual, one billion means 1,000,000,000.

List of Abbreviations

AMCHAM:	American Chamber of Commerce in Korea
BAI:	Board of Audit and Inspection
CEO:	Chief Executive Officer
CFE:	Centre for Free Economy
CFO:	Chief Financial Officer
EPS:	Earning Per Share
EUCCK:	European Union Chamber of Commerce in Korea
EV/EBITDA:	Enterprise Value/Earnings Before Interest, Tax, Depreciation and Amortization
EVA:	Economic Value Added
EXIM:	Export - Import Bank of Korea
FDI:	Foreign Direct Investment
FKI:	Federation of Korean Industries
FSC:	Financial Supervisory Committee
FSS:	Financial Supervisory Service
FX:	Foreign Exchange
GDP:	Gross Domestic Product
GR:	Government Relations
HRI:	Hyundai Research Institute
IB:	Investment Bank
IMF:	International Monetary Fund
IPO:	Initial Public Offering
IR:	Investor Relations
IT:	Information Technology
KCCI:	Korea Chamber of Commerce and Industry
KDI:	Korea Development Institute
KEB:	Korea Exchange Bank
KINDS:	Korea Integrated News Database System
KOSPI:	The Korea Composite Stock Price Index
LGRI:	LG Economic Research Institute
M&A:	Mergers and Acquisitions
MOFE:	Ministry of Finance and Economy
MVA:	Market Value Added
OECD:	Organization for Economic Cooperation and Development
PEF:	Private Equity Fund
PER:	Price Earnings Ratio
PR:	Public Relations
PSPD:	People's Solidarity for Participatory Democracy
ROA:	Return On Assets
ROE:	Return On Equity
ROIC:	Return On Invested Capital
SERI:	Samsung Economic Research Institute
SOC:	Social Overhead Capital
SPO:	Supreme Prosecutor's Office
TNC:	Transnational Corporation

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Part I
Surveying the Issues

Chapter 1

Introduction

1.1 Background and Research Agenda

This thesis documents the socio-economic changes that have taken place in Korea over the last two decades under the influence of neo-liberal hyperglobalization. The point of departure is the uneasiness about the hardship of the general population, which has been continuously exacerbated as a result of Korea's ever deeper integration into globalization. The research attempts to grasp the situation within the framework of the ingrained rivalry between liberalism and democracy, where the exigencies of globalizing market forces have restricted the egalitarian expansion of Korean democracy. The research then aims to elucidate the attributes and processes of economic power that sanction ever-widening inequality, through the lens of media and communication studies.

Since the early 1980s, the belief in the market has been the spirit of the times. Until the global financial meltdown in 2008 which dealt a decisive blow to its validity, the expansion of the market principle was the salient trend in many parts of the globe. The politico-economic paradigm that promoted the liberalization of the economy in the context of globalization has been variously labeled "neo-liberalism", "market-fundamentalism", "turbo-capitalism" or "market-driven politics". This paradigm has forcefully directed and reshaped the institutional, stratal and cultural settings of our life.

From the early 1990s, Korea has undergone a neo-liberal transformation of its economy and society, replacing its previously successful East Asian development model. The change was fuelled not only by the external constraints of the global diffusion of the neo-liberal paradigm, but also by the internal imperative to establish a more effective socio-economic paradigm. This transition has been particularly radical since the Korean economic crisis in 1997, under the auspices of the "Washington - Consensus" authored by the International Monetary Fund (IMF) and Wall Street. The transformation was comprehensive to such an extent that the international community dubbed Korea a 'model student of the IMF' (*Dong-A*, 28 Nov. 2001).

In line with this change, it has become increasingly clear that a majority of ordinary Koreans have been suffering a reduced standard of living, in both psychological and material terms. In particular, after the all-out liberalization of the economy in the late 1990s, the number of Koreans living beneath the poverty line has soared, while the income disparity among the people has sharply worsened. The widening socio-economic polarity has dampened the social dynamics of class mobility, as the poor were discouraged from daring to climb the ladder of success. Amid the social pressure of “national competitiveness”, “business restructuring” and “casualization of labour”, people are racking their brains about the dismaying future. The hardship of the people was alarmingly demonstrated by statistics indicating, for instance, that Koreans had the highest rate of suicide and the lowest rate of birth among the OECD countries (Ministry of Health and Welfare 2011)¹.

The Korean experience of neo-liberal transformation, i.e. the expansion of the market and the increase in the uneasiness of people, reminds us of the instances that Karl Polanyi (2001[1944]: xxvii) referred to as the ‘double-movement’ between market and society. In short, market systems inevitably generate commoditization and inequality. When the ‘laissez-faire movement to expand the scope of the market’ reaches the verge of disrupting a society, a protective countermovement emerges to resist the ‘disembedding of the economy’. The essential role of the modern capitalist state has been to remedy the dysfunction that the market system generates. Thus, the harshness of the market is eased by ‘redistributions of money and resources authorized by the democratic state’. And it is politics that determines the scale and nature of these ‘social transfers’ (Curran 2006:143, see Chang H-J 2010: 261-262 also).

Globalization, however, has promoted the expansion of the market while

¹ The number of Koreans dying of suicide among 100,000 people was 28.4 in 2009. This was the highest among the OECD countries, followed by Hungary (19.6 people) and Japan (19.4 people). The suicide rate in Korea has doubled in ten years since 1999, supposedly because of the intensified competition between people, the high rate of unemployment among the younger generation, and uneasiness about the future after the economic crisis in the late 1990s.

weakening democratic politics that is basically bound to the nation state. As politics is subsumed into the imperatives of borderless competition and global standards, the state silently abandons its duty to remedy the harshness of the market. This was noted by Dani Rodrik (2011: 189, emphasis in the original) as a ‘fundamental tension’ in which ‘hyperglobalization *does* require shrinking democratic politics and insulating technocrats from the demands of popular groups’. Thus, politics in the age of neo-liberal globalization became increasingly ‘market driven’ (Leys 2001: 1), generating a shift of power to economic elites (Strange 1996).

In Korea, since the ‘dual liberalization’, i.e. democratization and economic openness in the late 1980s (Cho H-Y, Kim D-C and Oh Y-S 2009: 35), there has been a growing sense of “paradox” about the widening gap between formal democracy and substantial democracy, or between political democracy and economic democracy (ibid; see Choi J-J 2005 also). What this perplexing situation implies is that the institutionalization of democracy over the last few decades has failed to deliver the egalitarian ideals of democracy. The sense of paradox was heightened in the 2000s, when the socio-economic polarity was markedly exacerbated, while the allegedly democratic governments, the leaders of which have long fought for democratization, were in power.

The “mere shell of democratic politics”, that was unable to improve the welfare of people, coincided with the shift of social power relations, characterized by the advance of the transnational market forces in the globalized industries and in finance. The observation that Korea, since the late 1990s, has turned into a ‘corporation society’ (Kim D-C 2007: 17) or a ‘management society’ (Hong D-R 2008: 68) demonstrates the establishment of business hegemony. In this regard, ‘democracy after the democratization’ of Korea (Choi J-J 2005: 19), as with many Asian and East European countries that joined ‘democracy’s third wave’ (Huntington 1991: 12), was crisis-ridden and was greeted with skepticism.

In the face of the reality that hyperglobalization has engendered in the nation, it

is significant to ask how market liberalism and transnational market forces have limited the scope and scale of democratic politics in Korea. Considering their ‘power value’ (Watson 2003: 13), it is reasonable to assume that media, communications and culture have played critical roles in the exercise of economic power to generate a massive shift of resources towards small, seldom accountable economic elites. Accordingly, the objective of this thesis is to investigate the role played by media, communications and culture in the ‘downsizing’ of democratic politics (Crenson & Ginsberg 2002: xii) that accredited inequality and social polarity. By doing so, this study should be able to enhance our understanding of the mediation of economic power in the age of ‘liberalism *aut* (against) democracy’ (Bobbio 1990: 49). Hence, the overall research agenda is:

What part did media and communications play in the exercise of economic power that sanctioned a sharp increase of inequality and social polarity in Korea?

1.2 Summary of the Approach and the Research Questions

The existing research with a similar research agenda to this thesis may be grouped into two categories in terms of its theoretical orientations and approaches. The first is the ‘constructivist approach’ (McGrew 2005: 229) which focuses on the role of ideas and discourse in the establishment of the global-national hegemony of neo-liberalism. This approach normally asks such questions as: what kinds of discourses emerged, who actively partook in these discourses, for what purpose, in what context, and how did those discourses contribute to constituting reality.

The second is the political economic approach, which explores the structural constraints in the media industry that have led to overtly pro-market and pro-capitalist media texts. In Korea, this line of research has paid particular attention to the distortions of the media production processes by the ruling

alliance of chaebols -- mainstream media -- economic bureaucrats.

Although these schools of thought are grounded on divergent interpretative frameworks, they share one overarching assumption: that influence is exercised when economic elites succeed in persuading, inculcating or indoctrinating the public through the mass media and communications. In other words, it is assumed that the “power value” of the media and of communications is located in their influence on mass audiences. This assumption is very familiar in the tradition of political communication studies, and it still has significant explanatory power for the relationship between the media, power and democracy.

But there are unconventional attributes and processes of neo-liberal market power which compel the researcher to look beyond approaches that rest on the norms of state-centered politics as well as the institutionalized forms of media, communications and culture. Firstly, in line with the neo-liberal transformation, the economy has become increasingly “disembedded” from the society and from political control. This was deliberately promoted by various discourses of de-politicization and by the ‘market-driven politics’ of each government (Leys 2001: 211). Drawing on the Finnish experience of neo-liberal socio-economic change in the 1990s, Anu Kantola (2001) has pointed out that an anti-political and anti-public discourse that favors economic expertise and bureaucracy negated or narrowed the public sphere and the scope of public discussion.

Secondly, there have been growing mismatches between power and its legitimacy and accountability. In line with neo-liberal economic globalization, the locus of power has shifted considerably towards multinational corporations, global financial capitalists and transnational institutions. Unlike state-bound political power, it is difficult to expect that the agents of liberal market forces will seriously value political legitimacy and public accountability in the way that they operate. Generally, they even operate in a manner that is unnoticeable by the public as they are shielded by lofty expertise, exclusive networks and a distinctive culture and practices.

In this regard, power and resources are continuously placed at the discretion of experts and institutions that function with little public accountability, transparency, or engagement with ordinary citizens. In this instance, the application of the elite-media-public paradigm to the incumbent research agenda may result in insufficient explanations.

In order to understand the research topic better, this research seeks for an alternative or complementary explanation for the “power value” of media and communications in the era of hyperglobalization. This approach engages with the organized interests of economic elites and their communicative strategies, which have increasingly replaced the democratic process of consensus-formation. In practice, this research should be a communication-oriented study of the actual site or network where the powerful dwell, paying particular attention to the variant modes and processes of power that these market liberals exercise.

In particular, it is assumed that private forms of communications play significant roles in economic elite’s sites or networks, something which most of the existing research on this topic often ignores. Considering the unaccountable and exclusive attributes of the neo-liberal market forces, the private actions of the powerful and the private communicative activities that mediate these actions seems important in the shifting and maintaining of power relations. Such private communicative activities or organs as lobbying, think tanks, and policy planning organizations, though they are the least visible and the most exclusive, may constitute significant spaces of contemporary power.

By reflecting the overarching research agenda against the Korean experience of “dual-liberalization” as well as the theoretical discussion, the researcher can formulate the following research questions:

- 1) How did the market liberals discursively dwarf the public domain of Korea and allow its economy to be, in effect, colonized by technocrats and economic

elites?

2) What kind of organized interests of market forces have evolved in Korea as a locus of power in line with Korea's deep integration into hyperglobalization? And what different modes of power are observed in action in elite sites or networks?

3) How have the media, communications and culture, not just in their mass forms but also in their private forms, engaged in the process of exercising power?

4) What are the socio-economic consequences and the significance of the communicative processes of market forces in terms of democratic politics and power relations in Korea?

1.3 Structure of the Thesis

Chapter 1 introduces the study.

Chapter 2 addresses the transformation of Korean society over the last three decades, focusing on the dynamic relationship between democratization and economic liberalization.

Chapter 3 reviews the literature and contextualizes the research.

Chapter 4 explains the research approaches and methodology.

Chapter 5 explores the discursive process of the de-politicization of the economy after the Korean economic crisis. This chapter especially pays attention to the role of Korean economists in constructing a specific economic and political reality.

Chapter 6 documents the advance of the corporate elites to a dominant position of economic, social and political power in line with the neo-liberal transformation of Korean society. The focus will be placed on the way that the chaebols, Korean conglomerates, influence government policy within the elite communication network.

Chapter 7 documents how the financial elite and their specific financial rationale became dominant in the Korean economy after the late 1990s and what changes they have brought to corporate management and household

behavior.

Chapter 8 explores the operation of global-national networks of alternative investment that have emerged as an important channel of influence. The emphasis will be placed on the lack of visibility of the specialists who inhabit this site of power, and the implications of this for the wider society and democracy.

And, finally, chapter 9 summarizes the findings and concludes the thesis.

Chapter 2

Hyperglobalization and the Paradox of Korean Democracy

‘We cannot have hyperglobalization, democracy, and national self-determination all at once. We can have at most two out of three. If we must keep the nation state and want hyperglobalization too, then we must forget about democracy’ (Dani Rodrik 2011: 200).

2.1 Introduction

This chapter addresses the transformation of the Korean economy and society over the last three decades. Focusing on the adoption and deepening of the neo-liberal paradigm, the research locates the change within the frame of “dual liberalization”, i.e. the interplay between democratization and economic liberalization.

Korea, one example of the ‘condensed growth’(s) of the East Asian economies, was noted for its splendid economic development in the 1960s and the 1970s (Chang H-J 2007:17). As the economy grew, so did the people’s desire for political liberalization. By the late 1980s, the Koreans had achieved democratization. This political change was accompanied by the ever- growing momentum of neo-liberal economic globalization.

The period of the 1990s and the 2000s in Korea was characterized by a symbiosis on the one hand or clash on the other between the neo-liberal momentum and the people’s longing for the egalitarian expansion of the democracy. Economic liberalism, having once been received to be a friend of democratization, had limited the scope of democracy after the economic crisis in 1997, hindering its egalitarian expansion. Along the way, the power relations between social groups had changed.

With this framework in mind, this research sought answers to such questions as, how the political liberalization and economic liberalization were intertwined with each other in the change of the socio-economic paradigm; how the relative strength of power between the business circle, the bureaucrats and organized labour changed over the period; what consequences did the change bring for the

living conditions of people; and what were the implications for Korean democracy.

2.2 The East Asian Miracle and its Limitation

During the 1960s and 1970s, Korea achieved splendid economic development under the leadership of the President, Park Jung-hee². The Korean economy was undeniable evidence of the “East Asian miracle”, the term used to describe the rapid economic growth in this region, including Japan, Taiwan, Korea and Hong Kong. The “catch-up” strategy of the region, which successfully orchestrated the growth of export industries and the development of a market economy, was dubbed the “developmental-state” model by Western scholars (Johnson 1982; Woo-Cumings 1999).

In the model, the state had strong control over the economy and the civil society. Resources were normally allocated according to the master plan for investment, production, and distribution, which the government drew up. The financial sector was practically controlled by the government officials, providing them with effective means of intervention (Chang H-J 2003). The strategy for the condensed growth was so successful that Korea, which had once been one of the poorest countries in the world, became an emerging market country within just 20 years. The per capita income increased 14 times in 44 years, between 1963 and 2007, while it took 200 years for the U.K. and 150 years for the U.S. to achieve similar increases (Chang H-J 2007: 17).

Around the turn of the 1980s, however, it became increasingly clear that the model was no longer efficient because of the backlash of its own success (Lee B-C 1998). The growing sense of political and economic crisis had undermined the credibility of the model. Politically, the developmental state, which was authoritarian, conflicted with the growing demand from the people for

² He seized power by a coup d’etat in 1961 and was assassinated by Kim Jae-kyu, a follower, in 1979.

democratization. This was a consequence of the economic development, which had facilitated the growth of an educated middle class as well as benefiting social groups like the workers, the farmers and the intellectuals. In this sense, the design of the economic miracle ‘unwittingly planted the seeds of their own destruction’ (Dahl 2000: 170). The Chun Du-hwan³ government which succeeded the Park Jung-hee government in 1980 was marked by escalating resistance from the people and ever-increasing oppression by the police.

The developmental state model also revealed its limitations as a paradigm of economic policy. From the early 1970s, the Korean government ambitiously promoted massive investment in the heavy industry and chemical industries. But these industries suffered hugely when the “oil shock” generated a global economic recession in the late 1970s. The government was compelled to restructure the industries by providing subsidies as well as merging them, a process lasting until the early 1980s. After this came another round of government-driven restructuring in the debt-ridden industries, such as the overseas engineering and shipping industries, which continued until the mid-1980s (Cho Y-C 1998:149).

The consecutive breakdown of government investment projects was enough to cast doubts about the viability of the developmental strategy. It was the market that emerged as an alternative to the state’s leadership. Increasingly many economists ascribed the economic hardship to the distortion of the market mechanism caused by state intervention. Around the mid-1980s, the shared wisdom among economists and policy-makers was that the market should play a heavier role in the advanced Korean economy. The liberalization of economy through such policies as deregulation, privatization and trade openness was gradually introduced in order to facilitate the advance of the market mechanism (Lee B-C 1998; Ha Y-S 2003).

This shift in policy paradigm also conformed to the preference of the business

³ He was the President from November 1980 to February 1988. He was the military right hand man of the former President Park Jung-hee

world, which at that time was seeking independence from the “visible hand” of the government. The rapid economic growth led by the state was mirrored by a massive consolidation of capital. As the government strategically encouraged the growth of big conglomerates, the major Korean industries, including automobile, ship building, electronics and oil refinery were appropriated by dozens of chaebols⁴. In some senses, the remarkable take-offs of the Korean economy, according to Alice Amsden (1989), can be attributed to the partnership between the state and chaebols, in other words, a balance between support and discipline. By the 1980s, however, the chaebols no longer wanted government intervention, as they became huge in size and their business interests expanded beyond the national borders. In their pursuit of raising cheaper overseas loans, for example, chaebols continually requested, from the mid-1980s on, that the government ease financial regulations; these were the main lever of the state’s control over the business.

International pressure, or coercion, also played a significant part in the liberalization of the economy. From the mid-1980s, the U.S.A. phased out its lenient trade policy stance towards the emerging economies, and increased the pressure for opening up markets at multilateral or bilateral negotiations, such as the Financial Policy Talks (Ha Y-S 2003). Also, the governments of the G7 and the transnational corporations repeatedly asked the emerging market countries, including Korea, to liberalize their financial markets.

2.3 The Momentum of Globalization and the Crisis

In the early 1990s, another politico-economic momentum had emerged in the Korean economy. Beneath the slogan of the ‘end of history’ (Fukuyama 1989: 3), globalization and neo-liberalism had penetrated into the ruling discourses and policy agendas of the government. The business circle and the economists promoted neo-liberal ideas, such as the supremacy of the market and limitless

⁴ Korean huge conglomerates run by the chairman’s family (See chapter 6.).

competition, seasoned with the fear of possible defeat in the merciless global economic battlefield. But the hurried relaxation of financial regulations, in response to the demand of the business world, led to the economic crisis in 1997.

Globalization, a national agenda

It was with the “globalization campaign” of the Kim Young-sam⁵ government in the early 1990s that the Korean economy embraced the neo-liberal paradigm in earnest. President Kim proclaimed in late 1993 that his government would prioritize “internationalization” as a supreme policy agenda. A year later, he placed even stronger emphasis on the political campaign by upgrading the slogan to “globalization”⁶. The campaign for globalization aimed at disseminating the belief that there was ‘no alternative’ other than embracing the global trend of openness and economic liberalization (Ha Y-S 2003:12). The discourses of privatization, deregulation and competitiveness were mobilized by the government and the business circle as an ideological device. A political scientist put it like this:

‘As it is necessary to strengthen competitive power in order to survive limitless global competition, the demand for wage increases by labour was criticized as a culprit for the excessive increase of production costs. The request for the reform of the chaebols system was also turned down with the excuse that it may damage the advantage of scale that the chaebols had. Moreover, in the discourse of globalization, the main objective of the government was to be business-friendly’ (Choi J-J 2005:205).

In terms of specific policies, the globalization campaign was marked by the aggressive abolition of financial regulations. The five-year financial liberation

⁵ He was in the office from February 1993 to February 1998.

⁶ Kim Young-sam government’s main slogan evolved from “Building a New Korea”, to “internationalization” and, finally, “globalization”. There are some differences between the concepts of internationalization and globalization. According to the government, globalization suggested that the state’s boundaries no longer matter while internationalization basically presupposed the national state (*Maeil Business Newspaper*, 22 Nov.1994).

plan was drafted in 1993. This plan comprised such policies as the deregulation of interest rates; giving managerial autonomy to the banks; and reducing entry barriers to Korean financial market for foreign capital. The plan targeted, among other things, the abolition of “policy loans”, which was the nucleus of the power of the developmental state in controlling the corporate world (Choi B 1993). What facilitated the liberalization of finance was President Kim’s desire to see Korea join the OECD, a club of wealthier countries, during his term of office (Chang H-J, Park, H-J and Yoo C-G 1998; Ha Y-S 2003).

The road to the economic crisis

In line with the relaxation of financial regulations, in the mid 1990s, Korean industrial and financial firms rushed to the global financial centers looking for cheaper credit. The frenzy for borrowing resulted in the mushrooming of Korea’s overseas liabilities from \$ 44 billion in 1993 to \$ 120 billion in 1997. The rapid increase in foreign debt was also the result of the investment boom in Asia, facilitated by the upsurge in optimistic economic outlooks from foreign financial institutions (Krugman 2009). What was notable about the debt held in foreign currencies was its maturity structure. The short-term debts with less than a year of maturity had inflated to 58.3% of total debt in 1996 from 43.7% in 1993. Korean firms even raised capital for facility investment with short-term credit and rolled it over. The underlying calculation of the borrowers was that Korea’s credit rating, hopefully, would keep rising and the cost of borrowing would go down (Chang H-J, Park, H-J and Yoo C-G 1998). But the massive inflow of short term financial capital and a mismatch of maturity had made the Korean economy vulnerable to the whims of global financial capital.

Until the crisis hit Korea in late 1997, however, relatively few economists forecasted that the domino of financial collapse which started in Thailand would infect much bigger economies in the Far East. Before the crisis, scholarly debate was dominated by the “Asian miracle thesis” that stressed the efficient institutional networking underlying economic development (World Bank 1993). The macroeconomic indicators, the barometer of national economic

fundamentals, had shown few signs of trouble. Over the first half of the 1990s, Korea recorded impressively high growth rates (real GDP growth was 7.83% per annum between 1990 and 1995), high savings (gross saving was 35.6% of GDP annually over the same period) and investment ratios (gross fixed capital formation was 36.7% of GDP annually over the same period), stable inflation rates (7.0% per annum over the same period), and a balanced national budget (the fiscal balance was minus 0.26% of GDP between 1990 and 1995). The only indicator that raised caution was the relatively small but growing current account deficits (the current account balance was minus 1.25% of GDP over the same period and minus 4.75% in 1996 mainly due to the drop in price of semiconductors, which was the key exports) (Demetriades and Faffouh 1999: 782).

But the increase of non-performing loans in the financial sector, mainly due to the continual failure of massive investment projects affecting several chaebols, was the epicenter of the concerns of foreign lenders. The non-performing credit of 26 commercial banks in Korea was 6.0% in 1997. But there was widespread suspicion that the actual number would be 20.85% of the total claims (ibid: 787). Once the confidence of global financial capital had evaporated, partly due to the poor management of the foreign exchange rate⁷, Korea could not help asking the IMF for an emergency loan, less than four years after the start of the ambitious globalization (internationalization) campaign.

2.4 The Structural Reforms after the Crisis

The economic crisis that broke out in November 1997 was the biggest event in the modern economic history of Korea. The crisis caused a psychological trauma for many Koreans because it was followed by the most painful economic recession ever experienced. The GDP growth rate plummeted, for the

⁷ The Finance Ministry and Bank of Korea's decision to defend the Korean currency, the *won* , against speculative attacks resulted in the loss of international reserves as well as a loss of credibility (Kim D-W 1998: 240).

first time in decades, to minus 6.9% in the following year, and more than 1.2 million employees lost their jobs. Accordingly, the unemployment rate rose to 7.0% in 1998 from 2.6% in 1997 (Kostat)⁸. Amid anger and frustration, the opposition party won the Presidential election in December 1997. Korea was compelled to undergo several years of painful socio-economic transformation from then onwards. After carrying out the stringent structural reform programs imposed by the IMF and the Wall Street, Korea became a considerably different society from the pre-crisis one.

Following the crisis, the policy paradigm of the developmental state was discredited and virtually discarded with an accusation of “crony capitalism”. Instead, the Anglo-American style neo-liberal paradigm became the dominant interpretative framework of policies in the name of a “global standard”. The policy recommendations of the IMF were based on the “Washington Consensus” that reflected the interests of the U.S. Treasury and Wall Street. The U.S. Treasury, the invisible hand behind the IMF, had revealed some signs that it had a keen interest in the neo-liberal transformation of the crisis-ridden East Asian economies, including Korea. The U.S. urged the IMF negotiators not to permit Korean government any choice other than “going to the IMF” immediately after the crisis broke out. This was confirmed several years later by some memoirs of the Korean team that negotiated with the IMF (Kang K-S 1999; Chung D-K 2008).

But the adoption of the neo-liberal paradigm was not solely an imposition by the U.S. Treasury and the IMF. It was also a voluntary espousal by the Korean government, corporate world and economists, who viewed it as a new interpretative framework of socio-economic policies. The U.S. treasury officials later said that they were please to find that the President-elect Kim Dae-jung basically shared them a desire for the structural reform of Korean economy (Rubin 2002). Some researchers argued, thus, that the Korean government tried to make use of the anguish of people, as well as the authority of the IMF, to overcome any resistance to the painful reforms (Hong S-Y et al. 2006).

⁸ Statistics Korea (<http://kostat.go.kr/portal/korea/index.action>, retrieved 6 May 2010).

The restructuring program was carried out in four core areas; finance, corporations, labour and government. Amongst other things, the changes in financial policy and labour policy had a huge influence in the economy and the living conditions of people. The Korean government introduced all-out financial liberalization immediately after the crisis, partly due to the shortage of foreign currency. As a consequence, foreign investments as a form of direct or portfolio investment flooded into the Korean financial market and industries. For example, the foreign ownership of shares in the KOSPI, the main stock exchange in Korea, soared from 18% in 1998 to 30.1% in 2000 and 41.9% in 2004 (*Money Today*, 29 Oct. 2007). Most significantly, foreign investors came to hold more than 50% of the shares of the ten biggest Korean corporations, including Samsung Electronics., Hyundai Motors, POSCO and Kookmin Bank (*E-Daily* 24, Nov. 2005). As the financial market was increasingly integrated into the global market, it had emerged as a central actor that regulated the expectations and the preferences of economic agents (Cho Y-C 2007).

On top of that, the macroeconomic policies of the government became exposed to the scrutiny of the global credit rating agencies, the investment funds and the financial media. The firms, faced with “shareholder capitalism” that prioritized the maximization of shareholder value, successively adopted a new management strategy that made the “bottom line” their first concern. After the investment fund boom in 2003~2007, that converted considerable portions of household assets into stock investment, the influence of the financial market on households and firms became even stronger. It was a process of ‘financialization’ (Froud, Johal and Williams 2002: 5).

Another important change was the introduction of the flexibility of labour, that gave the employer stronger discretion in the layoff of employees and the hiring of casual workers. In fact, this was a long-cherished demand of Korean business circles, rather than a core policy recommendation of the IMF. Chung Deuk-ku, a high-ranking officer at the Ministry of Finance and Economic Planning who participated in the negotiations with the IMF, confirmed that the IMF, initially,

was reluctant to ‘touch upon’ the ‘politically sensitive’ issues like the flexibility of labour (Choi G-P and Lee S-J 2002: 64-66). This illustrates again that the structural reform programs were not solely an imposition of the IMF or the U.S., but were a mixture of domestic and external demands. With regard to the legitimization of labour policy, a tripartite council meeting between the leaders of the trade unions, the business circles and the government was organized in January 1998.

The introduction of the flexibility of labour brought about obvious effects in the status of employees. It meant that the established practice of lifetime employment in Korean firms would no longer exist. The percentage of casual employees, including temporarily and daily hired employees, rose to 51.5% of the total employees in 1999 from 46.9% a year before (Kostat)⁹. It had gradually increased to 56% (8.8 million) in March 2007. The average annual salary of these casual workers was less than 50% of that of permanent employees (*Hankyoreh*, 15 Jun. 2010).

2.5. The Shift of Power Relations

Korea took the road of democratization from 1987 thanks to the tenacious resistance of the people against an authoritarian government. It was, the political scientists argue, a ‘transformation through the compromise’ in which the ruling militarists and the dissidents agreed on competitive coexistence, i.e. the ‘second best solution’. The compromise, including direct election for the Presidency and freedom of the press, was thus an outcome of a ‘balance of power’ (Im H-B 1994: 249; see Choi J-J 1996 also).

It is important to note that democratization in Korea was also a watershed for the liberalization of the Korean economy away from state intrusion. In this

⁹ Statistics Korea (<http://kostat.go.kr/portal/korea/index.action>, retrieved 12 Jan. 2010).

sense, the democratization should be understood as a ‘dual-liberalization’ of both the political and the economic system (Cho H-Y, Kim D-C and Oh Y-S 2009: 35).

Contest and symbiosis between power brokers

The ten years between democratization in 1987 and the economic crisis in 1997 in Korea were characterized by contests and alliances between civil groups (including the labour), the corporate world, and the state. But, with the rise of the discourse of neo-liberal globalization, especially after the economic crisis, the power balance gradually tilted toward business.

After democratization, the force of civil society groups had advanced; particularly notable was with the growth of the labour movement. Koreans experienced an unprecedented surge of labour disputes in 1987 and 1988, immediately after democratization. The disputes led to the organization of the labour movement, enhanced political awareness and active engagement in social and political issues by labour (Shin J-W 2004).

The government and the business circles took a lenient position toward the labour movement for about two years after democratization. Through concessions from businesses circle, workers saw their wages increased considerably and welfare benefits enhanced during this period. These appeasement policies were possible because the state was forced to garner ‘democratic legitimacy’ in the face of the people’s aspiration for democracy. But, this would have been short-lived without the massive profit that Korean industries enjoyed thanks to the prolonged economic boom¹⁰ from 1987 to 1989 (ibid: 232).

¹⁰ This economic boom was dubbed “Sam-Jer (three-low) prosperity” because the Korean economy enjoyed an especially favourable global business climate thanks to low oil prices, low global interest rates, and the low exchange rate (appreciation) of the Japanese yen. In particular, the drastic appreciation of the value of the yen after the Plaza Agreement in 1985 boosted the price competitiveness of Korean goods against Japanese goods in the global market, and this resulted in a surprising increase of Korean exports.

When the economic boom faded in the early 1990s, however, the government and business circle reverted to a reactionary position. For example, the government resuscitated the “wage guideline” to curb wage increases with the excuse that there was intensifying overseas competitive pressure. This hawkish posture was supported by the conservative turn of the political landscape, i.e. the political merger of the right-wing and liberal parties in early 1990 that gave the ruling party a comfortable majority in the parliament (ibid: 238-239).

On the other hand, both business and the civil society shared the view that the state should refrain from arbitrary intervention in the economy and civil society. It was epitomized by the media jargon of “elimination of *Kwanchi*”¹¹. Although both groups jointly challenged the state, their objectives were very different. Civil society group sought the democratic reform of the state apparatus lest it should be mobilized by the capitalists. But the business circles sought deregulation that would guarantee unbridled market freedom (Kim J-J 2004). Ironically enough, business at the same time asked for decisive state intervention when it seemed to be to their advantage. For example, they kept asking for drastic measures to crack down on labour disputes. In the face of the combined pressure from both civil society and business, the state gradually withdrew from direct intervention in the economy. However, in line with the rise of business power, the bureaucrats increasingly sided with business, taking hawkish stances toward the labour movement.

On the other hand, as democracy and economic liberalization advanced, inconsistencies between the economic system, led by chaebols, and the principles of the free market have become apparent. The government and civil society groups shared the idea that it was necessary to reform the pre-modern chaebols system. Each government, at the beginning of the President’s term, made an effort to do so. The Kim Dae-joong¹² and Roh Moo-hyun¹³

¹¹ *Kwanchi*, meaning “rule by the bureaucrats” in Korean, refers to the general practices of directive intervention by state bureaucrats in the matters of, especially, the appointment of CEOs in financial institutions and quasi-public corporations.

¹² the 15th President, from February 1998 to February 2003.

¹³ the 16th President, from February 2003 to February 2008.

governments, especially, tried to make use of ‘rival forces’ -- the financial capitalists of Anglo-American shareholder capitalism -- in order to reform the chaebols system (Kim K and Park S-S 1998: 383).

But the attempts of the ‘reformist liberals’ faced tenacious resistance from the chaebols. As a result, most of the policies failed (Kim S-J 1998). When the proposed reform policies seemed to be unfavorable to them, the corporate world mounted massive opposition. They mobilized pro-business organizations and lobbies in order to dissuade the lawmakers from passing the reformist bills. The media outlets that were under the influence of business generated massive ideological assaults on the reformists. The chaebols claimed the reform measures to be unreasonable regulation. They even criticized the minimal industrial policy and fair trade regulation as market interference (Lee B-S 2006).

Business hegemony after the economic crisis

The structural reform guided by the “Washington Consensus” has considerably changed the balance between civil society group and business. The neo-liberal transformation has further empowered capital, while weakening labour. The globalized market has provided business with an enhanced sense of mobility. Their discretion in investment and employment were the origin of power. The emblematic sign of the power shift was the submissive remark of President Roh Moo-hyun in 2005 that ‘power already seems to have shifted to the market’ (*Pressian*, 17 May 2005).

The foreign financial capitalists and global transnational corporations (TNCs) have made full use of the favourable treatment from the government. For 4-5 years after the crisis, the foreign financial institutions had overpowered the Korean financial market, mobilizing so-called “advanced financial crafts”. With the rise of the global-national expert networks, including legal advisors, fund managers and policy-makers, Koreans witnessed that astronomical amounts of national wealth were swiftly drained into the hands of the foreign alternative investment funds like private equity funds (PEFs) or hedge funds.

As the influence of the financial market on the management of firms increased after the crisis, the corporations became cautious about their investment decisions. The priority of the management of firms has changed from the maximization of market share (growth) to the maximization of shareholder value (short term profit). As a consequence, restructuring and reduction of employees became a daily routine of the management, in order to curtail expenses. This change has resulted in chronic under-investment and a high rate of unemployment.

When the economic crisis broke out, the chaebols were named by the IMF and the economists as major culprits. Out of the thirty largest chaebols, almost one half were dismantled after the crisis due to financial problems. But the chaebols that survived the crisis were able to increase their size and consolidate their influence. The total assets of the eight largest chaebols accounted for 45.9% of GDP in 1996, just before the crisis. This ratio rose to 60.0% in 2000 and then reduced slightly, to 53.2% in 2005 (Solidarity for Economic Reform 2006). Notably, Samsung, the biggest of the chaebols, grew to be a matchless ‘super chaebol’ thanks to the brilliant performance of its flagship affiliate, Samsung Electronics (Choi J-J 2005: 271). Samsung’s total sales have increased from 12.6% of GDP in 1996 to 17.5% in 2000, and then accounted for 15.8% in 2002. Its added-value production has also hiked from 1.8% of GDP in 1996 to 3.3% in 2000 (Cho H-Y 2009:128).

The structural reform of the economy has decisively empowered the chaebols’ discretion over investment and employment, which were the ‘two main props of the capitalists’ power’ (Yoo C-K 2009: 59). The rise of unemployment and of casual labour after the adoption of labour market flexibility has weakened the bargaining power of labour in both the labour market and the production line. This was evident from the considerable decrease in organized labour, especially in small and medium sized companies, in which union representation was the weakest. The influence of business, based on their investment discretion, was fully augmented by the recurrent economic slump and ever-increasing

unemployment, especially among the younger generation.

Also, the enlarged chaebols have increased their influence by mobilizing resources, such as their official-unofficial participation in the policy making bodies; their extensive elite network which was elaborately cultivated for lobbying; and their ideological leverage through the think-tanks and their affiliated media. In the policy-making tug-of-war, increasingly many decisions of the government and parliament were imprinted with the chaebols' interests. The government went so far as to depend on the chaebols to draft its major policy agendas and programmes.

The state has gladly accommodated the requests of the business circles because it believed that was the “royal road” for robust economic growth and employment. The politicians and bureaucrats looked upon themselves as “promoters” of business activities, at the expense of such collective values as social welfare and solidarity. As a logical consequence, the “business friendly” government has relied heavily on the chaebols to deliver its supreme objective of economic growth, while discarding its duty to reform the economic backwardness rooted in the chaebol system. It became clearer, around the mid-2000s, that the chaebols were ‘no longer a sub-partner’ of the state. They had emerged as a dominant influence in the Korean economy and society (Choi J-J 2005: 273).

2.6 The Korean Media and Social Power Relations

Since the late 17th century, the idea of a free press has often been grafted on to the idea of a market-based media. Decentralized market competition was perceived as a vital antidote to political despotism. This line of thought is still prevalent within the argument for deregulation of the industry influenced by the neo-liberal policy paradigm (Freedman 2008). But the British political scientist John Keane (1991: 46) indicates that the idea of the free market has failed to guarantee the freedom of the press, let alone equality of communication. There

are ‘inevitable tensions within markets between the free choices of investors and property owners and the freedom of choice of citizens’. He continues that market liberalism of the press is usually ‘spoiled by its fetish of *market competition*, which always produces market censorship’ (ibid: xi).

Along with the democratization of the Korean political system, the key word that defines the Korean media has rapidly changed from “the state” to “the market”. Before democratization, Korean media was strongly controlled by authoritarian governments. The Park Jung-hee and Chun Doo-hwan governments, which placed supreme importance on economic development, made use of the press and broadcasting as ‘a mouthpiece of government policy’ through the use of ‘carrots and sticks’ along with ‘co-option of journalists’ (Lee W-R 2004: 19). Market competition, such as new entry and enlargement of capacity, was so strictly regulated by the government that the media industry could enjoy the “peace of oligopoly.” This system was categorized as a ‘state guardianship’ which was characterized by a symbiotic relationship of ‘preference-loyalty’, and ‘suppression-obedience’, between the state and the media (Park S-K and Chang K-S 2001: 60).

In this sense, the freedom of the press was raised by the leaders of the people’s demonstration as an indispensable milestone for the democratization of Korean society. From 1987, governments abandoned direct intervention in the media, and have liberalized the industry by lifting regulations. This change was guided by the ideal of a free press by which ‘error is exposed and the truth arrived at’ (Watson 2003: 101) and marked by the ‘active introduction of the market principle into the media industry’ (Yang S-M 1995: 113). With the lowering of entry barriers, several media companies, including the progressive daily *Hankyoreh* and commercial T.V. station SBS, had been established by the early 1990s.

However, it has again been observed that the freedom of the press is one thing; the equality of communication is another. The intensifying market competition has led to the partitioning of media space, suffocating the plurality of opinion,

by small numbers of conservative media outlets with huge capital power. The personal influence and the commercial censorship of the media barons and the advertisers quickly filled the void of intervention by the government (You H-H 1993; Cho S-H 2002). What is heard increasingly loudly is the claim that there is a ‘crisis of journalism’, with the phenomenon that the powerful media have colonized society and politics; capital becomes insulated from this media coverage; the professionalism of journalists has become degraded (Sohn S-C 2006: 53).

The crisis of journalism can be explained in terms of various phenomena, including the crisis of trust in media outputs. More and more audiences in Korea think media outputs are no longer truthful and fair. In an audience survey in 2004, 32.2% of the respondents answered that they did not trust media outputs. And 46.7% of the respondents replied that they did not think the media were impartial (Korea Press Foundation 2004). Also, in a survey of journalists in 2006, 45% of the respondents did not think that any of the media were trustworthy (Korea Association of Journalist 2006).

The economy: a forbidden ground

Along the way, capital has become increasingly insulated from the politically powerful media’s scrutiny. As the media rely more on the chaebols for their advertisement revenues, journalists cannot help mobilizing a self-censoring mechanism for the benefit of the big advertisers. The Korean media, especially newspapers, are under constant pressure to find potential advertisers. Because of their extravagant marketing system¹⁴, Korean newspapers are highly reliant on advertising revenues. As of 2005, advertising revenue accounted for 63.4 % of the total revenue while subscription revenue was 15.9% (*Newspaper and Broadcasting*, Oct. 2005). In this regard, ‘it is of the utmost importance to make their news content appealing to those who have high purchasing power’ (Lee B-

¹⁴ More than 85% of the newspaper circulation in Korea is home delivery. The sales from newsstands are negligible. It costs newspaper companies a huge amount of money to maintain their own nationwide delivery system.

S 2006: 75). Particularly, after the Korean economic crisis in 1997, when most of the media had to strive to survive, ‘the critical edge of the newspapers in relation to the misdeeds of the Chaebols became considerably blunted’ (Lee J-R 2008: 10).

The political factionalism, together with their subordination to capital, is driving the Korean media towards the role of aggravator, rather than healer, of social conflict. For example, the Korean media have not maintained a balance or minimum impartiality in their coverage of labour-capital relationships, which is a critical element for the progress of democracy in a country with a capitalist economic system (Son S-C 2006).

The professionalism of journalists can be an antidote to the degradation of journalism. Indeed, the struggles for independent editorials by the labour union of broadcasting journalists since the early 1990s considerably helped to enhance the truthfulness and impartiality of the two public service channels –KBS and MBC. But the idea of public service has increasingly been abandoned due to the pressure of market competition (*Newspaper and Broadcasting*, Jun. 2007: 60). The situation of the press journalists is even worse. Many of the press journalists have become merely ‘wage earners’ who ‘put the interest of their companies ahead of the responsibility and ethics of the journalist’ (ibid).

Still, the thriving audience activism and the advance of the new media in Korea have created greater potential for a more plural and accountable media. In particular, the rapid development of new types of journalism based on the internet have helped the mushrooming of the ‘critical discursive public’ who enjoy expressing themselves on the web and who put pressure on the mainstream media to become more accountable (Lee J-W 2005: 31). There have been several cases in Korea where so-called “netizen” (i.e. net citizens) have readily overturned the conservative framing of the mainstream media, for example during the row over the import of American beef in 2008 as explained below.

When the newly elected president Lee Myung-bak accepted America's demands and lifted the ban on importing American beef, small numbers of Korean people started to rally a demonstration against this decision. But, the dissidents actively utilized the highly connected infrastructure in Korea not only by sharing the information and opinions about the danger of "mad cow diseases", but also by organizing rallies. The people's struggle continued for more than 2 months and the participants swelled, eventually, to almost 1 million. President Lee could not help but apologize for his hasty decision and he promised to negotiate again with America. Throughout the people's struggle, the three mainstream newspapers which sided with President Lee, *Chosun*, *ChoongAng* and *DongA*, were severely criticized by the "netizens" and had to witness a lot of their advertisers cancelling their advertisement for fear of reproaches from the "netizens" (*Kyunghyang*, 19 Jun. 2008).

However, it is too early to say that the internet might become a forum for a participatory "e-democracy" because the new media are still an emerging field and the internet, especially the portal site as a medium, is also 'considerably immersed in the logic of commercialism' (*Newspaper and Broadcasting*, Jun. 2007: 60).

2.7 The Social Consequence of the Neo-liberal Turn

Many Koreans understand that the ten years between 1987 and 1997 was the "golden age" during which the living conditions of common people improved considerably thanks to the increases in wage, the reduction of working hours and promotion of welfare. Although there were many clashes between civil groups, business circles and bureaucrats, people's power overwhelmed the forces that tried to restrict democracy in its egalitarian sense (Cho H-Y 2009).

Workers' wage as part of the national income at factor cost gradually increased to 58.7% in 1991 from 52.3% in 1986. And this ratio reached its peak in 1996 with 63.4%, signifying that the labour movement, after democratization, helped

to increase the worker's share of the country's economic resources (Kim J-W 2005: 65). The equity of the distribution of income also improved during this period. In 1988, the income of the lower 40% bracket accounted for 19.68% of the total income of Korea. That ratio had increased to 21.68% in 1996, while that of the upper 20% was reduced from 42.2% to 38.01% during the period. The Gini coefficient, a common measure of equity in a society, was 0.295 in 1990, but, it decreased to 0.283 in 1997. All in all, by the mid 1990s, Korea had a relatively equitable income distribution (Yoon S-W 2009: 218).

However, the diffusion of neo-liberal policy ideas and the consolidation of the economic power after the economic crisis led to the degradation of the standard of living. Table 2-1 shows the income disparity measured by the Gini coefficient and the 5th quintile over the 1st quintile (among household incomes of salaried employees living in the urban areas, except for agricultural and fishery employees). As shown in the table, income disparities had gradually reduced after the democratization but they sharply worsened after the economic crisis in 1997. The Gini coefficient has also jumped from 0.283 in 1997 to 0.316 in 1998 and has stayed at a similar level since. The disparity between the 5th quintile and 1st quintile also widened from 4.49 in 1997 to 5.41 in 1998 and to 5.43 in 2005.

Reflecting the widening income disparity, one out of five Koreans thought that he/she was relatively poor. In effect, the relative poverty rate¹⁵ decreased from 15.01% in 1999 to 13.63% in 2002. But it has rapidly risen again to 15.71% in 2004, 15.97% in 2005, and 16.42% in 2006 (KiHASA-KLI¹⁶, *Yeonhap* 1 Nov. 2007). One notable aspect of the poverty rate was that increasingly many employees were classified as poor. The classification of 'working poor' (Yoon S-W 2009: 220) -- who had a job but could not escape poverty -- accounted for 57.4% of the total classification of 'poor' in 2005 (*Yeonhap* 1 Nov. 2007). A survey shows that 70% of employees regard themselves as "working poor" because they could hardly make ends with their salaries, never mind saving

¹⁵ The percentage of the population who earn less than 50% of the average income.

¹⁶ KiHASA-KLI homepage (<http://www.kihasa.re.kr/html/jsp/>, retrieved 3 Dec. 2009).

money (*Maeil Business Newspaper*, 5 Aug. 2009). The increase of this poor people can be attributed to the rapid increase in the number of casual employees after the introduction of the flexibility of labour (Yoon S-W 2009).

Table 2-1: The Income Distribution Index from 1990 to 2006

Year	Gini coefficient	The 5th quintile over the 1st quintile
<i>1990</i>	0.295	4.64
<i>1991</i>	0.287	4.46
<i>1992</i>	0.284	4.42
<i>1993</i>	0.281	4.35
<i>1994</i>	0.284	4.42
<i>1995</i>	0.284	4.42
<i>1996</i>	0.291	4.63
<i>1997</i>	0.283	4.49
<i>1998</i>	0.316	5.41
<i>1999</i>	0.320	5.49
<i>2000</i>	0.317	5.32
<i>2001</i>	0.319	5.36
<i>2002</i>	0.312	5.18
<i>2003</i>	0.306	5.22
<i>2004</i>	0.310	5.41
<i>2005</i>	0.310	5.43
<i>2006</i>	0.310	5.38

(Kosis; Yoon S-W 2009: 218)

Along with rising income inequality, the rapid hike of property prices as a result of the inflation of global currency has reinforced the accepted notion that “the rich get richer and the poor get poorer” in Korea. The real estate speculation and equity investment boom during the period have widened the gap between property owners and non-property owners. The government survey in 2005 showed that the upper 1% of Koreans possessed 51.5% of all private land. And the ownership of land of the upper 5% has sharply increased to 82.7% of all

private land, from 65.2% in 1986 (*Munhwa*, 15 Jul. 2005). Also, the upper 5% of Koreans had 50.1% of all financial properties and the upper 10% possessed 66.5% of them in 2008 (*Kyunghyang*, 22 Oct. 2009).

This widening disparity in income and property, combined, has considerably dampened the dynamics of upward class mobility. The abolition of lifetime employment and reduction in seniority system have undermined the foundations of the middle class and led many of them become part of the lower class. According to Kim Jun-kyong and Choi Paul (2008), the middle class¹⁷ has shrunk from 68.5% in 1996 to 58.5% in 2006. This is not because the middle class became rich, but because many of them became poor. This social change has raised concerns about the arrival of the “20:80 society” (Martin and Schumann 1997).

There have been various signs that this disparity, combined with social and cultural factors like education, marriage and residential districts, have led to the ‘structuring’ of a ‘closed class’ with high entry barriers (Kim D-C 2009: 114). As the competition among students in order to enter prestige Universities intensified, the unbridgeable lifetime income gap is developing between the higher classes and lower classes. The affluence of parents increasingly determined their children’s result in the university entrance examination, because expensive private tutoring relates directly to successful school performance. According to the Bank of Korea, in 2008, the households with high incomes (those earning 150% or more of the average income) spent 12 times more money on private tutoring than the low income households (those earning 50% or less of the average income) (*Hankyoreh*, 14 Apr. 2009).

Indeed, each government has tried to narrow the disparity by introducing or developing social policies. For example, the Kim Dae-jung government aimed to raise the standard of Korean social welfare a notch higher by carrying out

¹⁷The households that earn 50%-150% of average household income in terms of their disposable incomes. And the upper class means the households that earn more than 150% of average household income while the lower class comprises households that earn less than 50% of the average household income.

sweeping reform measures. However, these efforts were not successful in easing inequity, not only because most of the welfare policies were based on the ‘residual’ approach, but also because governments were, in effect, reluctant to increase welfare expenditure sufficiently (Yoon S-W 2009: 231). The welfare budget of Korea was 8.3% of GDP in 2008, as shown in Table 2-2. This was less than half of the average welfare expenditures of the OECD countries. This was the reason why some researchers classified Korea as a ‘non-welfare state’ (Ibid: 228).

Table2-2: Public Expenditure for Welfare among GDP

(Year 2008), (%)

Korea	U.S	Japan	Norway	Germany	France	Sweden	Average of OECD
8.3	15.9	18.6	21.6	26.7	29.2	29.4	20.6

(Ko K-W 2009, *Hankyoreh* 12 Feb. 2010)

While the per capita GDP of Koreans reached \$20,000 in 2007 (*Seoul*, 31 Mar. 2011), it is an irony that more and more people are worried about the ever-worsening living conditions. The alarming evidences of these hardships are that the working hours of Koreans are the longest, the rate of suicide is the highest and the birth rate is the lowest among the OECD countries (*Herald Economy*, 27 May 2010).

2.8 Neo-liberal Democracy

The growing demands for both political democratization and economic liberalization generated mutually supportive effects in 1980s and 1990s (Ha Y-S 2003). The aspiration for democracy stemming from the aversion to state despotism yielded the public sentiment that the market would be friendly to democracy by nature. The market mechanism, it was thought, would be the perfect when the transactions were free from the arbitrary intervention of the state. In effect, people identified ‘economic liberalization with democratization’

(Lee Y-H and Kim H-R 2000: 121).

However, the “paradox” of Korean politics after democratization was the widening gap between institutional democracy and substantial democracy, in other words, political democracy and economic democracy (Choi J-J 2005; Choi J-J, Park C-P and Park S-H 2007; Cho H-Y, Park E-H and Lee H-K 2009). The achievement of institutional democracy did not automatically guarantee the improvement of the living conditions of the people. The widening income inequality, crumbling job security and the diminishing hopes for upward class mobility have made people ask what democratization was for.

This discrepancy should be attributed to the neo-liberalization of the Korean economy and society that the fledgling democracy had to face from the early 1990s. The impact of the globalizing market, especially after the economic crisis in 1997, consolidated the socio-economic monopolies, including those of the chaebols, global financial capital and Korean bureaucratic. The economic power eventually combined the political and social influences with it and prevented the development of democracy from including social rights.

Korean politics after democratization was distinguished by its detachment from the public. While formal democracy advanced, political debate was not responsive to the needs of the public (Choi J-J 2005). Organized labour, which was the stronghold of the democratic forces, was systematically excluded from the political process. The parties, which were the political arbitrators of social conflicts, fell into malfunction because of their narrow and callous ideological stances resulting from the division of the Korean peninsula (ibid). The media, which played its part in the struggle for democratization, gave up its role as a watch dog in the face of the emerging economic power.

In particular, it was puzzling that the neo-liberal transformation and concomitant degradation of people’s living conditions was notable during the Kim Dae-jung and Roh Moo-hyun governments, as these came to power thanks to the aspirations of people for substantial democracy as well as formal

democracy. When President Kim Dae-jung, the Nobel peace prize winner in 2000, proclaimed that his government would pursue the “democratic market economy” in which democracy and a market economy develop together in harmony (Kim D-J 1998), many people paid tribute to his insight into the principal contradictions in Korean society. But his ideal has been shattered in the face of the exigency of overcoming the economic crisis. Far from leading a harmonious development of both democracy and market economy, throughout his term and that of his successor Roh Moo-hyun, the substances of democracy has retreated. Meanwhile, the power of the market and the corporate world advanced in leaps and bounds (Choi J-J 2005; Cho H-Y 2009).

The imbalance between formal democracy and substantial democracy is a widely noticed phenomenon among countries in Asia and Eastern Europe (Cho H-Y, Park E-H and Lee H-K 2009) which established themselves during ‘democratization’s third wave’ in the late 1980s and early 1990s (Huntington 1991). This was in line with Robert Dahl’s observation that ‘Democracy and market-capitalism are locked in a persistent conflict in which each modifies and limits the other’ (2000: 173). Korean democracy -- that was not competent to improve the living conditions of the people -- was termed ‘a democracy remained in ruin’ or ‘neo-liberal democracy’ by political scientists (Choi J-J 2005: 267).

2.9 Conclusion

Over the last three decades, Koreans have undergone a socio-economic transformation, which has been driven by both democratization and neo-liberal economic globalization. Both of these have proceeded in tandem with each other, while the ascendance of market liberalism increasingly calls into question the egalitarian expansion of democracy, which is basically bound to the nation state. In the meantime, the state silently let go of the levers which had been used to correct the monopolies and inequalities, which the market system generates. As a consequence, equality between the “haves” and the “have-nots”

deteriorated, undermining the social foundations of democracy.

Part II
Frameworks and Methods

Chapter 3

Mapping the Research Framework

‘Polanyi’s thesis on this point, however, has never been refuted: left to themselves, market forces will destroy society. It has always been the function of states to prevent this; but economic globalization has made states market-driven, rather than market-controllers, and left societies more fully exposed to market forces than ever before’ (Colin Leys 2001:217).

3.1 Introduction

This chapter locates the research agenda, i.e. the exploration of the “power value” of media, communication and culture in the downsized politics of hyperglobalization, in the theoretical terrain and draws out specific research questions to be explored.

In order to understand the Korean “paradox of democracy” that has been discussed previously, this chapter examines the heightened tension between hyperglobalization and democratic politics that lies deep in the intrinsic rivalry between liberalism and democracy. Then the examination turns to the role of media, communication and culture in the market-driven politics that restricted the egalitarian expansion of democratic politics. The existing explanations were examined and evaluated in order to find loopholes that demand alternative or complementary explanations. Based on this theoretical consideration, the researcher could single out a few research areas and research questions.

3.2 The Rivalry between Freedom and Equality

3.2.1 Liberalism and Democracy

Liberalism and democracy look like identical twins of modern progress, since we are familiar with the “liberal-democratic” or “democratic-liberal” polity as a regime of the present time. In reality, the reciprocal interdependency of the two is much more vague and complicated. Historical accounts show that liberalism and democracy have sometimes been friends, sometimes rivals, and at other

times awkward cohabitants.

Liberalism envisages the expansion and emancipation of the private sphere in which the individual or civil society is free from interference from the public power, and particularly from the state.¹⁸ The two main spheres of emancipation have been ‘religion and spiritual matters generally’ and ‘economic or material concerns’. This reflects the establishment of liberal doctrine, which coincided with both the rise of the religiously neutral state and the burgeoning of bourgeois mercantile society that sought the free disposal of wealth and liberty of exchange (Bobbio 1990: 16-17). Understanding the state as a ‘necessary evil’, liberals are interested in the demarcation of the “power” and the “function” of the state by means of the ‘rights-based state’ (the limit of her power) and the ‘minimal state’ (the limit of her function) (ibid: 11, 16).

Democracy, on the other hand, stands for a ‘mode of government’ in which power lies with everybody or with the majority rather than with a strong one or a few (ibid: 1). The ideal of democracy presupposes ‘politically equal’ individuals who take part in the process of collective decision-making on the basis of democratic criteria such as ‘effective participation’, ‘equality in voting’, ‘gaining enlightened understanding’, ‘exercising final control of agenda’ and ‘inclusion of (all) adults’ (Dahl 2000: 37-40). Despite its many flaws, Dahl, the American political scientist, argued that democracy can produce more desirable consequences for the people than any feasible alternatives, in terms of ‘avoiding tyranny’, and promoting ‘essential rights’, ‘general freedom’, ‘self-determination’, ‘human development’, ‘peace-seeking’, ‘prosperity’ and so on (ibid: 44-61).

The principle of democracy was eloquently presented in the famous address of Abraham Lincoln when he claimed that: ‘government of the people, by the

¹⁸ The state denotes, in this thesis, ‘a very special type of association that is distinguishable by the extent to which it can secure compliance with its rules, among all those over whom it claims jurisdiction, by its superior means of coercion’ (Dahl 2000: 41).

people, for the people, shall not perish from the earth'.¹⁹ Yet, historically, democracy has been interpreted in either one of two main senses, depending on the stress laid on it: the first is democracy as a 'rule of the game' (by the people); the other is democracy as a harbinger of 'the ideal of equality' (for the people). This distinction has been commonly transposed into a difference between 'formal democracy' and 'substantial democracy' (Bobbio 1990: 31-32).

Democracy "for the people" embodies the 'egalitarian ideals' (ibid: 54) that the government of the people should be of use in the achievement of political and socio-economic equality beyond the juridical-institutional formalization of democratic procedures. Accordingly, the pursuit of democracy turns into an 'open-ended' project in which what denotes the substance of democracy varies throughout the 'deepening of the democratic qualities of key arenas of life'. In this latter sense, thus, 'one of the goals of democracy always has to be more democracy' (Dryzek 1996: 3-5).

The encounter of liberalism with democracy was by no means amicable from the outset. The liberal constitutional movement, from the era of Magna Carta, was not linked with democracy or polyarchy (Lindblom 1977). Liberal thinkers in modern times often considered that liberalism was antithetical to ancient democracy, a republic of demagogues. Since liberal egalitarian ideals are mutually incompatible ('liberalism *aut* democracy'), they believed, 'democracy as progressive realization of the egalitarian ideal is attended by the danger of levelling', which results at length in despotism or the tyranny of the majority (Bobbio 1990: 49, 53). It was not strange that a lot of modern liberals, including Alexis de Tocqueville, were highly skeptical of all types of popular government (Held 1996).

But politics over the previous three centuries showed that the threat has never been unilateral. Liberty was often usurped by unlimited, not necessarily

¹⁹ Gettysburg Address
(<http://myloc.gov/Exhibitions/lincoln/presidency/ComtmanderInChief/GettysburgAddress/ExhibitObjects/GettysburgAddress.aspx> , retrieved 1 September 2010).

democratic, power, while democracy was again and again taken over by a power without public accountability. Having alternated between these predicaments, the ‘hostile twins, liberalism and democracy, of necessity became allies’ (Bobbio 1990: 90). No longer does liberalism look incompatible with democracy (‘liberalism *vel* democracy’), while modern democracy can be seen as ‘the natural extension of liberalism’ (‘liberalism *et* democracy’) (ibid: 37, 49). Today, only those liberal-democratic states in which liberal ideals and democratic procedures are intertwined enjoy political endurance.

This is not, however, to say that the cohabitation is harmonious all the time. Since the late eighteenth century, liberalism has been supportive of democracy inasmuch as it has been ‘instrumental’ to the enhancement of the right to liberty (Lindblom 1977: 163). Historically, the formation of the liberal state was associated more with democracy in its procedural (judicial-institutional) than its substantial (egalitarian) sense. When democracy is conceived in its egalitarian sense, the relation between liberalism and democracy becomes antithetical, as it resolves itself into a much acuter problem, i.e. liberty or equality.

In the economic sphere, especially, liberalism and egalitarianism plainly reveal their deep-rooted incompatibility, arising partly from very dissimilar conceptions of man and society. It is a truism that ‘neither can be fully realized except at the expense of the other: a liberal *laissez-faire* society is inevitably inegalitarian, and an egalitarian society is inevitably illiberal’ (Bobbio 1990: 32-33). Contrasting judgments are made upon the two different understandings of liberty, which are usually termed ‘negative liberty’ and ‘positive liberty’, depending on historical situations, but ‘depending above all on the social position of the judge; those who are well-placed usually favour the former, those lower in the social scale usually opt for the latter’ (Ibid: 2, 89). In this regard, democracy and *laissez-faire* liberalism are ‘locked in a persistent conflict in which each modifies and limits the other’ (Dahl 2000: 173).

3.2.2 Market, state and democratic politics

The market and the state are the two main institutions through which resources and income are allocated and distributed (Przeworski 2003). The market exists in the capitalist economy because private property is located outside political authority. And the principles of operation of the two are quite different. The market works on the principle of “one pound, one vote”, while the democratic state stands on the principle of “one person, one vote” (Polanyi 2001[1944]). In these decentralized and centralized distribution mechanisms, individuals are at the same time market agents and citizens (Austen-Smith et al. 2008). In a variety of ways, both markets and states can be organized and combined, and they jointly determine what the economy produces as well as who gets what (Przeworski 2003).

Liberals usually interpret the market as a ‘self-regulating’ mechanism. But the market economy is by no means autonomous; it is ‘embedded’ in politics, religion and social relations. At the very least, market transactions cannot exist without trust, mutual understanding and the legal enforcement of contracts (Polanyi 2001[1944]: xxiv, 35). From this comes the justification that the essential role of the modern capitalist state is to remedy the inequality that the market system inevitably generates. The consequence of and reaction to the expansion of the market was epitomized by Karl Polanyi (ibid: xxvii) as a term of ‘double-movement’. In brief, all market systems generate inequalities, but the harshness of the market is eased by ‘redistributions of money and resources authorized by the democratic state’. And it is politics that determines the scale and nature of these ‘social transfers’ (Curran 2006:143; see also Chang H-J 2010: 261-262).

Market-capitalism has existed in both democratic and authoritarian states. There seems to be no correlation between the economic growth of a country and its types of government or regime (Przeworski and Limongi 1993). And the authoritarian state may also effectively cure the harmful effects of the market. But the democratic state is generally believed to be more egalitarian because it

is more sensitive to the political demands of the general public. After having experienced Fascism and Nazism, the postwar peace enhanced optimism about the harmonious cohabitation between market capitalism and democratic politics. The 'polyarchy', for pluralists, is an acceptable regime where there exists 'multiple power centers, diverse and fragmented interests, the marked propensity of one group to offset the power of another, a "transcendent" consensus which binds state and society, the state as judge and arbitrator between frictions' (Held 1996: 208). Though the polyarchy may be an 'extremely rough approximation' to a fully democratized system (Lindblom 1977: 233), it is the 'real world system that is closest to' it (Dahl 1971: 8).

The market as a prison

The escalation of tension and conflict throughout the 1960s and early 1970s, however, has dismantled the premises of classic pluralism. Robert Dahl and Charles Lindblom, now neo-pluralists, admitted that, 'against the background of capitalist market system, the pluralist game is always biased in favor of business interests' (Dryzek 1996: 65). Lindblom (1977: 172-173) pointed out that the imperative, that the state should maintain economic growth and stability, provides businessmen who have discretion in investment with a structurally privileged position. The businessmen 'are taken off the agenda of government' and exercise a 'public function', while 'a major function of government, therefore, is to see to it that businessmen perform their tasks'. In a similar vein, Claus Offe, a neo-Marxist thinker, argues that the state tends to have an 'institutional self-interest to safeguard the vitality of the capitalist economy' (Offe 1984, in Held 1996: 223).

Due to these structural constraints, Dahl (1985: 60) suggests that the modern system of 'corporate capitalism' is liable to generate 'inequalities in social and economic resources so great as to bring about severe violation of political equality and hence of democratic process'. He admits that 'market-capitalism greatly favours the development of democracy up to the level of polyarchal democracy' (Dahl 2000: 178). In other words, capitalism's blessings for

democracy beyond the level of polyarchy are ‘at best mixed and at worst negative’ because of its adverse consequences for political equality (Dryzek 1996: 25). This is why Lindblom likens the market to a ‘prison’ which punishes nonconformists.

‘For a broad category of political/economic affairs, it imprisons policy making, and imprisons our attempts to improve our institutions. It greatly cripples our attempts to improve the social world because it afflicts us with sluggish economic performance and unemployment simply because we begin to debate or undertake reform’ (Lindblom 1982: 329).

Although theory on democracy is in a state of continuous change, there seems to be a consensus between various thinkers, including neo-pluralists and neo-Marxists, that ‘democratic life is unacceptably impaired by private economic power’. When the market is “disembedded” from social relations and it subordinates society to its logic, then the ‘satanic mill’ grinds all social relations into ‘demolition’ and ever growing inequality (Polanyi 2001[1944]: xxiv, 35). In this sense, if liberty was menaced in any countries, the threat comes from too little equality, not from too much. According to Robert Dahl (1985: 44, 46), democracy requires a ‘widespread sense of relative economic well-being, fairness, and opportunity’. A diminution of this sense in a society has ‘often helped to fragment or polarized the citizenry into hostile camps, to weaken confidence in democratic institutions, and to generate support for dictatorship’.

3.3 Hyperglobalization and the Shrinking of Democratic Politics

3.3.1 Is globalization inevitable?

Many people nowadays perceive globalization as the ‘in here phenomenon’ where the world is fast becoming a shared economic and social space (Giddens 1990: 12). But globalization is still a notoriously contentious research area. Researchers have variously defined globalization by emphasizing respectively

its material, spatiotemporal and cognitive aspects. Nonetheless, what they have in common is the idea that globalization is ‘a process promoted by, and resulting in, increasing cross border flows of goods, services, people, money, information and culture’ (Held et al. 1999: 16). One crucial feature of globalization is the accelerating interdependence where ‘states and societies become increasingly enmeshed in worldwide systems and networks of interaction’ (Held and McGrew 2003: 3).

Although there are significant differences between scholars on the extent and nature of this change, most now agree that changes of an unprecedented scale and extent are indeed happening and that this ‘deep globalization’, or ‘hyperglobalization’ (Rodrik 2011: 188-189), has the potential to transform the nature of the world (Guillen 2001). Yet, despite the insistence of some hyper-globalists or determinists that the spread of technology and markets is driving the change, this does not mean that contemporary globalization is inevitable or irresistible. Nor is the process harmonious or inscribed with a certain ‘preordained logic which presumes a singular historical trajectory’ (Held and McGrew 2003: 7). Instead, globalization can be defined as a fragmented, incomplete, discontinuous, contingent and in many ways contradictory and puzzling process (Gilpin 2000: 294; Held et al. 1999: 431).

Globalization is a multidimensional process, but its economic dimension is the most conspicuous one. Thus, some argue that it may be better understood as an aspect of capitalist development, especially in its ‘imperialist phase’ (Sparks 2007: 152). Economic globalization can be defined as ‘the emergence and operation of a single, worldwide economy’ (Grieco and Ikenberry 2002, in McGrew 2005: 209). This transformation may be clear in the formation of global markets, production networks, a global division of labour, intensifying business competition and a global system of economic regulation and management. Finance may be the most notable area of economic globalization. So deeply does finance ‘pervade the operation and management of all modern economies’ that it ushers in ‘a new epoch of financial capitalism’ (McGrew 2005: 213).

Over the past generation, ‘the opening and integration of the market undoubtedly has been made possible by the political intervention of networks of actors known as the Wall Street-Treasury-IMF complex or Washington consensus’ (Callinicos 2005: 64). For some researchers, the neo-liberal market regime is part of a hegemonic project designed to shift power and wealth to elite groups around the world and to benefit, especially, U.S. capital. To elaborate, ‘cotemporary economic globalization has an underlying political logic insofar as it is the product of political ideology, national or international public policy, the interests and interactions between states, global institutions, and global social forces’ (McGrew 2005: 224). Here, the ideas and strategic actions of agents emerge as a critical parameter for the configuration of economic globalization.

3.3.2 Neo-liberalism: a leading spirit of hyperglobalization

Neo-liberalism has been the central guiding principle of economic globalization. Born in the second half of the 1970s, with the crisis of the Bretton Woods system and the Keynesian compromise, the neo-liberal idea gained substantial ground with the election of Margaret Thatcher in 1979 and Ronald Reagan in 1980. For almost 30 years, the application of neo-liberal policy ideas has expended within the economies of industrialised and developing countries (Palley 2005).

Neo-liberalism proposes, in the first instance, that ‘human well-being can be best advanced by liberating individual entrepreneurial freedom and skills within an institutional framework characterized by strong private property rights, free markets, and free trade’ (Harvey 2005: 2). In this theory, market is supposed to be a self-regulating and optimal social institution. Thus, if markets are allowed to function without restraint, this will efficiently utilise all economic resources and automatically serve all economic needs, especially full employment. In a similar vein, globalization is presented as the best way to extend these benefits to the whole world through the upholding of free trade among states (Shaikh

2005).

From this point of view, most modern socio-economic problems, such as unemployment, poverty and periodic economic crises, are ascribed to the imperfect functioning of the market. Logically, any social institutions and practices which are thought to constrain markets are doomed to undergo structural adjustments. The general policy outcomes comprise the weakening of labour, reducing the state's role in relation to social welfare, and the liberalization of economic activity by means of privatization and deregulation (Saad-Philho and Johnson 2005).

Neo-liberalism is based on the quite 'asocial social vision' of modern neo-classical economics 'with its imagined world of atomized, isolated, satisfaction-seeking, strategizing individuals' (Othman and Kessler 2001: 130-131). Even though this moral model of neo-liberalism is abstract and impersonal in appearance, this does not mean that its effect is also impartial or neutral. On the contrary, when applied to unequal situations, formally impartial value systems generate unequal impacts and consequences. This moral code 'systematically favours individuals who are already advantageously placed, while its formal impartiality disguises the way it operates and its inequality-intensifying nature' (ibid: 135).

What makes matters more complex is that sometimes neo-liberalism looks like a promoter of democracy. For example, when the political process is dictatorial, highly corrupt or when the elites in the society make use of regulation to protect their wealth and privileges, the deregulation of the market may be welcomed as a vanguard of democracy. Although political and financial powers are the main driving forces, the implementation of neo-liberal programmes has also been achieved because of the relative appeal of neo-liberalism, when society has been presented with the choice 'between traditional (i.e. undemocratic, often corrupt) state control of economic activity and the market' (ibid: 175).

3.3.3 The “trilemma” in the age of hyperglobalization

Arguably, the most significant impact of hyperglobalization is that it generates a shift in power relations among social actors. Globalisation reshapes the configuration of social forces within a nation state and across them such that the ‘key sites of power and those who are subject to them are literally oceans apart’ (Held et al. 1999; Held and McGrew 2003). Susan Strange (1996: 189) indicates that there are three types of power shifts in the globalizing world: ‘from weak to strong state, from state to markets, and from labour market to financial markets’.

This changing landscape of power raises an issue of popular sovereignty, since transnational forces undermine the autonomy, capacity, and sovereignty of the nation state which is the traditional domain of democracy (Leys 2001; Hay 2005). In order to manage these tensions between national democracy and the global market, according to Dani Rodrik (2011: 200, emphasis in original), there are three options: ‘*restrict democracy* in the interest of minimizing international transaction cost’; ‘*limit globalization*, in the hope of building democratic legitimacy at home’; or ‘*globalize democracy*, at the cost of national sovereignty’. The ‘trilemma’ is that we can only have two out of three: ‘we cannot have hyperglobalization, democracy and national self-determination all at once’.

There have been a lot of debates on the restriction of democracy with the proxy of the “demise of the state” in the age of globalization (Ohmae 1990; Strange 1996). In particular, the retreat of the state has mostly been discussed in relation to the heightened mobility of capital. The gist is that ‘markets are becoming dislodged from social and political control’ so that ‘no sovereign power can claim legitimate authority over the world market’ (Mittelman 2001: 4). The enhanced discretion of financial (portfolio) or industrial investors (TNCs) to change their investment sites across borders ‘generates powerful pressures on states to develop market friendly policies’ (Held and McGrew 2003: 13). The constraint of “footloose” capital is tightly structured in financial markets with

various norms, practices and institutions. Credit rating agencies, having an influence on interest rates, routinely review all areas of public policy for almost every country. Market analysts estimate a “political risk factor” in a country, ‘expressed as a premium on the current interest rate on government bonds, which discount the possibility of future political changes unfavorable to capital’. The surveillance of the financial markets is so comprehensive that nothing can escape from their consideration (Leys 2001: 22).

The pressure of “footloose” capital ‘pits national economy against national economy in an increasingly intense competitive struggle’. Any countries that neglect to do so experience ‘a hemorrhaging of invested funds, labour shedding, and, in turn, economic crisis’ (Hay 2005:240). Governments, therefore, have no real option other than to accommodate the forces of economic globalization by reducing welfare budgets, lowering taxation levels, and lightening regulation regimes -- namely, ‘social dumping’, ‘competitive deregulation’ (ibid: 240) or ‘a race to the bottom’ (Gilpin 2001: 368).

But critics claim that the argument of “state retrenchment” has gone too far (Hay 2005). At the extreme, the powerlessness of the state may be a ‘sedulously cultivated myth’ (Othman and Kessler 2001: 126). On the contrary, critics argue, ‘governments, or states, have been central to the process of economic globalization’. Each state in the OECD has been ‘instrumental in establishing both the necessary national political conditions and politics’ (McGrew 2005: 223). Although state authority and capacity may not be seriously undermined, its role has been reconfigured. Those functions were strengthened that could ‘ensure the primacy of private property, preserve the dominance of market over social control’, while the state retreated from such functions as social protection (MacEwan 2005: 172).

Downsized democracy with elite domination

This situation illustrates an obvious conflict between the logic of the market and the ‘logic of legitimation, which drives politics in all states with free elections’.

States increasingly have difficulty in catering for market forces and practicing democracy at the same time (Leys 2001: 26, 34). The mobility of capital, in the first instance, restricts the “Keynesian capacity” of national governments, which is a policy option for a more equitable society. As the budget deficit of a government is believed to be detrimental to the price of financial instruments, with its negative effect on inflation, interest rates and exchange rates, financial capital is generally averse to expansion of welfare budgets.

Privatization, commoditization and deregulation, the typical policy agenda of market liberalism, can lead to the ‘rapid erosion of democratically-determined collective values and institutions’ (ibid: 4). Privatization and commoditization often imperil such public goods as universal health care, general education and widely-accessible media, which are primary requirements of a genuine democracy, as well as basic needs of people. These are goods the distribution of which is determined by need, rather than the price mechanism alone. Deregulation also undermines the political process, which balances the different goals of economic activity. The efficiency rationale for deregulation does not fully take into account the interests of society or efficiency in the long run; for instance, environmental considerations or the ‘infant industry’ argument (MacEwan 2005: 171).

The erosion of democratic capacity is accelerated further by the decline of the negotiation power of labour: this is an important lever for mass participation in the political process. The pressure of market forces has pushed downwards the levelling of labour through the casualization of labour, sub-contracting and high levels of unemployment. Such developments have generated ever-increasing inequality in most of the countries, denoted by new terms, such as ‘the excluded’, ‘winners and losers’, and the 20: 80 society (Leys 2001: 36). This is highly destructive not only to community but also to democracy as democratic participation ‘cannot easily flourish under conditions of ever-increasing material inequality’ (Dryzek 1996: 82).

The state finds itself in a difficult position between growing discontent over the

global market regime (Stiglitz 2002) and the imperative of external forces. With few policy options remaining to harmonize both internal and external compulsion, states choose to reduce their ‘exposure to political pressure from the electorate’ (Leys 2001: 3). And many important decisions that have significant impact on the people are appropriated by technocrats or experts, who are ‘insulating’ themselves from the demands of popular groups (Rodrik 2011: 189). In this situation, democratic politics cannot help being “downsized” (Crenson & Ginsberg 2002) and losing its egalitarian ideals. Sometimes, in order to be best to adjust to global market forces, ‘mass political opposition must be crushed’. This suggests that market-driven politics in the age of globalization is prone to be more authoritarian (Dryzek 1996: 80-81).

3.4 The Media, Communications and Power

This section examines the role of the media, culture and communications in the politics of neo-liberalism that sanctioned the sharp increase of inequality. By way of context, this section examined the ‘power value’ of the media, culture and communication as well as the discourses of power. It is vital to understand how symbolic images are associated with social power relations, by defining and signifying our reality (Watson 2003: 13). Next, this section moves on to the existing explanations that link market-driven politics, in Korea and abroad, to the media, culture and communication.

3.4.1 Power and its process

Debates on power, in the tradition of Western political philosophy, have long been concerned about sovereign power (political power) and the contexts of its exercise. A more common view has highlighted its conflictual character, equating power with the means of domination, in other word “power over”. Here, power entails the quantitative and cumulative capacity of agents or groups ‘to realise their own will even against the resistance of others’ (Weber 1978: 926).

Power as domination evokes concern about the chronically unequal power relations that exist among social actors. C. Wright Mills, an American political scientist, pointing out private elite domination, warned that American politics deviated from its founding principles, i.e. rule of, for and by the people. According to him (1956: 361), not only is power concentrated in the hands of political, economic and military elites who share life experiences and a common perception of the world, but also its exercise is unreliable because the unequal power is exercised ‘within the American system of organized irresponsibility’.

American pluralists, including Robert Dahl, on the contrary, have countered this “dominant (power) elite” argument by developing an individualistic and mechanical concept of power. According to them, power should not be confused with power resources, which are only a potential power (Haugaard 2002). Pluralists’ observation of American society was that power was dispersed among many individuals and, drawing on Schumpeter’s model of democracy, that democratic ideals were pursued by way of ‘competition between elites’ (ibid: 7).

But the pluralists’ concept of power was criticized for being unduly narrow, only focusing on the visible and event-oriented performance of power. Instead, Peter Bachrach and Morton S. Baratz (1962: 1) took note of the informal, private face of power. This entails the exercise of power, not just by decision making, but also by ‘non-decision making’, covertly excluding the interests of particular individuals or groups from consideration. This hidden face of power ‘creates or reinforces barriers to the public airing of public conflicts’ (Lukes 2005[1974]: 6-7).

Distancing himself from the behavioural leaning of the previous explanation, i.e. decision making or non-decision making, Steven Lukes (ibid: 1, 29) argued that ‘power is at its most effective when least observable’ and when it deals with ‘latent conflict’. So, we need to attend to the “third dimensional power” that can

‘influence the thoughts and desires of its victims without their being aware of its effects’ (Hindess 1996: 5). What hinders the governed from recognizing their ‘real interests’ is ‘false consciousness’ (Pine 1993: 43) or ideology. Moreover, those biases are ‘inherited from the past in the form of structured and culturally patterned behaviour of groups’ (Hauggard 2002: 38). Lukes’ theory of power has contributed to broadening the scope of the concept of power. But his terms of real interests and alleged ‘moral relativism’ have invited critiques from some researchers (Clegg 1989: 86).

On the other hand, Michel Foucault and post-structuralism have contributed to the broadening of the concept of power to the sphere of everyday life. Foucault suggested that ‘We need to cut off the King’s head’. This is an accusation that political theory has been too much obsessed with the ‘mechanical and sovereign conception of power’ (Clegg 1989: 158). What emerged in the place of the beheaded *King* was a ‘micro-physics’ of power. According to Foucault (1980: 39), this new paradigm is concerned with a ‘capillary form’ of power which ‘reaches into the very grain of individuals, touching their bodies’.

3.4.2 The “power value” of the media, communication and culture

Power as a form of domination inevitably raises the issues of consent and legitimacy. This is linked to the questions why unequal power relations are maintained and ‘how do the powerful secure the compliance of those they dominate’, as Lukes (2005:12) puts it. The “power value” of the media, communication and culture is explored within this conceptual framework.

Nonetheless, not every perspective in this scholarly field automatically assumes power to be domination. The liberal pluralists’ or functionalists’ perspective on the media and communication shows little interest in the structure of power in society or in the role of media in sustaining existing power relations. The researchers in this mainstream research tradition tend to take the institutional order of society for granted, although admitting that there are some dysfunctional features at certain points. In this line of thinking, the media are

basically ‘seen (as) independent and socially neutral agencies which work for the benefit for all’ (Ampuja 2004: 61).

Another consensual angle is to presume a normative situation in which the exercise of power can be legitimated. This approach acknowledges power as a ‘right to act’ or ‘*power to*’ rather than as domination or ‘*power over*’ (Hindess 1996: 1; Haugaard 2002: 4). Jurgen Habermas’s concepts of the “public sphere” and the “ideal speech situation” depict instances where autonomous actors in the rationalized life world can find their “real interests” through the exercise of communicative competence (Habermas 1972). In the ideal speech situation, free and equal individuals communicate with each other and ‘attempt to reach rationally motivated agreement’ (Hindess 1996: 92). The consensus can be reached by a speech-community built only on trust, not power. The legitimacy of political and economic power can be assessed against these normative criteria, because a rational consensus can be created only when the conditions of the discussion remain undistorted by the effects of power.

The normative media model, drawing on the Habermasian concept of the public sphere, takes note of the process in which citizens’ deliberation shapes public opinion by means of a collective determination. In this ideal speech situation, the news media is expected to play the “fourth estate” role by providing objective information, unbiased analysis, publicity on power groups (the watchdog role) and a forum for rational debate (Goldsmiths Media Group 2000; Curran 2002).

The critical perspective: political economy

In the critical²⁰ tradition of media sociology and cultural studies, on the other

²⁰ The term “critical” generally refer to this statement : ‘At a very general level, critical approach to media, or society ..., call into question the way things are and expresses explicit scepticism towards dominant institutions, ideologies and social relations’ (Ampuja 2004: 60).

hand, the central concern about power has been its tendency to dominate. Hence, it usually asks ‘how mass consent was maintained in patently unequal society’ (Davis 2007: 4). Most researchers in this school argue that media and culture function as a ‘powerful ideological agency’ in society, but they are generally subject to ‘established power’ (Curran 2002: 148, 165).

The media political economy tradition, from its inception, was interested in ‘the structural development of the media under capitalism’ (Ampuja 2004: 61). It explores the ways in which communicative activities, i.e. the making and taking of meaning, are structured by the unequal distribution of material and symbolic resources in capitalist society (Murdock and Golding 2005). A lot of researches documented the top-down influence of the government and the market in shaping media texts and entertainments which are ‘powerfully distorted’ in favour of governments and corporations (Goldsmiths Media Group 2000: 23).

Traditional pressure from the state is still resilient, as elites keep a tight hold of their weapons of licensing, regulation, censorship and libel law. Additionally, the media as a private corporation has become increasingly vulnerable to financial and business influence through ownership, overlapping personnel networks and directorships as well as advertising that ‘operate as a latter-day licensing authority’ (Murdock and Golding 2005: 63 ; Davis 2007: 5). The salient trend of the concentration and conglomeration of media corporations has rendered the ‘town square of the public sphere’ that is ‘inaccessible’ to the general public (Curran 2002: 225).

The specialized communication management has helped make this overt influence all the more effective. The techniques of “media play” comprise spinning; blocking; threatening journalists; as well as subsidizing; guiding; and offering incentives (Davis 2007; Parson 1989: 213-214; Norris et al. 1999: 2). In times of crisis, these techniques are mobilized as a means of ‘manufacturing consent’ (Herman and Chomsky 2002: lxxv). The daily routine of journalists and news organizations, encouraging journalists to seek stereotypical news production and source approach, further empowers the ‘primary definers’ of the

‘problematic event’ who are already advantaged (Hall et al. 1978: 58-59; see Schlesinger 1990; Gans 1979 also).

Critical perspective: Cultural Studies

Cultural studies, from its inception, claimed to be centred on issues of power, politics and the need for social change, on the conceptual ground that culture is a zone of contested meaning. Cultural politics hinges around such powers as: to name; to represent common sense; to create the ‘official version’; to represent the legitimate social world (Jordan and Weedon 1995: 13). As people organize their lives and experience through the ‘common sense’ of popular culture, the terrain of the ‘taken-for-granted’ becomes ‘the most significant site of ideological struggle’ (Barker 2008: 67).

Ideology has been one of the central research domains in this perspective, as consent and legitimacy seem to be closely related to ideology. According to Althusser (1969: 64), ideology is double-edged. One side of it is the lived experience that has a ‘general function of constituting subjects’. The other is a more ‘elaborate set of meanings’ that ‘misrecognize and misrepresent power and class relations’. Ideology is embodied in a form of apparatus and its associated practices. The education system, the church and the mass media function as “ideological state apparatuses” (Althusser 1971). Althusser’s understanding of ideology, however, has the limitation of structural determinism, whereby the subject is regarded as an ‘effect of structure’ rather than a ‘self-constituting agent’ (Barker 2008: 63).

When we turn to Antonio Gramsci’s concept of “hegemony”, we find a more flexible, sophisticated and practical account of ideology. Hegemony denotes a situation where the ‘historic bloc’ of a ruling class faction has gained social authority and leadership over the subordinate class. Hegemony is achieved not just through force but also, more importantly, through the ‘consent of majority expressed by the so-called organs of public opinion’ (Gramsci 1971: 80). But a hegemonic bloc never consists of a single socio-economic category. Rather, it is

formed through a series of alliances in which one group takes on a position of leadership. Hence, hegemony is inherently unstable and needs to be constantly re-won and re-negotiated.

For Foucault, on the other hand, power is closely related to the production of the subject, hence ‘rendering the governed governable’ (Lukes 2005: 98). This social construction of the subject is a process whereby ‘norms mould the soul and are inscribed upon the body’. What is pivotal in the social constitution of the subject is knowledge. In their perspective, language defines, and at the same time limits, ‘regime of truth’ (ibid: 91). Discourse, concerning both language and practice, ‘entails regulated production of knowledge through language which gives meaning to both material objects and social practice’ (Barker 2008: 20). Discourse constructs, defines and produces the object of knowledge in an intelligible way, while at the same time excluding other ways of reasoning as unintelligible.

3.4.3 Media and communication study on the politics of economic power

This section reviews the existing studies on the utility of the media, communication and culture in sustaining unequal power relations with regards to the “downsized” politics of neo-liberal market forces. It may seem odd that there has been a relative lack of research on the topic on the part of media and communication studies

Any serious examination of the advance of liberal market forces and its political implications must begin with Stuart Hall. In his book, *The Hard Road to Renewal* (1988), Hall expanded his Gramscian exploration to analyze the ideological ascendancy of Thatcherism in Britain. He ascribed the success of ‘the great moving right show’ (1979) to an ideological struggle that transformed common sense so that it embraced the virtue of possessive individualism.

But, partly because of the turns of intellectual fashion, subsequent researchers were gradually detached from the research tradition that attempted to associate

popular culture and the mass media with the power dynamics of society (Ampuja 2004). In this regard, James Curran (2006: 143) points out that critical media studies in Britain and Europe has been ‘seduced by the discourse of market liberalism into bracketing out class’. Rather than ‘scrutinizing growing income inequity on a global scale’ and the weakening of democracy, he pointed out, ‘researchers from postmodernism, cultural populism and hyper-globalism have tended to laud the liberating and egalitarian force of the free market’.

When it comes to this research area, the intellectual tendency within Korean media and communication studies is not very different. One persuasive explanation would be that Korean academic circles have been influenced predominantly by an American pluralist or positivist research tradition that tends to take the institutional order of society for granted (Lee B-S 2006). One critic found that there is not a single article, as of early 2008, which explores journalism’s share in producing growing inequality during the ascendancy of neo-liberalism in Korea, in the *Korea Journal of Communication and Information*, a leading critical media research journal (Sohn S-C 2009: 49-51). Whereas the media may be the main culprits of the kind of indoctrination that has made people believe that neo-liberal transformation is inevitable, Sohn Suk-choon argues, ‘critical media studies in Korea has neglected to check or criticize the media’.

The constructivist and political economic approach

Despite the paucity of the literature, the existing researches can be grouped into two categories in terms of its theoretical orientations and approaches. These are (1) the ‘constructivist approach’ (McGrew 2005: 229) that focuses on the role of ideas and discourse in the establishment of the local and global hegemony of market liberalism; and, (2) The political-economic approach, that focuses on the media institutions and the influences of empowered economic forces on the media production.

Firstly, the main body of the literature on this theme employs the angle of a

“politics of discourse” to explore the establishment of neo-liberal hegemony. Within the contours of domestic political economy, inquiry focuses on the contest of sense-making, framing, and discourse in such typical agendas of market liberalism as national competitiveness, privatization, deregulation, possessive individualism and casualization of labour. Typically, it asks such questions as: what kind of discourses emerged, who actively partook in these discourses, for what purpose, in what context, and how did those discourses contribute to constituting reality?

Kang Myung-koo (1994; see Kang M-K and Park S-H 1997 also) pioneered research in which he explored the rise of market liberalism as a ruling discourse in the early 1990s. He analysed it within a historical context, in which the ruling bloc should have renewed its hegemony after the collapse of the authoritarian regime in 1987. Kang argues that a series of campaigns promoted by governments and the mainstream media, including the discourse of “economic crisis” (1987-92), “New Korea” (1993), “Internationalization” (1994) and “Globalization” (1995), can be understood as a ‘politics of discourse’ or as a ‘discursive project’ (1997: 123) which was tailored to replace the decades-long model of the “development state”, which had run out of steam. Similarly, Park U-sun (2006) investigated how the discourse of globalization evolved alongside the political and economic changes from the early 1990s to the mid-2000s.

Kim Jin-young (2002: 63) observed how the idea of “national competitiveness” was discursively constituted and how it reshaped the main objectives, roles and capacities of the nation-state in the early 1990s. The state was claimed to be a ‘corporation state’, which placed supreme values on economic growth and promoted competitiveness by adopting business-friendly policies. You Young-min and Kim Sung-hae (2007) have investigated how media discourse about the labour movement in Korea, in the late 1980s and early 1990s in Korea, has gradually degraded the legitimacy of the labour unions. Hong Seong-ku (2004) paid attention to the impact of media discourse on the corporatist class politics among the state, capitalists and labour, which was established in the middle of the Korean economic crisis in 1997 and which devised a compromise on labour

market flexibility.

The Asian economic crisis in 1997 provided a crucial momentum for market liberalism to spread into every corner of life in Korea. In this respect, Kim Sung-hae and his colleagues (2007) explored how media discourse after the crisis mediated the transformation of Korean society into adopting an Anglo-Saxon style economic model, i.e. a shareholder model. As the “business-friendly” candidate Lee Myung-bak won the presidential election in 2007, Shin Jin-wook and Kim Young-min (2009) analysed the logical structures and discursive techniques of the market populist discourse of his government.

It is true that without the guardianship of America, as well as the viceregal role of the global media and transnational institutions like the IMF, neo-liberal transformation of a local country might have been fairly difficult. After the collapse of the Soviet bloc, the ‘promotion of democracy and human rights and a *free flow of capital* worldwide are the proclaimed aims of US public diplomacy’ (Thussu 2000: 5). In this sense, several researchers paid attention to the interaction between “global and national” in the context of the internalization of the neo-liberal paradigm within specific countries. Rodney Hall (2003) attributed the rapid diffusion of the Anglo-Saxon economic model into Asian countries amid their economic crisis to the politics of discourse of America. Concerning the discursive demolition of the Asian development model which was once hailed as “alliance capitalism”, Hall points out that the U.S. Treasury, the IMF and the Korean government portrayed key practices associated with the Asian model to be “cronyism” and “corruption”. Through this, the Asian model was normatively delegitimized. Kim Sung-hae (2005) argued, employing the intellectual leadership model, that the discourses of the economic superpowers have reconstituted the preferences of Koreans so that the socio-economic policy package of the “Washington Consensus” was adopted by the crisis-ridden country with relatively weak resistance. In another piece of research, Kim Sung-hae (2007: 77) indicated that the ‘Americanization’ of Korean society after its financial crisis was led by proactive discursive practices by journalists, visiting columnists, professors and foreign experts. Comparably,

Frank D. Durham (2007) investigated how *The Financial Times*, a leading global financial press, framed the role of the Thai government in coping with its financial crisis in 1997 and how it advocated the dominant fiscal policy based on free market liberalization.

Secondly, several researchers who employed a political economic approach focused on the structural constraints in the media production, which lead to overtly pro-market and pro-capital media texts. Kang Myung-koo (1997: 134-135) identified that the Korean conglomerates (the chaebols) became increasingly active from the early 1990s in producing and distributing specific discourses ‘not only through their own media and think tanks, but also by organizing intellectuals, journalists, policy elites and political elites’. Lee Bong-soo (2006) explored how the rapid diffusion of neo-liberal ideas led to the economic crisis in 1997, focusing on the deterioration of the public sphere of economic decision-making. This study paid more attention to distortions of the media production process by the ruling alliance between chaebols, mainstream media and bureaucrats.

3.5 Omissions from the Existing Research

Indeed, the existing studies offer meaningful answers to the question of how media, communication and culture are engaged in social power relationships in the era of neo-liberal hyperglobalization. But, at the same time, the approaches adopted in the literature reveal a lot of loopholes in their explanations of the features and communicative process of neo-liberal economic power, because of their narrow assumptions about the relationship between media and power.

At the risk of oversimplifying, the existing research shares a seemingly undisputable supposition that the “power value” of media and communications is located in their influence on mass audiences. This assumption was termed an ‘elite-mass media-audience’ paradigm, in which the elite in a society communicates with the public (or mass) through the media (Davis 2007: 6).

Although the purpose of the communication may vary between deliberation on issues in the public sphere, indoctrination, or generating consent and hegemony, the paradigm helped to keep documenting how the elite secured domination (or how civil group resisted it) by the will-formation of the public through the mass media.

But an approach that rests on the institutionalized, visible and mass forms of communication does not capture the important features of the “power value” of media, communication and culture in the downsized politics of market liberalism. Because the notable characteristic of the “shrinking of democracy” in the hyperglobalization era is the “shrinking of public domain”, research that comfortably relies on the norm of state-centered politics only explains so much. At least three blind spots should be raised concerning this issue.

The change of locus of power

Firstly, over the last three decades, in line with neo-liberal economic globalization, the locus of power has changed considerably. Political and economic resources and power have seeped away from national governments and shifted toward liberal market forces, including transnational corporations, global financial markets and transnational institutions.

One notable feature of these new sources of power is that they operate with a quite different logic and process from that of state-centered political power. More than anything else, power is increasingly detached from legitimacy and accountability. This is in line with the decline of party membership, conventional party ideology, electoral support and faith in politicians in many post-industrial countries. This mismatch is regarded as a typical attribute of globalization. But it has also been deliberately promoted by various discourses of ‘de-politicization’ and by the ‘market-driven politics’ of each government (Leys 2001). To take the example of the socio-economic transformation of Finland in 1990s, according to Anu Kantola (2001), an anti-political and anti-public discourse that favoured economic expertise and bureaucracy negated or

narrowed the scope of the public sphere and public discussion.

Another particularity of these neo-liberal market forces is their “invisibility”. The agents of this force often operate in a way that is undetectable by the media as well as the public. This may be because they are insulated in lofty expertise, exclusive networks, and other discrete culture and practices. Norberto Bobbio (1987: 18, 92-93) pointed out that the survival of ‘invisible power’ is a distinctive symptom of the ‘broken promise’ of democracy. The paradox is that the ‘*arcana imperii* (secret power)’ reappears ‘in the guise of technical experts and technocracy’. He believed this tendency has been reinforced recently (i.e. during the 1980s) in the area of the management, but it also continued thereafter in line with the diffusion of neo-liberalism.

When liberal market forces operate with minimal transparency, legitimacy and public accountability, the attempt to apply the elite -media -public paradigm to research becomes problematic. In effect, in many cases, the public are excluded from the consideration of these market forces.

The significance of private forms of communication

Secondly, most of the existing research on this topic often disregards the importance of private forms of communications in the social power relations. Locating the mass media at the centre of the investigation, the strategy of inquiry was usually to explore how the liberal market forces utilized the political, economic and cultural means to shape the media text to further their advantages. This seems to be a logical consequence of the basic supposition that power emanates from influencing the mass through the media.

However, the unaccountable and exclusive attributes of the neo-liberal market forces suggest that the private actions of the powerful, and the private communicative activities that mediate these actions, are no less important in shifting and maintaining power relations. Taking lobbying, think tank and policy planning organizations as examples of the private communicative

activities or organs, Dinan and Miller (2009: 260) insisted that ‘these communication networks and fora are among the least visible, most exclusive and most politically significant spaces of the contemporary public sphere’.

The full picture of the process of power is more complex

Thirdly, by focusing on the institutionalized media and visible forms of communication, existing research tends to overstate the “top-down” influence of the media on the masses as well as on the media by the powerful. The inclination is to regard power as a given, rather than exploring the actual process of exercising power. In the real world, however, various modes of power are in action at the same time in which the media, communication and culture are engaged to a different extent.

Once we explore the national diffusion of the neo-liberal credos at the time of economic crisis, for example, the indoctrination through the global financial media can explain only a part of the whole story. The diffusion might have been smooth because the pre-existing epistemic community among economic experts has actively colluded through private correspondence, the limited circulation trade gazette, or intellectual apprenticeship based on the same educational background between elites (Kim S-H 2005; Kyunghyang Shinmun 2008).

The reason we should be cautious about these variant processes of power is to avoid sliding into “media-centrism”, one of the problematic ideas which ‘automatically assume[s] that the media are central to explaining the dynamics of contemporary societies’ (Couldry 2006: 182). This media-centrism often results in giving undue prominence to the media, especially to the mass media, rather than to other causal factors. In fact, as David Deacon puts it (2003: 215), there has been widespread failure to ‘appreciate how powerful institution and individuals seek to exert influence and construct political discourse in arena other than the media’.

3.6 The Emerging Research Area

Thus far, this chapter reviewed the structural imperative of market liberalism that restricted egalitarian expansion of democratic politics in the age of hyperglobalization. Then the study reviewed the existing explanations for the process and mechanism through which the media, communication and culture are engaged in market-driven politics.

From these reviews, the researcher can single out research areas that demand an alternative or complementary exploration, to achieve a better understanding of the “power value” of the media and communication in the contemporary politico-economic system. That is, that the research should engage with the organized interests of economic elites and their communicative strategies, which increasingly replace the democratic process of consensus formation through the mass media. In addition, the variant modes and processes of power that these market liberals exercise also point toward a communication -oriented study on the actual site or network which the powerful inhabit.

Chapter 4.

Approaches and Methods

4.1 Introduction

This chapter charts the theories and related approaches that are employed to explore the research questions presented above, along with a few key research parameters. It then outlines the methods. Indeed, one theoretical approach may not provide exhaustive tools of analysis for a multi-faceted social phenomenon. Yet it is also true that a well-selected approach can help opening up a new landscape of understanding. Considering the research interest and problems that demand non-traditional explanations about hyperglobalization and the shrinkage of democratic politics, this thesis employs approaches that could help to grasp the detailed process of Korean economic power.

To some extent, this strategy conforms to the concern that ‘while the impact of globalization on the nation-state has been the central theme of contemporary political economy, even the strongest variants of the thesis (e.g. the argument of “state retrenchment”) tend to be presented without pointing directly or explicitly to the mechanism’ (Hay 2005: 239).

4.2 Theoretical Frameworks

This thesis seeks to investigate the organized interests of economic elites and their communicative strategies, in order to present an alternative or complementary explanation about the “power value” of the media and communication in the era of neo-liberal hyperglobalization. This overall aim requires the researcher to attend to two theoretical considerations. One is to set out the global-national exchange of influences in the age of globalization. The other is to look into the micro-process of power that actually operates between economic elites.

With regard to the former consideration, the research examined the dynamics of the global-national penetration of neo-liberal policy, as well as discourse, expert groups and cognitive processes that are closely related to the global diffusion of

hegemonic ideas. It was understood that the influence of the global centre on the national state is not solely a product of external imposition, nor the outcome of independent choices by the local.

For the latter consideration, this thesis turned to the “inverted political economy approach” (IPE) that evolved recently in the research field of political communications and media sociology (Davis 2003; 2007). This approach locates sites (networks or fields), participants and processes of power at the centre of investigation and explores the social, cultural, ideological and discursive elements of the elite-centred sites of power. This assumes that the private, ordinary, less visible types of practices of ‘powerful individuals’ are also significant in the reproduction of unequal power relations in society (Davis 2007: 10).

The utility of the media and communication here is linked to the questions of how the communicative activities are used by, as well as influencing, those actors, processes and sites themselves. By so doing, the research engage with the multiple forms of power, such as conscious agency, disciplinary power, dominant ideology, discourse, habitus, performativity, power over and power to, that operate at the sites of economic power. The following are the key research parameters that are derived from these two research approaches.

4.2.1 Research Parameters

Policy diffusion

Since the neo-liberal turn in the U.K. and the U.S.A in the early 1980s, the pro-market economic reform has spread over many parts of the world. The question then arises whether the diffusion²¹ of the policy paradigm is an outcome of

²¹ Diffusion has received attention from various fields of research. Anthropologists have delineated it as ‘the process of adopting or borrowing by one culture from another various devices, implements, institutions, and beliefs’ (Malinowski 1944, in Simmons, Dobbin and Garrett 2008: 9). Sociologists have argued that nations mimic their successful peers almost

independent choices made by national government or whether it is the product of external imposition?

Over the last three decades, it has been widely observed that the national elites have spontaneously embraced neo-liberal norms, values and policy programs. This means that the catalyst has come not only “from outside” but also “from inside”. The internal dynamics that reflected external constraints reshaped the neo-liberal paradigm according to the national contexts and political ends. Thus the ‘internalization’ (Cerny, Menz and Soderberg. 2005: 1) of neo-liberal tenets is inevitably a political construction which is ‘promoted by political entrepreneurs who have to design projects, convince others, build coalitions and ultimately win some sort of political legitimacy’ (ibid: 19).

In order to arrive at a more detailed explanation, it may be useful to turn to Beth A. Simmons and her colleagues’ four causal mechanisms of the international diffusion of policy (2008: 10). These are models of ‘competition’, ‘coercion’, ‘learning’ and ‘emulation’. Competition among countries has been broadly acknowledged as a causal mechanism for the global diffusion of neo-liberal economic policies. In the globalized world, according to this perspective, countries have to compete with each other for international market and capital investment. To this end, governments have a strong incentive to choose pro-business policies, for example, deregulation, curtailing corporation tax, and simplifying investment procedures.

The coercion model pays attention to the uneven nature of power in international relations. Theorists of this school suggest that policy is diffused from the center to the periphery by more powerful actors who can impose their preferences on the weak. This coercion can be exercised by multiple actors: powerful governments, international organizations and even private actors like multinational banks. Nonetheless, coercion does not exclusively mean the overt

ritualistically (Thomson et al. 1987). Political scientists have incorporated the diffusion of ideas into their accounts of the choice of economic policies (Keller 2002).

use of threats or physical power. Rather, it is applied in a more subtle way, involving the ‘conscious manipulation of incentives by powerful actors to encourage others to implement policy change’ (Simmons, Dobbin and Garret 2008: 11).

In contrast with the coercion approach, the model of emulation and learning focuses more on the voluntary adoption of new policies. But the emulation model differs from the learning model in that, for the most part, it does not presuppose the information is rational, dispassionate and complete. Instead, it seeks constructivist explanations that highlight the importance of shared norms and the inter-subjectivity of meaning. Here, ‘theory and rhetoric often serve as the base of decision making, and theory and rhetoric change over time’ (ibid: 32). And both legitimate ends and appropriate means are shared social constructs (Meyer et al. 1997).

Notwithstanding this staking out of causal mechanisms, a closer look at the process of diffusion reveals a black box-like complexity. Below, we will discuss further the importance of ideas and diffusers in the process of policy diffusion.

Ideas, epistemic communities and cognitive processes

The internal dynamics of the diffusion of neo-liberal policy are closely related to ideas (or discourse), expert groups and cognitive processes. As policy-makers have to determine their policies within a ‘bounded rationality’, discourses, including economic theory and narratives, often serve as mental maps or guidepost for them (Simmons, Dobbin and Garrett 2008: 34). Among discourses, the ‘idea as a paradigm’ plays a critical role in the process of diffusion, especially by emulation, learning and even competition. The ‘idea as a paradigm’ refers to a ‘taken-for-granted word view’ or theoretical hypothesis that can inform the general course of policy. Neo-liberalism, in this sense, can be said to be an ‘idea as a paradigm’ (Ha Y-S 2003: 3).

These discourses are normally constructed within social networks of experts,

and diffused within given social and national structures (Strange 1991). Accordingly, if a specific policy paradigm is to be adopted across countries, it is essential that there is a pre-existing expert group or ‘epistemic community’ (Haas 1992) ‘for the articulation of policy as well as for command of the practical knowledge of *how to do it*’ (Kogut and Macpherson 2008: 105). This social network of experts is ‘a micro-foundation by which ideas are communicated and legitimated as economic policies’ (ibid: 106).

Economists and experts in academia, think-tanks, the media and international institutions are often viewed as missionaries for the diffusion of neo-liberal economic policies around the world. Kogut and McPherson (2008) find that there is strong correlation between the number of economists and the diffusion of neo-liberal economic policies. They argue that the global diffusion of American-trained economists -- especially ones sharing the perspective of the “Chicago school” -- have resulted in the spread of privatization to all corners of the globe. De Vries (1997) stresses the importance of economists working in the IMF and the World Bank for the spread of economic ideas internationally.

As far as the “diffusion of diffusers” is concerned, the flow of influence is not even. Powerful countries have an advantage in the framing of policy discussions because they have plenty of research infrastructures, critical intellectual mass and well-developed networks between the policy world and various research nodes (Hira 1998; Krugman 1995).

However, the dominant ideas mediated by networks of experts or epistemic communities do not generate homogenous policy outcomes around the world. The political, economic and social circumstances of the individual countries determine which aspects of the dominant idea are highlighted, and which other aspects are neglected. In other word, the diffusion of policy inevitably include the process of “translation and negotiation” (Kjaer and Pedersen 2001) in which policymakers ‘selectively apply’ the dominant idea to their indigenous situation (Ha Y-S 2003: 8).

Sites or networks of elite power

The starting point of a detailed investigation of the process of liberal market power is to locate particular sites of economic, political and legal power ‘where localized and networked action and decision-making have wider social impacts’ (Davis 2007: 170). The site, field or network here denotes ‘a world within a world’ (Gordon 1997 [1947], in Davis 2007: 12) in which the members share a discrete and localized culture, values and practices.

Then, attention turns towards those “elites” or “classes” who inhabit these sites of power. In general, the elite are a set of ‘identifiable human actors who exercise power and influence’ or ‘leadership, within a given setting’ (Holton 2008: 183). The traditional analysis of elites, which rests on the conceptions either of an establishment or of a control elite (Mills 1956), has become outdated as a result of researches which emphasizes the relative autonomy of the elite group or the ‘depersonalization of power relations in an age of capillary power’ (Froud et al. 2006: 2). Nonetheless, it is hard to deny that ‘powerful individuals and groups’ have been ‘central agents’ of neo-liberal change over the past three decades (ibid: 3).

This is not to say that the elites are cohesive enough to exercise power to maintain their position and material benefits. Rather, their power emanates from their inhabiting of the site of power, in other words, their decision-making and their relations with each other both within and among these sites.

Processes of power: culture and mediated practices

Since localised and networked actions, as well as decision-making in this site of power, bring about wider social and economic influences, it is vital to look into the social, cultural, ideological and communicative elements that inform the decisions and actions within those sites (Davis 2003; 2007).

The assumption is that a discrete and localized ‘elite micro-culture’ may evolve

at these sites with some autonomy from the outside world (Davis 2007: 77). As has been exemplified by Mitchel Abolafia (1998) in the case of financial trading rooms, the cultures, beliefs and practices within this exclusive site or network are prone to become “deviant”, or “disembedded” from those of the wider public. In this regard, the linkage between culture and power here is not set in terms of the utility of culture in the construction (or negotiation) of ideological mass consent. On the contrary, in the sites, many issues are negotiated and implemented in ‘private’ without either being raised in the public domain or being discussed with the public in mind (Davis 2007: 77-78).

The practices of communication, either in private or mediated forms, are also critical elements in the process that determines the shape of power. Again, what is notable with these processes and communication forms is, like the cultural elements in the site, their exclusiveness, in that the process ‘takes place outside the public sphere’, ‘without reference to the majority of consumer-citizens’ (Ibid: 11). All in all, the localised forms of communication lead to the long-term “mobilization of bias” (Schattschneider 1960) that guides decision-making and practices in certain directions.

Materialization of the power

The observation of the micro-level of cultures and practices may lose part of its significance unless it is linked to wider socio-economic and political consequences, and extended frameworks of power. The proposition is that particular beliefs, practices and ideologies/discourses that ‘evolve from a mixture of lived social relations’ influence the ‘behaviour of elites, their day-to-day practices, decision making and shaping of institutions’ (Davis 2007: 12).

What generates the specific material impact is the ‘position of the individuals’ within those sites of power, rather than their conscious wielding of power (ibid: 171). But the outcome of this material impact is neither neutral nor innocuous. Instead, in many instances, it has a lop-sided influence on power relations in society and leaves a strong imprint of inequality, since the elites in the site act

according to a narrowly defined individual rationality, rather than taking account of public accountability or democratic legitimacy (Davis 2003, 2007).

4.3 The Selection of the Empirical Field

The first step of empirical research is to select the discrete sites of elites which can best illustrate the process of economic power in the era of neo-liberal globalization. Depending on the purpose of the research, there are many possible options, including headquarters of multinational corporations; institutional bodies of global economic governance like the IMF, the OECD and credit rating agencies; globally integrated financial markets; alternative investment networks centered on private equity funds; the epistemic community of economists and management; global financial media, and economic bureaucrats.

Julie Froud and her colleagues (2006: 16) emphasize the need of a new approach to elite study that focuses on the ‘privileged beneficiaries and agents of our form of neo-liberal capitalism’. This research approach conceives of ‘elites as existing in the context of neo-liberal socio-economic reform and permanent restructuring of the public and private sectors’, rather than seeing them as cohesive control elites at the apex of major bureaucracies. Also, this approach directs attention toward the rise of “intermediary groups” which seem to ‘partly disconnect power from its classical locus within the organization’ and redefine it ‘as the ability to manipulate cultural representations and switch funding flows in the economy of restructuring’. In this sense, apart from traditional CEOs and their boardroom networks, now new economic elites may include,

‘many new high reward positions around finance for investment bankers, hedge fund managers, private equity specialists; plus new implementation and policy elites including consultants, think-tank wonks and policy advisers; and a much increased demand for professional advisers like accounting partners and law partners’(Froud et al.

2006:16).

Taking this suggestion into consideration, the researcher selected three sites of economic elites which are the headquarters of chaebols; globally integrated Korean financial markets; and global-national networks of alternative investments, including private equity specialists, intermediary experts and economic bureaucrats. In the context of Korean society, these three sites or network have emerged as a locus not only of economic power but also of social and political power, particularly after the financial crisis in 1997 and subsequent neo-liberal transformation.

The chaebols, which are fully fledged globalized business entities in terms of their investments and operations, arrived at the apex of power in Korea in around the mid-2000s, as the buzzword of the ‘republic of Samsung’²² well illustrates (Choi J-J 2005: 273). Their headquarters play central part in the organization of the resources in Korea.

The Korean financial market has also emerged as a conduit of global financial forces because market agents increasingly share ‘the spirit of the times of neo-liberalism’, ‘the investment logic of neo-classical economics’, and practices. It thus disciplines the corporations as well as policy makers with their latent but occasionally visible ‘exit power’ (Cho Y-C 2007:10).

The global/national network of alternative investment has emerged after the Korean financial crisis in the form of a business connection between global private equity (or hedge) funds (PEFs), “glocal” advisory specialists, and policymakers in the government. When the network had inflated its power until it was commending the decision-making of the government, by way of a symbiotic relationship with policymakers, it resembled what is called the ‘iron triangle’ in America: the connection between Wall Street, the White House and the arms industry (Briody 2003). The major restructuring and recapitalization of the crisis-ridden banks and the big corporations could be done mainly through

²² Samsung is the largest chaebols in Korea.

the transformative role of these networks. Their investment decisions usually had a formidable impact on the companies, employees, subcontractors and local communities.

4.4 Methodological Considerations

The research problem of this thesis is an open-ended inquiry and it can be better answered by employing a qualitative (or, to a lesser extent, a mixed) approach. Considering the inductive nature of qualitative study, there could be a critique that the suggested theoretical paradigm excessively invokes ‘assumptions about what the research findings might be like before the data are collected and analyzed’ (Kelly 2004: 131). To avoid this fallacy, the role of the theory here is limited to a ‘guide for interpretation’ (Griffin 2006: 14) or a ‘lens’ that can inform ‘the researchers as to what issues are important to examine’ and ‘the people that need to be studied’ (Creswell 2003: 131).

The qualitative exploration envisaged by this thesis requires the researcher to conduct a reflexive conversation with what is thought to be reality. Not only should the research seek an exact description of sequences of events and phenomena in their natural setting, but it should also look into the meaning of reality within its historical, social, and political contexts. Among the several strategies of inquiry, it appears that “small scale” ethnography based on interview and participant observation, as well as use of qualitative case studies, is appropriate to this thesis. A full scale ethnography may be more thorough and intense than a number of interviews, case studies and limited participant observation that this research conducts. Nonetheless, once these are carefully employed, small scale ethnography can provide robust research tools that explore highly complex and politically and contextually ‘sensitive’ causal relations (Silverman 2004: 62), in that they place “contextual interpretation” at the centre of the inquiry.

Case study works best when the researcher tries to look into an issue in depth. It

‘provide(s) an explanation that can cope with the complexity and subtlety of real life situation’ (ibid: 38). The case can be an event, a process, an activity, a program, or one or more individuals, but it should be chosen on the basis of the relevance to the problem and the issue being studied. In this thesis, the cases were selected only when they were believed to be ‘typical instances’, allowing the researcher to generalise from the findings. This point is particularly important, in that case study as a research strategy is most vulnerable to criticism of the ‘*credibility of generalizations* made from its finds’ (ibid: 40, 45). In qualitative case studies, similarly to ethnography, the researcher ‘adopts an interpretive approach to data, studies “thing” within their context and considers the subjective meanings that people bring to their situation’ (de Vaus 2001:10).

Both strategies of inquiry basically share the same philosophical stance of social constructivism (often combined with interpretivism). According to Michael Crotty (1998, in Cresswell 2003: 9), constructivism is an idea that assumes that:

‘meanings are constructed by human beings as they engage with the world they are interpreting; humans engage with their world and make sense of it based on their historical and social perspective; the basic generation of meaning is always social, arising in and out of interaction with a human community’.

In short, society is constructed, rather than being an object-like reality. Although this study shares such epistemological position, this does not mean it wholly accepts the kind of post-modern discourses that abandon all forms of realism.

In qualitative studies, the researcher is the basic instrument of research. This requires the researcher to be sensitive to the issue of his/her own position. The researcher of this thesis has been a journalist for 17 years, covering mainly the fields that this research investigates. In this sense, the position of the researcher is similar to that of the ‘complete participant’. This position has the attraction of

generating more complete knowledge, but at the same time it runs the risk of ‘going native’, where the researcher abandons the position of an analyst for one of identification with the people under study. To avoid this mistake, the researcher needs to make a strenuous effort to maintain the position of a ‘marginal native’ living in two worlds simultaneously, that of participation and that of research (Walsh 2006: 229, 233).

4.5 Methods

4.5.1 Data collection

Ethnography and qualitative case studies employ quite extensive techniques of inquiry, including observing things that happen, listening to what people say and questioning people in the setting under investigation (Walsh 2004: 226-228). Three main data collection techniques are applied in this research. These are 1) interviews, 2) analysis of media text and other contents, and 3) participant observation. By combining these methods, this research tried to curtail the biases that are inherent in a qualitative approach.

Interviews

Interviews are a central significance to this thesis. Interviews with economists, journalists, members of corporate elites and policy-makers provided critical information and contexts with regard to the actual working of the sites of economic elites. These interviews were guided by the understanding that internal communications and subcultures in a discrete, local group and community are important because the rationality of decision-making is, to a large extent, the outcome of such internal communications. Indeed, the in-depth interviews with key actors helped the researcher to grasp the mechanism by which internal communications and culture are related to broad material impact, such as changes of policy, in the sites of power.

A total of 58 interviews were conducted for this research. Forty nine interviews among them were done during the researcher's field work in Korea between early December 2008 and late February 2009. On average, one interview was organized per day except over weekends. Most of the interviews during the first month were set up before the researcher's departure for the field, while the interviews of the second and third months were organized during the researcher's stay in Korea. Most of the interview requests were successful, but three of them were declined. Seven additional interviews were also conducted during a later visit to Seoul Korea, mainly about the link that the researcher found between the interviews or the archival texts. And two interviews were conducted in 2007.

All of the interviews were conducted on a one-on-one basis at the working place of the interviewee or in a calm restaurant near the interviewee's office. The interviews lasted on average for 40-45 minutes. However, a few were as short as 20 minutes, while a few lasted over an hour. All of the interviews, except for two, were recorded and notes were taken in case they were necessary. Each interview generated on average 2,000 words (in Korean) of transcript material.

The interviewees were selected by means of 'theoretical sampling' in which the process of data collection is controlled by a 'theoretical purpose' and emerging perspectives (Glaser and Strauss 1964, in Seale 2004: 242). To select a 'relevant range' of interviewees (Byrne 2004: 187), the representative professional sectors which compose the field of research were drawn up in each area of research. Then typical positions or occupations were sought, to obtain direct accounts of the culture, discourses and communication practices within the site. As is common with qualitative or field research (Deacon et al. 1999), the selection of interviewees was also conducted using non-probability sampling. This method gives the researcher convenience and availability, but it is also acknowledged that this kind of sampling has risks of 'unrepresentativeness' or speculative 'generalising' (Pole and Lampard 2002: 35).

The interviewees were business executives and public relation personnel (9), analysts, fund managers and bankers (12), financial intermediaries such as consultants, accountants and lawyers (5), researchers in business(financial) think-tanks or academia (7), business or financial journalists (18), members of parliament and high-ranking public officials (7).

Table 4-1: Categories of Interviewees

Business	Financial market	Intermediaries	Researchers	Journalists	Politicians and Government	Total
9	12	5	7	18	7	58

The number of interviewees in each of the professional sectors and areas (e.g. the stock market, bond market or foreign exchange market) was set to reflect the central concerns of the research. Interviewees were sought who had been in the profession for at least 10 years; largely this guide line was met. Some of the interviewees were selected from the address book of the researcher, who worked in those fields as a journalist. The snowballing process was also used to obtain several further interviews. The sampling, based on the researcher’s acquaintances, helped the researcher in contacting directly appropriate interviewees with few errors. But this may lead to certain biases; for instance, it raises the question of how those limited examples relate to a wider population. Journalists who covered each site or field were especially helpful because they generally knew well who were the key persons in the site and they were cooperative in introducing the researcher to the interviewees.

The interviews were conducted on the basis of semi-structured questions and open questions, thus they could be referred to as ‘conversations with purpose’ (Mason 1996: 38). In the first place, three different types of questions were prepared in line with the characteristics of each site. The questions contained basic inquiries about the field and the elites within the field, focusing on the following interests: which actors constitute the site of power and how those

actors are networked; what are the discrete culture, discourses and practices in the site; what specific norms and values in relation to market liberalism are prevalent and shared among actors in the site; to what extent are information (knowledge), media and communications important for the actors in comprehending the outside world and making private or public decisions; what specific style of communication and consumption of the mass or private media has developed in the site; what role do the mass media play in the site and how do the actors utilize the media to produce the intended consequences.

But a larger numbers of open or in-depth questions were added to the basic list of questions depending on specific cases, issues and interviewees. Moreover, the actual questions varied and certainly had to be reshaped within the interviews, according to the interviewee's responses. In this sense, the interviews had aspects both of data collection and of data generation in which the interviewer, sometimes, co-produced the data through an interaction with the interviewee (Mason 1996: 36).

Archival records

Documents and media texts were a valuable resource for the qualitative research. Throughout the study, the researcher collected archival records from as many sources as possible, including media texts, web pages, books and internal documents. This data is helpful to comprehend the social context of the specific issues dealt with in case studies, as well as to map out the overall shape of the sites of economic power. The collection was initially guided by the research questions, but the reading of the texts helped to reshape or sharpen the angle of the questions. This led to another search for the archival data. The same "dialectical process" was also applied in conducting interviews for this thesis. Textual records were collected in order to comprehend the fields of the agents whom the researcher intended to interview, but one interview would often generate a further search for archival records, as it raised several issues to check for the next interviews.

Most of the archival records collected and analyzed were media reports, in particular press reports, though broadcasting scripts and internet news were also broadly selected case by case. This is not just because press reports are well archived, and hence convenient for the researcher, but also because it is widely received that the elite are influenced more by the newspapers than by any other kinds of media. This situation is not very different for the Korean economic elites. Indeed, broadcasts have far larger audiences than press in Korea, but the elite portion of the audiences often do not have time to watch prime-time broadcast news. As far as agenda-setting in relation to economic issues is concerned, the newspapers are superior to broadcast news in terms of ‘depth, detail, and numbers’ of articles (Tunstall 1996: 354). As Michael Schudson (2003: 7) has put it, most of the TV news ‘begins with what TV journalists read in the morning newspapers’. Recently, more audiences, including members of the elites, have been reading news from on-line media. But it turns out that most of the news contents of good quality on the web are also created by the newspapers or broadcast journalists (*Hankyoreh* 21, 21 Dec. 2006).

The archival data studied has been restricted to the period between the financial crisis in 1997 and the end of the presidency of Roh, Moo-hyun in early 2008. This period is particularly relevant for this study in that, during the ten years since the financial crisis, Korean economy and society have been considerably transformed under the influence of the neo-liberal perspective and policy paradigm. But, if necessary, texts that date back to the early 1990s or after 2008 are also included. The media texts are mainly collected through the database of the Korea Press Foundation, e.g. the Korea Integrated News Database System (KINDS, <http://www.mediagaon.or.kr/jsp/search/SearchKindsMain.jsp>), which provides archival news taken from 10 national and 8 economic dailies. Its keyword search method provides reliable accessibility. The newspaper texts comprise news reportage, editorials and columns. The news items of *Chosun* and *JoongAng*, the two major national newspapers, were collected from its web-page as they are not included in the database of KINDS.

Participant observation

Participant observation and field experience has helped to fill the gaps that could not easily be bridged by interviews and archival texts. The researcher has worked as a journalist for 17 years, together with 13 years as a business writer, in a national newspaper (*The Hankyoreh*) and an international news agency (*Thomson Reuters*) in Korea. During his career, the researcher covered various fields of the economy, inclusive of such areas as industry and the headquarters of chaebols, banks and financial markets, and economic departments. In particular, the researcher witnessed and reported the whole process of the Asian economic crisis in the late 1990s, from the collapse of the Thai baht, its impact on the Korean financial market, to the neo-liberal transformation of the Korean economy and society. In all the stages of the research, this thesis was guided by this experience of the field and by an understanding of the global economy. In particular, the researcher was indebted to the direct access to the key agents of the economy as well as the remaining notes and articles.

4.5.2 Data Analysis

Most of the texts collected, including the interview transcripts and archival data, were analysed qualitatively in order to ‘grasp their significance’ (May 1993:146). The researcher read the text carefully over and over again. This was followed by the categorization of the information according to the particular concerns of the thesis, for example, the mechanisms of the capillary exercise of power or its material impacts. Ideas arising from reading the texts were also noted. But, using analytical software such as Nvivo was not practical because most of the interview scripts were extracted from the specific open questions rather than structured questionnaires. Instead, the texts are understood in terms of their social production rather than their truth (Walsh 2004). In other words, attention is given to the question of why they are written (spoken), who writes them, who reads them, how they are read, for what purposes, with what outcomes and so on.

Alongside this, a quantitative method was also employed to compare the frequency of the specific words used in the news articles. This analysis was useful in determining the media's orientation towards specific discourses or agendas. This quantitative analysis also helped further to consolidate the knowledge which had been obtained with qualitative methods. Another technique of "triangulation" will be elaborated more fully below.

4.5.3 Enhancing the quality of the research

Qualitative research often generates concerns of 'reliability and validity' resulting from incomplete data collection, selective perception and reactivity (Wimmer and Dominick 2006: 119). Triangulation may be a popular way of enhancing the trustworthiness of the knowledge obtained by a qualitative approach. Norman K. Denzin (1978, in Seale 2004: 77) suggested four types of triangulation: triangulation of data, investigator, theory and method. In a similar vein, Maykurt and Morehouse (1994, in Wimmer and Dominick 2006: 120) addressed four factors that help build credibility: multiple methods of data collection, audit trails, member checks and a research team. Among these techniques, three were employed in this research.

Firstly, in order to build up confidence of the data collected, as suggested in the data collection section, different data sources are used. The information and knowledge from interviews, archival texts and participant observation were compared and cross-checked. When any incompatibility was found, another interview or archival search was made in order to figure out the reason for this.

Secondly, to avoid bias resulting from a single investigator with a specific hypothesis, the guideline was kept in mind that researchers should seek 'evidence that provides a *compelling* test of the theory', rather than 'seeking evidence that is consistent with our theory'. Even if the evidence looked self-evident, another trial was made deliberately to seek for aspects that could 'disprove the theory' (de Vaus 2001: 11).

Mixing qualitative and quantitative methods is the most widely applied triangulation. While this thesis was originally based on qualitative analysis, thirdly, quantitative techniques such as statistical analysis of media text were also used as a supplement.

Part III
Empirical Studies

Chapter 5

**The Discursive Construction:
The Downsizing of Politics**

5.1 Introduction

This chapter explores the discursive construction of the ‘downsizing’ of democracy (Crenson & Ginsberg 2002) in the Korean context. The research inquires what specific discourses on globalization and the market economy accompanied neo-liberal transformation. And it asks how these discourses influenced the political space by reformulating and redefining the public sphere, the usefulness of politics, the range of political engagement, and the nature of democracy. In particular, this chapter takes note of the role of the community of Korean economic experts, including economists, ministry officials and the leading journalists, in the construction of the neo-liberal economic and political reality. The experts are examined from the point of shared intellectual background among them and their private networks with the hegemonic countries, notably with the U.S.

Experiencing the Asian economic crisis in the late 1990s, the dominant paradigm of Korean society and economy changed considerably. It was a transformation similar to that outlined by Karl Polanyi (2001[1944]), from a market that is embedded in the society to the society that is embedded in the market. This change should be understood not only as a structural transformation but also as a discursive construction

According to researchers in economics and politics, neo-liberalism generally promotes de-politicization of economy by which it restrains democracy from increasing people’s influence through state politics (Chang H-J 2003; Choi J-J, Park C-P and Park S-H 2007; Cho Y-C 2007; Yoo C-K 2003). It should be emphasized that such a de-politicization of economy ‘reflects a distrust of democracy’ and that it ‘ultimately tries to narrow the democratic control’ over the economies (Chang H-J 2007: 138). Neo-liberals mobilize a general antipathy towards politics and politicians to undermine the legitimacy of politics. As such, the anti-democratic discourse of neo-liberals makes common cause with the elitism whereby economists, entrepreneurs and technocratic bureaucrats enjoy the autonomy of decision-making. It goes without saying that

a state and a form of politics that are ‘relatively insulated from popular pressures are best able to make the ongoing adjustments to global market forces’ (Leys 2001: 33).

In order to explain the discursive process of the neo-liberal transformation of Korea, a broad range of newspaper articles were collected from the news database of KINDS or from the website of each newspaper. Various key words, such as “economic crisis”, “state and market”, “neo-liberalism”, “globalization” and “populism”, were used in order to obtain pieces relevant to the research theme of this chapter. Most of the articles were written in the period from 1997 to 2004, the zenith of neo-liberalization of Korea. From the articles, around 400 pieces were selected and carefully read in order to grasp the order of discourses and their social significances. Parts of the articles are cited directly in this chapter. Alongside this, such books as the memorandum of the key government officers who handled economic policies at the time of the Korean economic crisis were also consulted.

5.2 The Korean Epistemic Community of Economics

In chapter 4, this thesis examined the dynamics of the global-national penetration of hegemonic ideas. It presented Beth A. Simmons and her colleagues’ four causal mechanisms of the international diffusion of policy ideas (2008: 10), i.e. models of “competition”, “coercion”, “learning”, and “emulation”. It also stated that discourse, expert groups and cognitive processes are closely related to the dynamics of diffusion. It was stressed that a pre-existing expert group or ‘epistemic community’ (Haas 1992) is critical.

When it comes to the neo-liberal transformation of Korea, the structural imperative of post-Breton Woods capitalism and coercion from the ‘new international financial architecture’ (NIFA) (Soederberg 2004: 1) can only explain half of the dynamics. Both the limitation of the state-driven developmental strategy and the unprecedented economic meltdown in 1997

surely explain a large part of the momentum for Korea's neo-liberal turn and its deepening. However, the comprehensive neo-liberal transformation that took place over a relatively short period requires a supplementary explanation. This can be sought in the voluntary adoption of the neo-liberal policy paradigm by the Korean experts, including economists, policy-makers and journalists.

The Korean economic crisis in 1997 was followed by a battle of interpretation about the causes of the crisis. As a result of this battle, the previously successful paradigm, the state-driven developmental model, was officially discarded while neo-liberalism has consolidated its position as an 'idea as a paradigm' (Ha Y-S 2003: 3). It was the like-minded Korean economic experts that led the transformation of the paradigms when the crisis required a change of interpretative frameworks. These Korean experts played the role of an epistemic community which was linked to the global experts who produce authoritative socio-economic theories and discourses (Lee B-C 1998).

This expert group, however, did not appear from a void. The economists who had strong belief in the free market made their appearance from the early 1980s. Following the neo-liberal turn of the U.S. and the U.K., these experts actively introduced the neo-liberal policy paradigm into Korea as an alternative to the developmental state model. These experts have gradually accumulated intellectual leadership as their numbers have increased in the universities, the economic ministries and the media. They looked upon themselves as advocates of an innovative paradigm against the resilient institutional legacy of the old model, i.e. the intrusive state bureaucrats and the "mercantile" chaebols system. When the Korean economic crisis broke out, in this respect, these experts even thought that the crisis could be a 'blessing in disguise' for pro-market reform (Kang K-S 1999: 357). Using the intellectual leadership that the crisis has endowed them with, they played the role of 'missionaries' of neo-liberal transformation (Cho H-Y 2009: 38-42).

One might then ask: what made them play the role of a pre-existing expert group for the internalization of the neo-liberal paradigm? One convincing

answer might be sought in their deep co-option by the ‘intellectual leadership’ of the U.S. (Jung S-I 2004: 352). And this co-option arose mainly through the similarity in their academic carriers. Most of these influential Korean intellectuals had studied in the U.S. Among 365 professors in politics, economics, and sociology in the 9 best universities in South Korea, 306 (83.8%) received their Ph.D.s from the U.S., while only 24 (6.6%) obtained them from the universities in Korea (Kyunghyang-shinmun 2008: 189). This intellectual connection with the U.S. became more conspicuous around the turn of the 1990s as the American-trained experts took up a leading position within their field.

Table 5-1: Korean Ph.D.s from the U.S.A.

(1948~2010)

Major	Overseas Ph.D.	Ph.D. from the U.S. (%)
<i>Economics</i>	1,289	882 (68.4%)
<i>Business Administration</i>	1,062	771 (72.6%)
<i>Politics</i>	882	440 (49.9%)
<i>Sociology</i>	396	223 (56.3%)
<i>Media & Communications</i>	393	295 (75.0%)

(NRF)

In terms of economic ideas and discourses, the influence of these American-trained experts was even more powerful. From the global network perspective (Holton 2006), these experts played the hub role that linked the domestic and global spheres of economic discourse. Out of 1,289 Ph.D.s in economics obtained from overseas universities, 882 (68.4%) graduated from a university in the U.S. When it comes to business administration, 771 (72.6%) out of 1,062 overseas Ph.D.s obtained their degrees in the U.S. (NRF²³). In Seoul National University, one of the most prominent universities in Korea, 30 out of 34 professors in the economics department took their Ph.D.s in the U.S. Moreover,

²³ Registered in the National Research Foundation of Korea between 1948 and 2010 (Webpage <http://www.doctorinformation.or.kr/FDTSapp/index.jsp>, retrieved on 4 June 2010).

a majority of them studied at the top 10 private universities such as Chicago, Harvard and Yale.²⁴

It was difficult, among the influential economic professors, to find anyone who had majored in any subject other than mainstream (neo-classical) economics. Overall, they were undivided in that they had an affinity with the ‘Chicago School’ of neo-liberal economics (Kyunghyang-shinmun 2008: 190). Chang Ha-joon, an economist at Cambridge University, said in an interview with the researcher:

‘Until the early 1990s, there were some mixtures of economic perspectives among economists who just graduated from the university in the U.S. Some of them had the Keynesian leaning of the East Coast universities while others had the Friedmanite leaning of the inland universities, especially, Chicago University. But, after the mid-1990s, the majority of the Ph.D.s in economics became monotonous in their perspectives. They were all “Chicago-boys” who shared the belief in the supremacy of free market economics. And these economists gradually occupied the post of teachers in the major universities in Korea’ (Interview, 16 Dec. 2010).

Still, it may be true that this academic background and personal connections do not automatically lead to an uncritical co-option to the specific perspectives. But, as Stephen Walt (2005) has pointed out, they unwittingly absorb mainstream American views and are prone to be uncritical about hegemonic political and economic perspectives. Thus it was little wonder that they acted as missionaries of the neo-liberal paradigm when they took up influential positions in academia and in official circles, working in close communication with the American experts in academia and in supranational institutions such as the IMF, the OECD and the World Bank (Lee B-C 1998: 19; Ha Y-S 2003: 11).

The policy-makers in government departments and economic journalists who

²⁴ Webpage (http://econ.snu.ac.kr/m5/m5_1.htm), retrieved on 4 June 2010).

had already imbibed the intellectual influence of neo-classical economics at the university also created an intellectual connection with the U.S. through their overseas on-the-job training. Most Korean journalists go to university in the U.S. when they get a chance to study overseas during their careers. Out of 84 journalists who received a grant for one-year-overseas-study from LG Sangnam Press Foundation²⁵ during the period 2001~2009, for example, 71 (84.5%) flew to the U.S.A.²⁶ And, out of 901 government officials who studied overseas for 1~3 years during the period 2003~2005, 521 (57.8%) chose to go to the U.S.A (*Kyunghyang*, 2 May 2007).

Due to this intellectual affinity, perhaps, the interpretative frameworks concerning the causes and remedy of the economic crisis, authored by the IMF, the American intellectuals and the American media, have penetrated deeply into the minds of the Korean economic experts. Kim Sung-hae (2005: iii) observed that the Korean intellectuals actively played the role of a pre-existing expert group or epistemic community by developing ‘an *intellectual apprenticeship* with the hegemon’s intellectuals’ and by prioritizing, in the case of media coverage, the ‘hegemonic affiliations over the Korean power elite’.

5.3 The Interpretation of the Crisis

When a country is faced with an economic crisis, it is very important what the experts ‘interpret’ the forthcoming crisis to be. Once a specific explanation becomes dominant, then the account gains substantial power. In effect, it delineates people’s perceptions of the situation and constrains the policy measures that the government can take (Ha Y-S 2003: 12).

When the crisis broke out in Korea, a variety of explanations about the cause of the crisis mushroomed. Thus it might be safe to say, as the World Bank (1998) noted, that multiple factors interacted along the road to the crisis. Those factors

²⁵ A press foundation set up by a donation from the LG, the third largest chaebols in Korea.

²⁶ Homepage(<http://www.lgpress.org/main.dev>, retrieved 11 Oct 2009)

included the exacerbating macroeconomic fundamentals; the rapid inflow and outflow of short-term foreign financial capital; the huge build-ups of corporate debt; and the incompetent financial regulations.

Overall, we can group the vicissitudes of the debates, largely, into four contending perspectives, each of which stressed one possible critical cause, such as unfriendly international circumstances, exogenous shocks, policy mistakes and fundamental weaknesses. Once again, these perspectives can be grouped into two polarized debates between an “exogenous” and an “endogenous” thesis according to their emphasis (see Table 5-2). The exogenous thesis basically regarded the crisis as a market panic. It thus ascribed the cause mainly to the volatility of the global financial market and the failure of governments to develop a system that could curb the backlash of financial liberalization. The endogenous thesis emphasized the structural weakness of the state-driven development model. The economists in this perspective have emphasized the unavoidable demise of Asian “crony capitalism” because of its internal failures, such as the collusion between business and politics, careless government intervention into the market mechanism, and imprudent lenders and the “moral hazard” of firms.

In Korea, however, the exogenous crisis thesis had few echoes. Instead, the endogenous crisis perspectives authored by a number of American economists in the university, Treasury and Wall Street prevailed. Among 50 economic experts who were cited in the Korean media more than twice between 1997 and 2005, 75% agreed with the “endogenous” crisis thesis. One notable aspect was that 80% of them obtained their Ph.D.s from the U.S. majoring in economics or finance (Kim S-H 2007: 151).

In their diagnosis, debates were largely framed in a manner that dichotomized between the state and the market. Specifically, as the Korean crisis was the culmination of the crisis that swept the Asian countries in the late 1990s, the cause and remedy were discussed from the angle of the demise of the state-driven Asian model. Considering that the pre-crisis debates on the

developmental state model have never sharply polarized between the state and the market, as we can see from the fact that the World Bank (1993) identified the model as a ‘market-based authoritarian regime’, this dichotomization seemed to be ‘overdone’ (Choi H-I 2009: 168-169; Park E-H 1999). Nonetheless, the transposed framework of the debate was rapidly shared between the economic experts in both Korea and the U.S.

Table 5-2: The different explanations of the cause of the Korean crisis

	Main causes		Solutions	Main advocates
<i>Exogenous crisis</i>	<ul style="list-style-type: none"> -The uncontrollable financial market - The failure to develop a regulatory system -The lack of international cooperation -The misjudgment of the government 		<ul style="list-style-type: none"> -Regulation of currency speculation -Slowdown of capital liberalization -Reform of the international financial architecture 	<ul style="list-style-type: none"> Joseph Stiglitz (U.S.) Linda Weiss (Australia) Jeffery Sachs (U.S.) Chang Ha-joon (U.K.)
<i>Endogenous crisis</i>	Government failure	<ul style="list-style-type: none"> -The structural weakness of East Asian capitalism -Crony capitalism -Too much state intervention 	<ul style="list-style-type: none"> -Additional liberalization of capital movement -Transparency and accountability - Structural reform -Market-friendly policy (Deregulation) 	<ul style="list-style-type: none"> Chung Un-chan (Korea) Robert Rubin (U.S.) Fred Bergsten (U.S.) Charles Wolf, Jr. (U.S.)
	Market failure	<ul style="list-style-type: none"> -Imprudent investment of the firms - Moral hazard of the banks - Incompetent regulatory system 	<ul style="list-style-type: none"> -Transparency and accountability -Market friendly policy - Proper regulation 	<ul style="list-style-type: none"> Laurence Summers (U.S.) Steve Marvin (Korea)

Accordingly, the policy paradigm that the IMF has imposed as ‘conditionality’ was almost completely accepted (Kang K-S 1999: 373). As we can see from the journalistic praises of ‘a model student of the IMF program’, Korea has gone further than the IMF and Wall Street had expected (*Dong-A* 25 Nov. 2002). In less than 2~3 years after the crisis, Korea has taken many steps towards becoming the society that the “Washington Consensus” conjures up.

One explanation would be the structural constraints from the geopolitical particularities of Korea. A small open economy that relies for its trade and security heavily on the U.S. had only narrow political room for manoeuvre. In effect, according to autobiographies by Korean ministers, the U.S. Treasury mobilized an invisible hand with the clear objective that Korea should go to the IMF (Chung D-G 2008; Kang K-S 1999). Hence, the Mahathir-style “my way” approach may have been the least imaginable option to the Korean experts, who actually gave the cold shoulder to the Malaysian solution.

The “mea culpa” mood

But structural constraints may have been the only part of the reasons. The more convincing explanation would be that the Korean economic experts placed their hope in the market when the state and chaebols, the two pillars in Korean economic development over the last 30 years, were blamed for the crisis. When the crisis hit Korea, thus, the initial response of the economic experts was predominantly self-reflexive (Song H-K 1998; Sohn H-C 1999). A lot of lamenting columns in the press wound up with a ‘mea culpa’, i.e. ‘I am to blame’ (Kim S-H 2005: 193). Cho Yoon-jae, a professor in economics stated:

‘Even before the crisis, many people learned that the Korean economy had serious structural imbalances and that it might not be easy to avoid comprehensive corrections sooner or later ... The culprits of the current economic hardship are, in a word, all of us who stood idly to one side’ (*Korea Economic Daily*, 28 Apr. 1998).

This “mea culpa” argument has provided a mood of conformity towards the endogenous thesis, while dampening the rise of economic nationalism against foreign capital. In this perspective, it was the tardiness of structural reform in respond to the economic globalization over the last decade that should be blamed. The problem was the insufficient penetration of the market as the guiding principle of the whole society. The chronic deformation of the market by both the monopolistic chaebols and the intrusive government –*kwanchi*²⁷-- was denounced as the main purveyor of this unprecedented national agony. Kim Joong-soo²⁸ lamented:

‘Has the Korean miracle indeed come to an end? Does the *Asian value* have no global power of persuasion? ... The roots of the crisis lie in the fact that we failed in the globalization of our economy. ... We should admit that Korean originality is no longer effective in the global economy’ (*Korea Economic Daily*, 18 Dec. 1997).

With this self-reproach in mind, the economic experts endowed the neo-liberal reforms with historical legitimacy. They were believed to be an extended or stricter version of the reform program that Korea had already pursued (Chung D-G 2008). The economists as well as the media were very keen on comments or reports from American experts prioritizing them over others. When Booz Allen Hamilton, a global consulting firm, issued a report about the reform of the Korean economy in 1998, it became very popular among the Korean experts. Also its policy recommendations were seriously taken by the bureaucrats (Chung U-C 2007).

What the experts hoped was that the crisis would supply a strong momentum for pro-market structural reform. In this respect, the crisis was interpreted in relation to the existing intellectual paradigm and the shared interest of the experts. One consolation was that the two most powerful groups of the “ancient

²⁷ See page 22, footnote 11.

²⁸ A prominent economist and the then president of KDI, a government-funded research institution.

regime”, the chaebols and the bureaucrats, were in a tight corner at that time in the face of the people’s fury. Kang Kyong-sik, the then deputy prime minister, stated in his memorandum:

‘When the crisis broke out, many Koreans said that *it has finally come*. But foreigners said that *it is a blessing in disguise*. It was the same story, in that we are able to carry out structural reform which has long been deferred. As a result, the Korean economy has a chance to be reborn’ (1999: 357).

Being chagrined at the lack of market reform, the Korean economic experts discursively drove a nail into the coffin of the East Asian developmental model and internalized the “modus operandi” of neo-liberalism with close reference to the experts of the U.S.

5.4 The Discourse of the “Economy First” Society

5.4.1 The market: a purveyor of economic democracy

Why then did the Korean economic experts turn to market liberalism in earnest? One reason was that the market looked as if it was a liberal reformer. In a country like Korea, where the liberal reform of the ‘mercantile economy’ was still an important task, market liberalism was often identified with democracy (Choi J-J, Park C-P and Park S-H 2007: 121; Kim S-J et al. 2007: 39). This was in line with the remark of the British Prime Minister Margaret Thatcher (2002: 421) that the market can be a ‘more powerful and more reliable liberating force than government can ever be’. In this sense, the reform of the chaebols system and of the intrusive bureaucrats was venerated as an ‘economic democratization’ (Ha Y-S 2003: 14). Ha Yong-chul, a political scientist, pointed out:

‘It was certainly the market or marketization that captivated the mind of Koreans after the crisis. The market was an emblem of reform, a signal for the clean-up of the past, and a key to future hope. Anything that had the traits of tradition was devaluated as being anti-market. At the same time, an anti-

market attitude was regarded as being anti-reform and behind the times' (*Munhwa*, 28 Apr. 2001).

The market was highlighted again, with the remarkable success of shareholder activism, as the liberal reformer of the old-fashioned chaebols system. This activism was led by the PSPD,²⁹ a liberal citizens' campaign organization, with the support of the World Bank and the OECD. This activism mobilized minority shareholders' rights in order to reform the corporate governance system of the banks and the chaebols. This strategy was in harmony with the policy aim of the Kim Dae-jong and Roh Moo-hyun governments that intended to curb the chaebols by means of the financial markets. They sought a way to reform the chaebols system by inviting in 'rival horses' – the financial capitalists who were dedicated to Anglo-American shareholder capitalism (Kim K and Park S-S 1998: 383).

The leading activists, many of whom were American-trained economists or management scholars, shared the belief that firms should be disciplined by the surveillance of the equity market. Chang Ha-sung,³⁰ a representative advocate, stated the purpose of the activism as follows:

'The formidable threat to the democratic market economy would be a concentration of both political and economic power in the hands of small numbers of people as we see in the Korean chaebols. ... We can avert this risk by enhancing the transparency of the chaebols through the minority shareholders' monitoring and checking' (*Kookmin*, 15 Mar. 1999).

Ever since its first proxy fight against the Korea First Bank in 1997, this kind of activism has adopted the strategy of maximizing 'politically framed influences' by deliberately targeting symbolic firms, such as Samsung Electronics and SK Telecom, the leading affiliates of the Samsung and SK chaebols (Roh H-K 2002:

²⁹ People's Solidarity for Participatory Democracy. It was dedicated to promoting participatory democracy and human rights.

³⁰ A professor of Business Management at Korea University. He obtained his Ph.D. from the University of Pennsylvania, and he was chosen as one of 50 Asian Stars by *Business Week* in 1998 and 1999, along with Asia's Best Advocates of Shareholders' Rights by *Asia Week* in 2000.

7). Accordingly, this activism has succeeded in gaining support from the public and in attracting favorable media attention. This activism, it was said, has instilled the “one dollar, one vote” principle of the market into Korean industries, where the firms, no matter whether they were listed or not, had been appropriated by the chairman’s family.

5.4.2 Market Fundamentalism

A prominent Korean economist Chung Un-chan³¹ (2007) has expressed his frustration that almost every Korean economist, after the crisis, seemed to become an ardent believer in the supremacy of the market. Indeed, trust in the market had ascended to the verge of ‘market fundamentalism’ that argued that the ‘market principle should be applied to every corner of social life’ (*Hankyoreh*, 20 Jun. 2007). The market was deemed to be a ‘self-generating’ and ‘spontaneous’ order that negates the need for a director (Hayek 1973: 38). Similarly, the market was taken to be a “cosmos” that is rooted in the real nature of human beings and of society. Intellectual endeavours were undertaken, as Karl Polanyi (2001[1944]) pointed out, to reorganize all human and social relationships in terms of the principle of the market.

In this escalation of “market-fundamentalism”, special attention should be paid to a group of militant economists in CFE,³² a think-tank established in 1999 by donations from the business world. Those economists actively developed and disseminated agendas and discourses on the organizing principle of the market society. Many of them took part in the Korean Hayek Society which was established to promote the ideas of neoconservative thinkers, such as Friedrich Hayek, Milton Friedman and Ludwig von Mises. Kim Young-yong, the president of the Korean Hayek Society, insisted in a media interview: ‘The market is virtue and the government is vice. There is no such thing as the third way’ (*Dong-A*, 2 Nov. 2003).

³¹ He held the post of Prime Minister in 2009.

³² The Korean Centre for Free Enterprise

In their discourse, the market was a ‘cosmos’ where ‘possessive individuals’ calculate and pursue the maximization of their interests with reference to the price (Hong K-B 2006: 405). The most efficient and desirable outcome for society will appear once the market is sufficiently competitive using all the information available. In this sense, it was argued that if there were de-commoditized elements in society, for example labour and public goods, they should be returned to the market system.

Likewise, the common good was not something that politicians or powerful interest groups could dictate. Rather, it should be understood as the outcome of the unregulated egoism of agents through which the “invisible hand” of the market manifests itself. Having discarded a prior general will, the best policy of the state and society would be to consolidate property rights and respect the pursuit of wealth or private interest in itself. According to this vein of ideas, the ultimate objective of a business was stated by Kong Byung-ho, a militant liberal, as follows:

‘Today, we should clearly understand that the purpose of the enterprise, from A to Z, is to maximize interest. The tendency that begs them for mercy will result in inefficiency in the long run’ (*Kookjae*, 7 Aug. 1998).

In the market society, the militant economists argued, the freedom of economic choice was the foundation of the freedom of human beings. The man of economic freedom has his flip side of self-reliance and independence. But the weak-minded have the vicious habit of relying on the state and of criticizing the rich, especially the chaebols (Kim S-J 1998). This misguided egalitarianism, they argued, merely revealed their jealousy of the rich and their fear of competition, which would eventually lead to the ‘road to serfdom’ (Hayek 2001[1944]).

5.4.3 Globalization: There is no alternative

For Koreans, after the crisis, the term “globalization” could no longer be merely

a political slogan of the previous Kim Young-sam government. It was endowed with a much stronger sense of an exigency that, as an American journalist Thomas Friedman admonished Malaysia's Prime Minister Mahathir Mohamad in his column, 'globalization isn't a choice. It is a reality' (*New York Times*, 29 Sep. 1997). Combined with the people's painful memory of the bail-out of the economy, the discourse of globalization continuously reminded Koreans of the urgency of a radical change in the way of living and thinking. At last, globalization has risen to the spirit of the times, i.e. "globalism", on which the state should be rebuilt. On the 50th anniversary of the Republic of Korea, President Kim Dae-jung, insisted:

'It is globalism which embraces and proceeds to embrace the world. And it is the road we should take because it will guide us toward a second nation-building. ... We must establish a new value system based on universalism and globalism' (*The Korea Herald*, 15 Aug. 1998).

The "global village" was described as a borderless market place where the scope and extent of economic competition has become increasingly broader and stronger. The endless competition in the global market place clearly distinguishes between the winners and the losers, where the winner takes all. Self-help was thus the norm of the globalizing world because any form of safeguard was no longer viable in the face of the pressure from competition. No government or benevolent entrepreneur, for instance, could guarantee the security of the employee.

To survive in the globalizing world, it was argued that each individual and firm should enhance its productivity and competitiveness. And the general competence of a country in the global economic battlefield was termed its "national competitiveness". And the cardinal point of competitiveness was to strategically conform to 'the rule of game of the global economy' (Ahn B-Y 1999: 111) because, in the age of cross-border flows of goods and capital, national competitiveness inevitably depended on the confidence of foreigners.

Kim Ki-whan,³³ an influential senior economic policy-maker, pointed out:

‘It is the age when the border cannot deter the movement of production factors. Information as well as capital flits across the border without any restriction. Once the economic policy is behind the global trend, then capital may flee to other countries at any time. This is true not only of foreign capital but also domestic capital’ (*Dong-A*, 10 Nov. 2000).

The so-called “global standard” became the references of the structural reform policies after the crisis. What was significant about the idea of the global standard was that it was ‘just another name’ for the dominant market-fundamentalism of the ‘Washington consensus’ (*Chosun*, 22 May 1999).

The last but not the least important aspect of the globalization discourse was that it became a “coupling device” between market fundamentalism and the credos of the developmental state. The globalization discourse often presented its imperative by mobilizing both the fear and the economic nationalism of the general public. It was inculcated that if Korea failed to live up to these global trends, then it would fall again into the bottomless pit of economic destitution. But if Korea successfully transformed itself into a global citizen, then it would soon be a member of the advanced countries and would become one of the leading economies in Asia. Here, the deep-rooted ‘developmental-state mindset’ among Koreans was ‘intertwined’ with the market-centered globalization discourse (Cho H-Y 2003: 85).

5.4.4 The “economy first” society

Market fundamentalism and globalism, combined, have consolidated the belief in the “economy first” in which the various different dimensions of society were to be subordinate to economic growth. The economy, both in name and in

³³ He obtained a Ph.D. in Economics at the University of Berkeley. He successively filled various posts such as the deputy Minister of Commerce and Industry, the President of KDI, and the special envoy of foreign economic cooperation.

reality, became the emblem of prime value in the post-crisis Korea. That is why successive presidents, including Kim Dae-jung, Roh Moo-hyun and Lee Myung-bak, have all pledged that they will become an “economy president” or “CEO President”. On the first day of President Kim Dae-jung’s term of office, a national paper strongly argued that:

‘The new president should be the “economy president”. He should tackle this task with all his might. The main policy agenda of the new government, therefore, should be the “economy first” in which the economy is the first, the second and the last priority as well’ (*Seoul*, 25 Feb. 1998).

In this society, the enterprise and the businessman were revered as the main players that eventually ‘earn our bread’ in the ‘global economic battlefield’ (*Munhwa*, 1 Nov. 2004). This line of thought gave birth to the discourse of a “business-friendly country” in which the whole country should work together to support enterprises and businessmen.

Overall, money became the increasingly dominant yardstick for measuring success in both the public and the private arena. The state was reformulated as the service bureau for footloose global capital, taking care of the task of supplying as lenient a business environment as possible. Labour was asked to shun any militant labour movement lest capital should flee abroad. If it did not do so, it was argued, it deserved the tough enforcement of law and order by the government. The universities, for instance, should reform their curriculum in order to supply “human resources” tailor-made for the purpose of business. In the same context, the economics textbooks of secondary schools were revised for the purpose of eliminating anti-business phrases as well as encouraging students to have a positive mindset toward the market economy and business (*Maeil Business Newspaper*, 15 Nov. 2005).

The necessity of being a “business friendly country” was emphasized at intervals by mobilizing the fear of economic meltdown. The recurrent discourses of the danger of an economic slump, the threat of unemployment of

the young generation, and the weary life of casual workers have empowered business circles which have ultimate discretion over capital investment in the country. Accusing the lack of economic leadership of the so-called “equalitarian” President, in early 2004, four hundred professors in economics and business management issued a statement entitled ‘Now it is the economy’:

‘The Korean economy now stands at the crossroads of either a rise or a fall. ... If we hesitate any longer, our economy will slowly collapse and slide down into a “failing student” of the global economy. ... In order to avert the impending crisis, it is essential to encourage the investment and job creation of the business circle’ (*Dong-A*, 20 Jan. 2004).

It was not a sheer coincidence that, on the same day, President Roh Moo-hyun asked the chairpersons of the 30 largest Korean chaebols for an increase of investment and recruitment at his lunch meeting with them, promising a 50% reduction of labour disputes and the determined reduction of regulations (*Dong-A*, 20 Jan. 2004). There has been an implicit understanding that, as a media researcher Chung Yeon-ku has remarked expressing his puzzlement, ‘everything other than the economy seemed to be set aside’ (*Hankyoreh*, 27 Jan. 2004).

5.5 The Anti-political, Anti-public Discourse

The flip side of the “economy first thinking” was the negation of the significance of public affairs and the legitimacy of the political process. As the market principle emerged as a cardinal “modus operandi” of Korean society, a moral order has emerged that prefers the market to politics, private to public, experts to politicians, efficiency to political deliberation. The economy was depoliticized by the discourses that tried to dichotomize political affairs and economic affairs. In the discourses, politics was, at best, a “necessary evil” that wastes the resources of a country and exerts a baneful influence on the economy. This was embodied in a cliché that “politics is blocking the economy”.

5.5.1 Dichotomy: economic logic vs. political logic

As market liberalism became dominant, a discourse was repeatedly presented that politics and the economy should be detached as far as possible. This argument emphasized the binary dichotomization between “political logic” and “economic logic”. This presupposed that politics and the market had little to do with each other; political logic and market logic could be clearly separated.

The dichotomization was based on the different moral preferences between politics and economy. In effect, politics was stigmatized to be old-fashioned, inefficient and unprofessional. This notion was partly originated from neo-liberalism’s affinity with “public choice theory”, which presupposed that public policy is motivated more by the private interests of the politicians and bureaucrats rather than the public good (Hay 2007).

On the other hand, the economy was seen as autonomous, scientific and professional. An article put, for example, ‘when we say economic logic in relation to political logic, it implies rationality, fairness and efficiency’ (*Dong-A*, 27 Dec. 2007). The economy was perceived to be an arena where the economic principle of ‘one dollar, one vote’ predominated over the democratic principle of ‘one person, one vote’ (Cho Y-C 1998: 144-145). Accordingly, it was natural that the Korean economic experts were very skeptical about the relevance of the “democratic market economy” when President Kim Dae-jung proposed it as a “third way” perspective in 1998. For example, Kang Kyung-sik, a former deputy-prime minister for economic policy, shunned it as an “oxymoron”:

‘The confusion originates in the term “democratic market economy” (DJ-nomics). The democratic market economy is understood as a *political* market economy. Democracy pursues equality, while the market economy pursues efficiency. They are not compatible with each other. Accordingly, democracy should be limited to the distribution of public goods’ (1999: 361-362).

It was argued that the market, as a natural and rational system, could function

efficiently as long it was detached from political logic. After the crisis, the aphorism of ‘leave the economy entirely to economic logic’ has been reiterated like a ‘cure-all medicine or a mantra’ in the columns of the newspapers (*Hankyoreh*, 19 Jul. 1999). A famous columnist Song Bok³⁴ stated:

‘Now, the market should be returned to the market logic. No matter how much the market is insecure, imperfect, and full of unlawfulness and absurdity, it is still more effective than government intervention’ (*Munhwa*, 15 Jul. 1998).

There were several counterarguments against the discursive pattern that separated politics and the economy. Theoretically, it was argued that a clear detachment between political logic and economic logic was almost impossible because the market, the foundation of economic logic, was in itself the result of politics. As a matter of fact, economic coordination was always possible through the existing institutional measures. And it is politics that designs and alters the institutions (Chang H-J 2007; 2010). Chung Tae-in, a nonconformist economist, argued that ‘in reality, there is neither a pure economic logic nor a political logic’ (*Hankyoreh*, 19 Jul. 1999). Nonetheless, this alternative explanation was barely heard due to the skewed discursive balance.

5.5.2 The strategy of “de-politicization” of the economy

As was stated in the previous section, the de-politicization of the economy started with the polarization between politics and the economy. Then politics was repeatedly stigmatized as being parasitic, unproductive and unreliable. Here, the discourse of “high cost but low efficiency” and “collective selfishness” were typical narrative devices that were mobilized to stigmatize politics and politicians. On top of that, the discourse of “populism” has played the critical role in narrowing the scope of politics, by urging the politicians and public officials to distance themselves from the egalitarian demands of the general public.

³⁴ Professor of Sociology in Yonsei University

The anti-public discourses undermined the viability of politics by applying the standard of business, i.e. efficiency. In the discursive framework of “high cost but low efficiency”, politics was usually depicted as a game of the leisured. In media and academic discourse, politics was often modified by the adjective “unproductive”, implying that it normally yields fewer outputs than inputs. This line of argument took the assumption that politics was similar to business, where legitimacy was measured by the gauge of efficiency. Party politics, the labour movement and citizen campaigns were given an unfavorable impression as being little concerned with the difficulties of the life world. Im Hyuk-baek, a political scientist stated:

‘the distrust of politics was taken to its extreme. ... that is because of the “high cost but low efficiency” character of politics. It is the typical frail industry in our society which has less output than input’ (*Chosun*, 29 Apr. 2002).

In a similar vein, politics was often described as being behind the times, and as not having a good understanding of the historical significance of contemporary global circumstances. It has been reiterated over and over again that it is enterprises that have advanced to the top level, producing world-best-selling goods, while government and politics were still staggering behind.

‘Among the three groups of the Korean elite, it is only the businessmen of the big corporations that hold global competitive power. This may have come from the fact that the businessmen, striving to survive, have long been exposed to global competition’ (*Chosun*, 7 Jan. 2003).

Another common way of stigmatizing politics was to blame political processes for being motivated by a collective egoism. Many political activities such as a labour disputes, peasants’ uprisings and regional conflicts were simply demonized. These activities were deemed to be a manifestation of the selfish interests of strong interest groups. By their habitual breach of law and order, it was argued, the interests of the silent masses or consumers were captured. Kim

Kwang-du, a leading economist, stated:

‘We have witnessed how the consistency of the economic policy was jeopardized by the collective egoism of the labour unions, the teachers, the medical doctors, the pharmacists, the farmers and the fishermen. ... We should admit that the stability of the economic policy is at stake’ (*Dong-A*, 5 Feb. 2002).

Last but not least, an even more powerful discursive device of the de-politicization of the economy was the discourse of populism. According to Webster’s online dictionary,³⁵ populism refers to ‘the political doctrine that supports the rights and powers of the common people in their struggle with the privileged elite.’ But, in Korea, the word has solely a bad connotation that suggests the irresponsible opportunism of politicians to the shortsighted demands of the general public. Thus, if a politician was named a ‘populist’, that was synonymous with saying that he/she was ‘irresponsible’ (*Kyunghyang* 24 Sep. 2002). Seo Byung-hoon, a political scientist, noted:

‘Populism soaked through Korean society like the Apocalypse of Death. From politicians, to entrepreneurs, to labourers, everybody behaves as if they do not care about the national economy. ... We should acknowledge that the ghost of populism has already come closer to us’ (*Dong-A*, 13 Dec. 2000).

Frequently, the sluggish economy was ascribed to the imprudent politicians who tried to control the economy in favor of winning votes in the election.

‘the criticism that political logic has suffocated the Korean economy came from the experiences that a lot of important policy decisions have been made unpredictably at the time of an election. Once politics becomes a matter of the number of votes, then any principle will easily become a piece of nothing’ (*Kyunghyang*, 21 Mar. 2001).

In particular, the narrative of the downfall of Argentina due to Peronism gave a

³⁵ <http://www.websters-online-dictionary.org/definition/populism>

decisive aura of truth to the discourse of the de-politicization of the economy. The fall of the Argentinean economy, the fifth largest economy in the world in 1930, was cited so often that it came to be received as common sense that showed the mischief of populism.

‘The method was simple. It was taking out of the coffers of the State. Evita gave alms to anyone who asked for help. ... But, is there any future without pain? What happened to the national economy when everybody acted like onlookers?’ (*Dong-A*, 13 Dec. 2000).

There was also a counter argument about populism. Theoretically, it was very difficult to distinguish between populism and democratic politics, as Margaret Canovan (1990) put it; ‘populism is the shadow of democracy’. Hong Yun-ki, a political scientist, noted that ‘the discourse of populism has successfully excluded the people from the political consciousness by branding democracy as mobocracy’ (*Hankyoreh*, 5 Dec. 2005). But this counter-argument was heard only very faintly in the media.

5.6 The Downsizing of Democracy

The discursive separation between politics and the economy and stigmatization of the political process had undermined the socially viable scope of politics. It was assumed that most of economic life would be better insofar as it was insulated from political deliberation. This was a similar situation to that illustrated by Anu Kantol (2001: 69) from the experiences of Finland after the economic crisis in the early 1990s. She noted that, as ‘market liberalism creates a political regime that does not favor political life’, the economy ‘invade(s) the realms of politics and the public’ as well as politics retreating ‘from public life to professional shelter’.

5.6.1 Closing politics

It was argued that politicians and public officials should refrain from the temptation to oversee business and the market, which is an effective and autonomous institution in itself. This argument was based on the assumption that politics inevitably ‘corrupts the rationality of the market’ because it is the ‘bartering process between pecuniary benefit and political assistance’ (Chang H-J 2003:142). Hence, it was argued, society tended to pay an exorbitant price when political logic trespassed on market rationality.

‘This is because, when the government intervenes, all the economic activities of the private sector slide into opportunism. The firms will do their best to make full use of the government and politicians for their interests. ... In this respect, it inevitably leads to collusion between politician and business circles’ (*Munhwa*, 15 Jun. 1998).

In particular, the discourse of populism had a strong practical influence that hindered the politicians from engaging actively in the egalitarian demands of the people. This was embodied by the de-politicized neo-liberal policy package, including deregulation, privatization and non-discretionary monetary policy.

The redistribution of resources for the sake of equality, a well-received role of politics, has suffered from these anti-political discourses. The pro-market experts looked down on welfare policy as a form of short-sighted populism that would impoverish the poor in the long run. Gong Byung-ho, a militant market liberal, put it like this:

‘There is no such things as magic in the economy ... The poor might get some benefits from these poor-oriented policies in the short term. ... But this will eventually lead to the shrinking of the economic pie by discouraging those who are the most eager to produce economic value. ... As Karl Popper noted, the road to ruin is decorated with good deeds’ (*Ilyoseoul*, 31 May 1998).

Once political parties or politicians tried to broaden their political engagements with the general public, they run the risk of being stigmatized as “populist” or as “amateurish” by the economists and the mainstream media. The discourse of populism has become an ‘ideological device that interprets and blocks every small effort of the progressive coalition of civil society’ (*Hankyoreh*, 5 Dec. 2003).

Surprisingly enough, the politicians were openly encouraged, in the name of reliable leadership, to violate their election promises once they had won the election. The obstinacy of the cool-headed experts was usually a good excuse for the breaking of promises. An economist advised the incumbent president to give up his popularity in order to restructure the economy, which was expected to lead to mass unemployment. Lee Young-ho, a senior economist at the POSRI³⁶, asserted that:

‘the President should keep in mind a golden saying that *he must forget campaign pledges once he has won the election*. Where economic logic is mixed with political logic, the restructuring of the economy will go astray’ (*Dong-A*, 21 Dec. 2000).

Several experts have presented the alternative view that politics should play the role of rectifying market failure, including reforming the chaebols system (Sohn H-C 1999). But, the pro-market argument stretched to the verge of saying that even market failure could be remedied more effectively by sticking to the market principle, instead of allowing any political engagement. If there remained any task for politics, it would be just ‘serving the business-friendly environments’ (Choi J-J, Park C-P and Park S-H 2007: 121). In this situation, politics and democracy cannot help being ‘downsized’ (Crenson & Ginsberg 2002).

³⁶ A think-tank funded from POSCO, the largest iron manufacturer in Korea.

5.6.2 Elite decisions: colonizing politics

The economy, detached from politics, was left as the arena where the “technical reason” of the experts reigned. In order to fully revitalize the market, it was argued, the economy should be managed by ‘cool-headed guardians’ (Cho Y-C 2007: 11) or dispassionate experts. The economy and the market were supposed to be an area the complexity of which the ‘emotional, irrational’ and ‘insensible’ public, politicians and even the media were ‘unable to understand’ (Kantola 2001: 65).

Regarding the definition of “experts”, however, some were given their say while others were silenced. It was the entrepreneurs, the pro-business interest groups and the economists that were able to make their voice heard. Yet, the so-called non-experts, such as the workers, the citizen groups and the politicians found their voices increasingly diminishing. The officials in the economic ministries were also given a voice on condition that they would stand aloof from political pressure. So often, mainly in relation to the economic issue, the political vision encountered the criticism of an “excess of ideology”, while public deliberation faced the snub of a “lack of expertness”. A leading national daily put this as follows:

‘(The Roh government) should not obscure this self-evident (market) principle with honeyed words such as equity or solidarity. The Korean economy will be revitalized only if they return economic policy to the experts, business to the firm, and sound consumption to the people’ (*Chosun*, 25 May 2005).

The enterprise and the entrepreneur have considerably increased their autonomy and their voice. In the age of borderless global competition, it was argued, it was a mistake to discourage our “warriors” in the economic battle by cumbersome political or public considerations. Choi Seung-rho, a militant liberal a CEF, put it like this:

‘The leader of global competition is an enterprise. The reason why we do our best to provide a business-friendly environment lies in the realistic desire to be affluent. The politics that disregards this exigency is a second-class one with low productivity’ (*Kiupsarang*, 1 Jan. 2003)

As far as the economy was concerned, one fundamental principle of democracy, i.e. rule by the people, gave way to the “sage of the market”. As a result of the closing and the colonizing of the public sphere, the political agora was narrowed to become a “manor” where a group of elites or experts appropriated decision-making with minimal political conflict and public deliberation. In this manor, the ideal type of the good politician was configured to be ‘wise but lazy’ enough to leave economic issues to the experts (*Chosun*, 27 Dec. 2005). By doing so, it was argued, he could protect economic logic against the gusts of populist pressure from the workers, farmers or the general public.

In summary, as the public and politicians were distracted from decision-making, the discretion of a group of economic elites or experts increased. But this was never a value-neutral process immune from the interests of specific social classes or divisions. It can be said that the size of the political arena is closely linked to the democracy of decision-making (Schattschneider 1960). Accordingly, ‘the smaller the sphere of conflict and deliberation’, as both scholars agreed, ‘the more likely it was that the democracy would succumb to elite private interests’ (Crenson & Ginsberg 2002: xviii).

5.7 Conclusion

The rise of the market and the economy in Korea after its economic crisis in the late 1990s led to the “downsizing of democracy” by the closing and colonizing of the political and public sphere. In the adoption of the neo-liberal program, Korean economic experts, such as economists, economic officials and journalists, played an active role as a pre-existing expert group or epistemic community, a micro-foundation through which ideas are communicated and

legitimated as economic policies. By interpreting the cause of the economic crisis as being the “lack of the market and of globalization”, the Korean economic experts internalized the modus operandi of the forced paradigm with close reference to the experts of the hegemonic countries, i.e. the U.S.A.

The discourse of market fundamentalism and globalism, combined, have consolidated the belief in the principle of the “economy first” in which the various dimensions of society were to be subordinate to the imperative of economic growth. The economy, both in name and in reality, became the locus of prime value in post-crisis Korea. The prevalence of “economy first thinking” led to the negation of the significance of public affairs and the legitimacy of the political process. The stigmatized sphere of politics has receded from the multitude of socio-economic issues. This surrender has been guided by the principle of the separation of political matters and economic matters.

The economy, detached from politics, is regarded as the arena where the technical reason of the experts should rule. As the public and the politicians were distracted from the decision-making process, the discretion of a group of economic experts increased. But this change was a process in which politics is prone to succumb to elite private interests.

Chapter 6.

The Business Elite, Knowledge and Policy

6.1 Introduction

This chapter documents the advance of Korean business elites, i.e. the chaebols, as a dominant social power after the crisis. The focus of investigation will be placed on the way in which the chaebols enhanced their influence on government policy, mobilizing their superior cultural and communicative resources. In particular, this chapter examined the unbalanced ecosystem of policy knowledge in Korea, which feeds the journalists and informs the policy makers.

Traditional work on business elites' influence on the state focused on certain social and network factors, such as shared ownership, educational background, or overlapping personnel. All these are to be noted in Korea with the chaebol-state relationship. But, the business elite's influence is also the result of contention over government policy between various social groups, such as labour unions, citizens' campaign groups and reformists in the government and the parliament. Indeed, government policy-making has increasingly become a battle ground between competing knowledge and rationality. In this sense, cultural, media and discourse factors, which dominate policy debate and knowledge about the economy, are of critical importance. In Korea, chaebols control these factors through various means and dominate policy decisions, in the face of the democratic process.

This chapter investigates chaebols and their connection to the elite communication network on economic policy. The features, culture and ideology of the networks will be examined. Then the chapter explores the cultural and communicative aspects of their influences by examining the production, circulation and 'imposition as truth' of particular knowledge and discourse (Haugaard 2002: 185) within the network. This is followed by a case study that illustrates the chaebols' success in establishing the national agenda of the Roh government.

6.2 The Business Elite and Policy

The research tradition on elites has regarded the corporate elite as a main actor whose power pursues the broader interests of the capitalist and ruling class in coalition with other elite groups. The American sociologist C.W. Mills (1956) posited executives of giant firms as one pillar of coalescence of a single power complex -- ‘the power elites’ -- along with military and political elites.

Researchers who asked why corporate power has prevailed over government decision-making processes have addressed the role of social organizations and interpersonal ties. The observation was that the policymakers, although they sometimes respond to pressure from the public, are often linked with the corporate elites through diverse social networks such as policy-making groups, think-tanks and foundations (Domhoff 1990). The American management researcher Michael Useem (1984: 61) has also insisted that corporate elites’ frequent membership of public and private decision-making bodies is ‘at the forefront of corporate outreach to government, political parties, non-profit institutions and the media’.

It is generally believed that the media system plays an integral role in the ‘struggle of ideas’ (Sabatier 1991) within the political process of policymaking – by controlling the scope of political discourse and regulating the flow of information (Barker 2005: 1). But the influence of the media on government policy is a disputed area. Some researchers argued that the media have only a minimal effect on policy (Mortensen and Serritzew 2004, in Barker 2005), only with sensational or nonrecurring issues (Protess et al. 1987). Others believe that policymakers are susceptible to media reports and that the media have a strong influence on policy processes (Herbst 1998; Mayer 2002). A more likely scenario would be that the degree of influence changes considerably according to the issues (Barker 2005).

The conventional explanation of the media-policy connection is that media exposure spurs widespread changes in public opinion, and then the government

capitulates to the collective pressures of organized citizens and carries out the appropriate policy reforms. This linear “mobilization model”, however, is disputed by a number of scholars who question the supposition that the public is a necessary link between the media and policy changes. David L. Protes (1991: 19) showed that policy changes in America ‘often occur regardless of the public’s reaction’ to media exposes. The definite tendency was, these scholars suggest, that ‘special interest groups and other political elites dominate the policymaking process, not the public’ (Barker 2005: 3). Moreover, the media themselves have emerged to be a powerful political actor, following the trend of deregulation of media systems and concentration of the media corporations (McChesney 1999). The policy makers also have great incentives to maximize positive publicity for their policies. These situations have brought about the symbiotic relationship between the media and policymakers to determine policy agendas.

To understand the complex elite-media-policy nexus, therefore, it is necessary to investigate which social actors are actively working to influence the media agenda. One conspicuous recent change is that professional public relations (PR) is increasingly engaged in the policymaking process. Resource-rich groups equipped with strategic PR skills are now energetically making use of their superior source power to direct government policy for their own interests. Even alternative or non-institutional sources try to utilize public relations techniques in their own ways (Parson 1989; Davis 2002). The advance of PR has also resulted in the increase of source power and the erosion of media autonomy. The ‘information subsidies’ (Gandy 1982) of PR specialists have gradually replaced more independent and investigative reporting. In the late 1980s, Parson (1989: 213-214) suggested that the financial press had become a mere ‘extension of PR companies’.

One notable feature of this situation is that the mass media have been gradually transformed into an ‘elite communication channel’ in the policymaking process. With the help of the marketing technique of segmenting, targeting and positioning, strong sources focus on specific audiences such as policymakers

and opinion leaders. The result is that ‘politics is no longer a game for low budget amateurs’ (Bennet and Entman 2001: 17). This observation confirms Hawthorne’s finding (1993, in Barker 2005: 6) that the primary target was an elite audience, who could directly influence policy, and the secondary target was public opinion.

Corporate elites, with their potential to mobilize affluent PR resources, are in an advantageous position to advance pro-business policy outcomes. This process is definitely beneficial to the corporate elites, but, at the cost of ‘excluding the media, the general public and rival elites from knowledge of elite policy-making processes’. Thus, ‘for much of the time outside electoral campaigns, the role of the media in policymaking is more connected to the manufacturing of the elite rather than mass form of consent’ (Davis 2002: 179).

6.3. The Chaebols: the Dominant Korean Business Elites

6.3.1 The evolution of chaebols

The chaebols are a specific form of Korean conglomerate. Though the form and the characteristics vary, chaebol-style conglomerates are normally found in the East and South Asian countries which have experience ‘condensed economic growth’ (Kim K-W 2001: 4). Three distinctive characteristics distinguish Korean chaebols (Lee K-U 1994: 471): corporate governance (family ownership and control); market position (monopolistic or oligopolistic); and organizational structure (the business group with multi-ownership and managerial linkage). These features are very similar to those of the Japanese “zaibatsu”³⁷ before the defeat of the Japanese empire in 1945 (Park H-J 1999:

³⁷ The large capitalist enterprises of Japan before World War II, similar to cartels or trusts but usually organized around a single family. One “zaibatsu” might operate companies in nearly all important areas of economic activities. All “zaibatsu” owned banks, which they used as a means for mobilizing capital. The four main “zaibatsu” were Mitsui, Mitsubishi, Sumitomo, and Yasuda (*Britannica* 1992 *Vol.* 12: 887).

4).

The Korean chaebols developed during the ‘catching-up process of the economy from the mid-1960s’ (ibid: 5). The chaebols consolidated massive amount of capital in this period, as the government mobilized them as a sub-partner of economic development. Amsden (1989) ascribed the tremendous achievement of the Korean economy to the state-chaebols partnership, in which the state alternated between special favour and discipline. Specifically, the state deliberately nurtured the chaebols by funneling exceptionally generous preferential finance. This was possible because the banking system was under close control by the government. Foreign loans were also distributed under the guidelines of government industrial policy. In some instances, the state sold monopolistic public corporations to chaebols. However, the state also checked the chaebols in return for the benefit (Cho Y-C 1998)

The chaebols have pursued freedom from state control and expansion overseas in the course of the neo-liberal transformation of Korean society. They relentlessly pursued deregulation, weakening of organized labour, and the marketization of multiple areas of society. More than anything else, the chaebols asked the government to ease financial regulations in order to access cheaper global financial capital. Once they gained considerable financial autonomy, around the mid-1990s, the chaebols demanded, more boldly, that the state retreat from the economic sphere (Ha Y-S 2003).

Along with the globalization momentum, the chaebols have evolved to be the most powerful entity in contemporary Korean society. In terms of economic resources, the 8 biggest Korean chaebols³⁸ possess most of the national wealth. The amount of their assets account for 60.7% of GDP (the four biggest chaebols account for 49.0% of it), while their total revenues account for 59.1% of GDP

³⁸ To show the dominance of the chairman’s families, their sister chaebols are integrated into the statistic. These are ultra Samsung (Samsung, Shinsegae, CJ, The *ChungAng Ilbo*), ultra Hyundai (Hyundai Motors, Hyundai Heavy Industries, Hyundai Co., Hyundai Oilbank, Hyundai Department Store, Hyundai Engineering), ultra LG (LG, GS, LS), SK, Lotte, ultra Hanjin (Hanjin, Hanjin Heavy Industry & Construction Co.), Hanhwa, Doosan.

(50.7%) and their investments account for 37.54% of GDP (32.40%) in 2008 (Solidarity for Economic Reform 2009). The chaebols also dominate the men of talent in Korean society. Among the 100 biggest corporations, 23% of new employees graduated from the top three prominent universities, i.e. Seoul, Yonsei and Korea, in 2008 (*Dong-A*, 13 Mar. 2009)

6.3.2 Who controls chaebols?

Chaebols are distinguished by their governance system in which the chairman's family effectively dominate the business group with strong controlling power like a king. Even though each of the corporations within the chaebols is managed by professional executives with a westernized management style, the important decisions are usually made by the chairman and his family. That is why the chaebols system has long been accused of a lack of transparency, of the illegal appropriation of business opportunities by the chairman's family, and of a patriarchal, authoritarian and paternalistic management style. Although the chairman is checked by the shareholders and labor unions, his power in the business group is still similar to that of a "king" (Lee B-S 2006).

Nonetheless, the chairman's domination stands on shaky ground. As the chaebols grew into huge conglomerates, i.e. when the corporation goes to IPO, the stake of the chairman's family gradually dwindled to a minimal portion. Among the biggest 28 chaebols, which are controlled by the chairpersons' families, the stakes of the chairman and his/her family accounted for only 4.23% on average in 2008. For example, Samsung is controlled by Chairman Lee and his family, who have only a 3.57% stake. Notably, Chairman Lee has only a 0.3% stake in the business group (Korea Fair Trade Commission 2008). But, the chairman's family can maintain their controlling power by appropriating the stakes possessed mutually by the sister corporations in the group. With the help of this circular ownership scheme, the chairman's family can control on average 50.95% of the voting rights. This appropriation is supported by two types of investment schemes. One is a circular investment among sister corporations (e.g. Company A → B → C → A). The other is an investment by affiliate financial

corporations, which is, strictly speaking, a portfolio investment by the customer's money. In this way, the voting rights of the chairperson's family can be multiplied to reach 7.87 times their real stake (ibid.).

But the complex dominance structure becomes extremely problematic when the family tries to hand over the chairmanship to the eldest son or daughter. The inheritance tax rate in Korea is 50% if the amount of the inheritance is over 3 billion won (about \$2.5 million). When the successor pays inheritance tax, logically, the chairman's family may not be able to maintain their controlling power over the chaebols. Hence, the handing down of the chairmanship resorts to dazzling financial engineering tactics or to swindling the business opportunities of the affiliated corporations. In the 1990s and 2000s, a lot of top executives in Samsung and Hyundai Motors, including the chairman, were prosecuted for breach of duty in their help with the handing down of the chairmanship.

The nepotistic management system of the chaebols had long suffered from the lack of legitimacy. When the Asian economic crisis hit, for example, the chaebol system was ridiculed as a symbol of "crony capitalism" by the Western media. Since the early 1990s, a lot of academic literature, media reports and government policies on the chaebols have focused on the reform of their corporate governance system (Song W-K 2008). Some critics argued, especially, that the hierarchical social order of rank in production and distribution, governed by the chaebols at the top, may have 'hindered the development of pluralism' which is the precondition of democracy (Choi J-J 2005: 271-273). In order words, a chaebol system that has an affinity with an authoritarian mindset and modus operandi is hardly compatible with democracy.

Headquarters, Umbrella association and think-tanks

The chaebols system is constituted with the headquarters, business associations and in-house think-tank. Each of the headquarters of the chaebols consists of 50-300 members of staff. It is a control tower that virtually manages the

business group and supports the dominance of the chairman. The headquarters supervises all of the important decision-making on financing, planning, personnel administration, PR and the legal affairs of the business group. The chairperson's power reaches its apex when he, annually or intermittently, announces the reshuffle of the top managements of affiliated corporations based on assessments by the headquarters.

The Federation of Korean Industries (FKI) represents the chaebols and the bigger corporations in the country. Established in 1961, the FKI had 380 large Korean companies as members in 2008. Its president is elected from among the chairman of the chaebols. It works in close cooperation with the chaebols' headquarters and advocates the common interests of the chaebols. Most of the important decisions are made at the presidential council, which consists of 22 members of the large chaebols' chairpersons. The presidential council holds regular sessions, at least one per month. In these meetings, various issues such as the macro-economic situation, trade conflicts, tax policy, government reform and education are discussed. Often the FKI organizes a special meeting with the President, the ministers of the economic departments or MPs to discuss macroeconomic issues, such as investment, trade, money supply, interest rates and taxes.

The influence of the FKI is most obvious when it changes government policy and public discourse. The FKI frequently suggests its own policy ideas to the government. The recommendation can be highly effective when FKI hints at a "capital strike". Hence, it became a routine event for the Presidents to invite the chairmen of the 30 largest chaebols to lunch meeting and ask them for active investments. At the meeting, the chairmen usually propose extensive deregulation in return for investment. Each government in turn accepted these proposals and established a co-chaired committee for abolishing regulations.

The chaebol-funded think-tanks supply information and knowledge for the big business circle. The role of the chaebol-affiliated institutes in the management of social discourse will be discussed in more detail in the later sections.

6.3.3 Social connections of the chaebols

Policy networks

Although the partnership between the state and the chaebols has loosened with the liberalization of the economy, the corporatist tradition has survived with a different face. During the 1980s-1990s, Korea witnessed a mushrooming of widely connected and multi-layered policy networks between the state and business. These formal or informal policy networks have been the main conduit for business elites to engage in policy decision-making (Kim Y-R 1990).

According to BAI, as of 2007, over 450 advisory, consultative and decision-making committees attached to the government had been established (*E-Daily*, 29 Apr. 2008). It was through these committees that the chaebols' requests, such as de-regulation and strict discipline of labour, have been embodied in return for their promise to increase investment and employment. President Lee Myung-bak, for example, established the "Committee for the Enhancement of National Competitiveness" immediately after his inauguration in 2008. This committee, which directly reports to the President, confirmed his main campaign pledge to revitalize the economy with business-friendly policies. Among the 27 members, 12 were businessmen (including 4 foreign businessmen), while there was only one representative of labour, from the Federation of Korean Trade Union (FKTU).

Other than the official consultative bodies, the business community keeps talking to mid-level or senior policy makers on upcoming issues. Choi Jae-hwang, an executive director of labour policy of the Korea Employers Federation (KEF), said:

'...we frequently meet policymakers in government and the national assembly to lobby for our policy ideas ... Who should go and whom he should meet depends on the significance of policy issues. When the issue is

critical and a decision should be made by the top-tier policy makers, then our chairman goes.’ (Interview, 9 Dec. 2008).

Thus, a lot of economic policies tend to be coordinated in advance through various levels of private meeting between policymakers and business elites. Often official consultative sessions are held after the main decision was made.

Career mobility

Career mobility between the state sector and the business community has been an important channel of influence through which big businesses can advance their interests (Useem 1979; Scott 1991). In Korea, the process was unidirectional before the mid 2000s; the posting of business elites to high-ranking government positions was relatively limited, but a lot of government officials have been invited to the executive positions of big corporations. From 1945 to 2002, only minimal numbers of businessmen were posted to ministerial positions in each government. They accounted for 1.6%, or 12 out of 768 ministers (Lee S-W 2002: 536). The unfavourable public image of collusion between the state and the chaebols prevented governments from directly appointing members of the business elites to higher positions.

But it has been quite normal for mid-level and high-ranking state bureaucrats, in the middle of their careers or after they retired, to enter the business community with which they had close working relations. As far as the economic departments are concerned, the officials of the Ministry of Strategy and Finance often go to the top managements of banks and financial institutions. Bureaucrats from the Economic Planning Board, the Ministry of Trade and Industry and the Ministry of Land, Transport and Marine Affairs are also often posted to big manufacturing corporations. In 2003, of 164 independent non-executive directors of the six major chaebols, 76 (46.4%) were former government officers. 33 of them are from the departments which have close working relationship with the corporations (Citizens’ Coalition for Economic Justice 2003).

What the chaebols want from the bureaucrats-turned-business executives is their knowledge in economic administration as well as their connections to the government. In fact, this network has been widely mobilized to facilitate intimate co-ordination and co-operation between state and business. The Citizens' Coalition for Economic Justice, an activist group, commented that 'those directors are highly prone to become lobbyists rather than watchdog checking management activity' (*Kyunghyang*, 2 Sep. 2003).

Informal social networks

The emotional tie based on kinship is especially strong in Korean society. Among the elite groups, marriage has often been a way of cementing social alliances between two families. In the center of these "matrimonial alliances", there are the chaebols' families. The chaebols' fervor for matrimonial alliances over the last 40 years has brought about an extensive kinship web of Korean elite families, including several former presidents, ministers, politicians and other members of chaebols families (PSPD 2004; Park W-B 1996).

Research shows that 361 members of the 88 chaebols families are linked together by marriage (Chang D-J et al. 2006: 11). For example, LG, the third biggest chaebol, has an especially dense matrimonial connection with a lot of Korean chaebols, such as Samsung, Hyundai, SK, Hanjin, Doosan and Kumho etc. Former and incumbent Presidents also have matrimonial connections with chaebols families. A daughter of former President Roh Tae-Woo got married to a son of Choi Jong-hyun, the founder of SK chaebols. Roh's son also married a daughter of the founder of Shindongbang, a middle-sized chaebols. The President Lee Myung-bak is also the father-in-law to a son of Cho Suk-rae, the founder of Hyosung, an upper middle-sized chaebols.

The chaebols have also made matrimonial connections with the powerful media. Samsung, for example, is connected with *Dong-A* and *JoongAng*, the highly influential Korean dailies. The incumbent chairman, Lee Kun-hee, is the

husband of a sister of Hong Suk-hyun, the chairman of *JoongAng*. Along with that, a daughter of Chairman Lee got married to the CEO of *Dong-A*.

These personal connections through marriage have frequently facilitated collusion between the chaebols and the government. Many important decisions were made through direct personal contact, outside the public arena. For instance, when President Roh Tae-woo tried to introduce a “real name transaction system” to curb illegal financial dealing by the corporations in 1990, it was Choi Jong-hyun, the chairman of FKI at that time, who successfully lobbied against its introduction. Chairman Choi was the father-in-law of the daughter of President Roh (Kim A-Y 1995: 345).

6.3.4 The culture and ideology of the chaebols

In return for their fealty to the chairman, the staffs of chaebols’ headquarters are rewarded with huge amounts of salary or rapid promotion. Many of them have a high chance of promotion to become senior executives or CEOs. In this regard, their relationship with the chairman looks like that of a king and his retainers in the feudal system. In reality, the conflict between the two sons of the Hyundai founder Chung in 1999-2000 was dubbed the “revolt of retainers” or the war between the princes, by the media (*ShinDong-A*, 27 Sep. 2007).

This patriarchal culture confers on the chairman omniscience. Often this culture stretches to the mystification of the chairman as a strategist, hardly allowing any objections or remonstrations. A former managing executive at Samsung stated that:

‘In the old days, when the founder Lee Byung-chul convened a meeting of the CEOs of the sister corporations, nobody dared to take off his suit during the session, even though it was a hot summer day. ... Nobody asked about or commented on the topic chairman mentioned – in any way other than he/she was pre-designated to do. His son Lee Kun-hee, just after he succeeded to the chairmanship, suggested taking off their suits during the session. After a while, he ridiculed the CEOs, saying that *even though the chairman*

suggested it, taking off their suit without single exception is a kind of totalitarianism. I think this kind of uniformity is an enemy of creativity. After this episode, the atmosphere of the CEO meeting became a little dressed-down. But the differences were just as great' (Interview, 10 Dec. 2008).

The socio-economic vision of the chaebols is considerably skewed towards the liberal market and economic growth. Regardless of the changes in political power, the chaebols kept insisting that economic growth should be the foremost goal of government (Hong D-R 1998). In their economic vision, the chaebols are located at the centre as a “locomotive”. Particularly in the globalizing world, they posit themselves as a ‘national team’ in the battlefield of economic warfare. Hence, the role of the state is best described not as a ‘coordinator’ but as a ‘cheerleader’ for business (Lee K-I 2003: 227).

The drive for growth allows little room for liberal pluralism. Since they usually dichotomize distribution against economic growth, any form of collectivism (e.g. industrial action, the political ascendancy of labour groups) and welfare policies are thought to be mere hindrances to economic growth. It is notorious that Samsung, the largest chaebols, still maintains the policy of not recognising the trade unions in the business group.³⁹

The chaebols are also strong believer in the supremacy of the “free market”. They abhor government intervention, insisting that regulations usually suffocate market dynamism. The political leanings of the chaebols are highly conservative, mirroring their authoritarian organizational ethos. Because their ideological scope is so narrow, they frequently stigmatize liberal, social democratic groups and the trade unions as leftists. In Korea, a country that has long been confronted with communist North Korea, the term “leftist” has connotations of “communist” or “Stalinist”.

³⁹ Among 63 subsidiaries of Samsung, only 8 companies have trade unions. But seven of the trade unions except *ChoongAng* (Daily) are “ghost unions” with less than 10 members, which were established by the company to prevent the real unions from organising. Samsung’s unique policy originated from the abhorrence of trade unions of the founder, Lee Byung-chul (*Sisajournal*, 12 Sep. 2005).

6.4 The Knowledge and Power of the Network

No doubt, financial resources, lobbying and social networks are strong sources of chaebols power. But, they also enjoy a rather more tacit and permeating type of power. This lies in their ability to influence people's knowledge and perceptions. Since the mid-1990s, the chaebols, through their in-house think-tanks and PR personnel, have actively engaged in the production of knowledge and information which support their immediate or long-term interests. This is power as 'a form of pacification' through 'privileging certain ways of interpreting the world, particular discourses, and disqualifying others' (Haugaard 2002: 185).

6.4.1 Policy knowledge and chaebols think-tanks

As the Korean political system was liberalized, knowledge and ideas became increasingly important for policy decision-making and political persuasion. From the pluralist's point of view, the production and consumption of practical knowledge in a society is comparable to the 'ecological system of nature' (Kim S-B et al. 2007: 10). In the system, various private research institutes from business, trade unions and civil groups compete and cooperate with each other. Through this process of selection and accommodation, knowledge evolves.

But what is often missed in the theory of "ecology" is the outright imbalance of the resources that engages in the circulation and authorization of knowledge. There are three categories of research community that produce policy knowledge⁴⁰ and practical discourse in Korea: think-tanks funded by the government; think-tanks funded by chaebols; and think-tanks run by civic group. Governmental think-tanks such as Korea Development Institute (KDI) and Korea Institutes for Industrial Economics and Trade (KIET) had long been the central 'brain power' for the state-centered developmental model. But it is widely accepted that their historic role has come to an end (Kim J-M, Sohn M-J

⁴⁰ 'Policy knowledge' means the information and expertise that is helpful for policy decision-making of the government (Kim S-B et al. 2007: 4).

and Chang K-S 2008: 176). A restrictive research environment and bureaucratic red-tape kept discouraging the researchers, forcing them to seek a position within academia. For example, Lee Dong-gul, president of the Korea Institute of Finance, resigned from his position in protest at the restrictive intervention of the government. He spoke his mind in his resignation statement, in which he said that ‘Autonomy and independence of research was a mere luxury in so far as government usually considers the institutes as “mouth-tanks” rather than “think-tanks”’ (*Hankyoreh*, 30 Jan. 2009).

Think-tanks run by civic groups are still in their initial stages. Most of them were established in the early or mid-2000s. Examples are the Solidarity of Economic Reform, the Hope Institute, the New Community Institute and the Saesayeon. But their financial conditions are too meagre for them to hire competent researchers and to undertake ambitious research projects (*Hankyoreh*, 2 Mar. 2010).

By contrast, chaebol-affiliated research institutes prevail thanks to their considerable resources. The FKI itself established two think-tanks, the Korea Economic Research Institute (KERI) and the Center for Free Economy (CFE). And each chaebols has its own in-house think-tanks, such as the Samsung Economic Research Institute (SERI), the LG Economic Research Institute (LGERI) and Hyundai Research Institute (HRI). These think-tanks have shown a high degree of productivity, with hundreds of researchers, substantial research funds, and a business style top-down management system. For example, in 2010, SERI of Samsung has 220 researchers, including 100 Ph.D.s, while KDI has 136 researchers, including 103 Ph.D.s⁴¹ In 2005, the total expenses of SERI were 86 billion won (\$78 million), while those of KDI were 45 billion won (\$41 million). And the expenses per person were 250 million won (\$227, 000) versus 65 million won (\$59,500) (Kim J-M, Sohn M-J and Chang K-S 2008: 181).

⁴¹ SERI Homepage (<http://www.kdi.re.kr/general/about/crew01.jsp>, retrieved 4 Jun. 2010)

Though the think-tanks highlight “economy” in their names, the scope of their research is not limited to economic and management issues. They actively engage in various social and political issues, including topics such as education, environment, welfare reform, international relations and political changes. Their capacity reached its heights when the chaebols think-tanks devised a strategy aimed at the state and drove it forward through the discourse of the “national agenda”. Based on this practice, some critics suspect that the ultimate goal of the institutes is ‘state management’ (Hong S-T 2007: 121).

It appears that the information and knowledge which the chaebols’ think-tanks produce also adapt to academic neutrality and objectivity. But as far as the chaebols’ own interests are concerned, the think-tanks tend to stay silent or defend the status quo. For instance, the unique corporate governance system of chaebols is reevaluated to be a ‘path-dependent’ outcome which was ‘naturally’ institutionalized while the corporations strived to survive in the exceptional socio-economic context of Korea (Kang W 2005: 37). Apart from the current interests of the chaebols, the think-tanks frequently promote specific perspectives which in the long run would be beneficial to big business. One example is the report on “A small but strong country” by SERI. In 2003, SERI introduced the small but strong country model of several European countries, including Sweden and the Netherlands, as an alternative socio-economic model between the traditional Asian model and the newly adopted Anglo-American model. Some critics argue that this position paper is also aimed at legitimating Korea-specific corporate governance. The position paper concludes that the government should ‘pay more attention to economic growth than distribution’ and ‘invigorate entrepreneurship by deregulation’ (Kim D-K and Oh S-K 2003: 22).

The influence of the chaebols’ think-tanks was enhanced by their extensive, high-powered channels of the distribution of knowledge products. The SERI has 1.7 million members as of Oct. 2010, who log into websites and download research papers from the 2.5 million pages of archives (*Hankyoreh*, 9 Nov. 2010). This is the largest research institute membership in the world. What is

significant is that, according to Kim Yong-ki, a researcher in SERI, many of the members are intellectuals or so-called opinion leaders such as professors, journalists, government officials and politicians (Interview 5 Jun. 2007).

The SERI publishes more than 300 position papers a year and distributes them freely to anyone who wants them (*Kyunghyang*, 15 Nov. 2006). For these think-tanks, the internet is a very powerful platform for disseminating knowledge and discourse. Apart from sending position papers in bulk by e-mail, they actively organize and maintain a community of knowledge-blogs (*Kyunghyang*, 11 Jun. 2007). Usage statistics show the overwhelming popularity of chaebol think-tanks. In June 2007, SERI accounted for 72.8% of the traffic among research institutes followed by LGERI (8.3%) of LG, and CFE (7.1%) of FKI. The KDI, the most prominent government think-tank, accounted for only 3.8% (*Ibid.*).

6.4.2 Trendy and handy issues that appeal to the media

In terms of academic rigour, the position papers of the chaebols think-tanks may not be great. Kim Sang-jo, a civil group leader and economist, said in a newspaper interview that ‘most of the position papers and research papers of SERI would be rejected from academic journals because of their inconsistent logic and fallacies in their data’ (*Kyunghyang*, 15 Nov. 2006). But their cutting edge lies in the selection of trendy research topics and the prompt supply of handy reports. Lee Won-jae, a former senior researcher at SERI, said that:

‘Selecting a research topic which the media might be interested in is very important. Thus, SERI does not recommend researchers to publish theoretical articles in academic journals ... Trendy ideas come frequently from the executive level researchers or the president. ... They seem to be the linchpin between the chaebols -- their network of information and high-ranking executives – and the research ideas of the institutes.’ (Interview, 19 May 2007 and 8 Dec 2008).

This is why the media, intentionally or unknowingly, played a significant role in disseminating the discourses of the chaebols’ think-tanks. Since the late 1990s,

Korean newspapers and broadcasts have come to rely heavily on the press releases and position papers of the chaebols think-tanks. According to a media watchdog report, eighteen Korean national newspapers (including the economic dailies) put out 251 articles sourced from SERI in October 2007. This means that, when we exclude government departments, the chaebol' think-tanks are the top news source with 14 articles a month for each national newspaper (Saesayeun, 2007).

Along with the popularity of position papers, the researchers in the chaebol think-tanks have become frequently quoted commentators in newspapers and broadcasts. Although these comments are often simple and short, they often direct the tone of the article. A senior researcher in LGERI said in an interview:

‘...the phone rings without stopping (from journalists). We know that the comment is for just one line in an article, but we also know it is quite influential. ... When I got to know a journalist from frequent telephone calls, we met for lunch or dinner talking about a lot of issues ... I felt that this is a way of “tutoring” journalists’ (Interview, 24 Dec. 2008).

Journalists are not ignorant of the fact that the quality of the research papers is not high in terms of academic rigor. But they say they are trendy; they supply background knowledge which is handy for analytical articles. More than anything else, they are not too serious to dampen the journalistic interest. Park Hyun, a senior reporter at the *Hankyoreh* said:

‘The chaebol think-tanks seem to be geniuses in assembling the existing knowledge. ... Frankly speaking, their reports are not very high in quality. ... But the opportuneness is their great charm for journalists who need to file pieces on some difficult issues before deadlines.’(Interview, 4 Dec. 2008)

6.4.3 “Brain-sharing”

However, far more direct influence on policy may come from the “brain sharing” between the chaebol think-tanks and the policymakers. Korean policymakers in

both government and parliament have become heavily reliant on the chaebol think-tanks in setting policy agendas and drafting policy options. This is in line with the decline of the governmental think-tanks, which had been the main supplier of policy ideas and knowledge. Kim Yong-ki, a research fellow of SERI, said:

‘We are really busy in supplying position papers which are privately ordered from the Presidential office, the Ministry of Strategy and Finance, the governing party etc. ... They won’t go to the KDI nowadays ... Instead they just ask us for it through their acquaintances here. For example, we have got more than 15 of the same requests which seek brilliant ideas for solving the problem of unemployment rate hike, from different parts of the Presidential office in a year’ (Interview, 15 Dec. 2008).

It is widely acknowledged that the chaebol think-tanks have supplied many of the policy agendas of the Roh Mu-hyun government between 2003 and 2008. In February 2003, just before the inauguration of the new President Roh, the SERI secretly submitted a report, entitled “The direction of national policy and the agenda of the new government”, to the new government’s task force. This 400-page report had been prepared with the cooperation of 70 researchers in SERI. Many of the ideas in the report were later adapted by the Roh government, including the “Drive for \$20,000 per capita income” and “The central state of East Asia”. Lee Kwang-jae, an MP and an influential advisor of president Roh, played a particularly key role in introducing SERI’s policy ideas to the new government (*Kyunghyang*, 21 Nov. 2007). During this government, other MPs also competitively tried to introduce the ideas of the chaebol think-tanks to the parliament. This is partly because they wanted to make full use of favourable media coverage that the think-tanks obtained.

The uncritical reception of the policy discourses with the “chaebols brand” and the practice of “brain-sharing” brought about frequent confusion between the interests of the state and the interest of the chaebols. Kwak Jung-soo, a business journalist at the *Hankyoreh*, said:

‘What the policy makers always long for is the policy ideas. The chaebols are now making use of the policy ideas as bait. Inevitably, there are hidden interests of the supplier within the policy ideas and knowledge. The policymakers are saying they just borrow the ideas, but they, unknowingly or with conscious neglect, slide into becoming the agents of the chaebols. I heard an episode from a leading MP as following: *one day a party sub-committee held a meeting to discuss pending economic issues. Then I saw an MP having placed a position paper on his table. It was definitely from SERI. I realized this from the coversheet. He must have been in a hurry and have forgotten to take off the coversheet. The meeting was to discuss fairly sensitive issues to the interests of Samsung. I thought the MP had been tutored by Samsung beforehand*’ (Interview, 6 Feb. 2009).

6.5 Communication in the Business Elite Network

6.5.1 The chaebols’ strategic PR

Communications in the chaebols’ headquarters is amongst the most intensive in Korea. Every day, several hundred journalists cover the headquarters and affiliated corporations. For example, there are 200 listed journalist covering Samsung headquarters.⁴² Another several hundred PR staff in chaebol headquarters supply newsworthy materials and monitor news.

As the importance of the chaebols has increased in the economy, so they have developed more systematic public relations. The chaebols have steadily increased their PR resources. What basically supports their PR activity is the fact that chaebols are the main advertisers in newspapers and broadcasts. The advertising expense of the four biggest chaebols (Samsung, Hyundai Motors, LG, SK) accounted for 19.4% of the total revenues of the Korean media (TV, Radio, Newspaper, Magazine) in 2006 (Solidarity for Economic Reform 2008). Based on this structural advantage, the chaebols have developed various PR

⁴² Kwak Jung-soo (Interview, 6 February 2009)

resources. Consequently, the chaebols were pretty successful in passing their press releases off as “real news”. It is estimated that most of the economic news, from 67% to over 80%, is based on the press materials which the business community supply (*Hankook*, 16 Nov. 2006). In terms of the PR skill of turning press materials into news, the induction material for trainees of Samsung Electronics shows the strong confidence of the big corporations:

‘Many parts of articles in newspapers are the result of PR activities. Even in the case of the *New York Times* and the *Washington Post*, 60 percent of articles are from PR materials. ... (If you have any) new, informative and interesting issues, let the PR department know. Then we can *cook the news*’ (*Mediaoneul*, 28 Feb. 2007) ⁴³

Recently, chaebols’ PR has frequently outstripped the ordinary practices of “defending bad news and promoting good news” for companies. The more sophisticated type of PR, dubbed “strategic PR”, has emerged since the mid-1990s. It meticulously designs its processes, finely targets small numbers within the elite audience, and systematically organizes resources such as information subsidies. It often aims at influencing rivals or policymakers by changing social discourses. Strategic PR is also useful when corporations try to create a favorable mood to promote policymaker’s decision-making, by enhancing the credibility of their argument. A managing director in the Federation of Korean Industry (FKI) said that:

‘When we try to persuade policy decision makers, it is far more effective to say that *this is an issue that the newspapers covered previously, as you know*. It is a matter of the credibility of the arguments. In this sense, the *media play* is like *background music* for government relations (GR)’ (Interview, 23 Dec. 2008).

⁴³ “Educational material of Samsung Electronics for PR induction.” It was exposed by *Mediaoneul*, a weekly gazette for journalists.

6.5.2 Resources and tactics

To achieve its goal effectively, strategic PR tends to take three points into consideration. Firstly, the chaebols fully make use of their superior information power. They systematically collect and manage information from both external and internal communications. Thousands of senior staff and executives of chaebols are obliged to submit information or rumours which they heard over lunch or dinner hour. Alongside this, senior staff and executives gather information from their broad range of social networks with politicians, government officials, journalists and other businessmen. A former managing director of Samsung said:

‘Information is garnered, synthesized and analyzed. The sensitive pieces are forwarded to the relevant subsidiaries. ... The quality of the information is amazing. ... If I do service with my heart to the elites that I am in charge of, then who do you suppose they will phone first when they have got information concerning my company? Definitely, we will be the first’ (Interview, 10 Dec. 2008).

Moreover, many chaebols operate a task force team which is solely dedicated to collecting in-depth information from various ranks of the social elites. With all these information management systems, the chaebols are said to have stronger information power than the national intelligence agency. One famous anecdote is that Samsung, in 1998, learned of the death of the Chinese leader Deng Xiaoping through their domestic and international elite networks, several hours before the first news flash from the global news agencies came out. Samsung was also said to have passed on this information to relevant government department immediately after they got it (Lee B-S 2006).

Secondly, the success of strategic PR depends on establishing persuasive arguments. Apart from mobilizing in-house think-tanks, chaebols systematically manage influential intellectuals who often turn up in newspaper columns or debate programs on TV. For this purpose, the headquarters earmark considerable funds annually to support seminars and research projects of

various academic bodies. On the other hand, they invite leading academics to become advisors, or independent non-executive directors, with very high remuneration. This financial support has often made the intellectuals submissive to the chaebols. One professor said ‘there will be very few professors who would refuse to draw a conclusion in their report that the corporation wants them to draw if the company were to support a 30 million won (\$27,100) research fund’ (Kyunghyang shinmun 2008: 128).

Thirdly, strategic PR makes full use of the national status of high ranking executives, to attract attention of the media. Since the mid-1990s, the remarks of the chaebols’ chairmen have had great resonance in Korean society. The issues they raised easily turned into social discourses or policy agendas, with ample coverage from the media. For example, Park Yong-sung, the chairman of Doosan chaebols, has been a big newsmaker during his chairmanship of the Korea Chamber of Commerce and Industry (KCCI). The media usually cover his arguments on deregulation or government reform with large headlines (*Hankook*, 17 Dec. 2004). Lee Kun-hee, the chairman of Samsung, also influenced a lot of agendas through his remarks almost every year, such as “Small but strong country” (2001), “The management of genius”⁴⁴ (2002), “Sandwich discourse”⁴⁵ (2007), and so on.

Thus the contact between chairperson and the media is restrictively managed by the headquarters to maximize the effect of strategic PR. For example, chairman Lee of Samsung seldom spoke to the media. But whenever he did, he raised a sophisticated issue about the Korean economy. Accordingly, any remark he made caused a big sensation. One example was his proclamation of the New Paradigm of Management in 1993. At that time, he used the metaphor that Koreans should change everything except their wife and children in order to catch up with developed countries, as well as to cope with the vigorous

⁴⁴ This is an argument that, economically, one genius is equivalent to 100,000 people in the 21st century.

⁴⁵ This is the argument that the Korean economy has been sandwiched in between Japan, running away, and China, coming in pursuit.

challenge from China. His agenda, it is argued, was a catalyst for Korean businesses to turn their attention from the quantity to the quality of the product.

6.5.3 Strategic PR and journalists

The journalists are closely intertwined with the communication process in the sites of the chaebols. The Korean media are powerful political entities in themselves and are no longer afraid of political power (Cho D-M, Lee B-C and Song W-K 2008). But, when it comes to the power of capital, as illustrated in chapter 2, their autonomy considerably shrinks. Because of the worsening financial situation of the Korean media industry, a lot of media companies have abandoned the “principle of a fire wall” between editorial and advertising departments. Indeed, several media are closely related to the chaebols in their ownership structure. In this sense, journalists often mobilize “self-censorship” mechanisms in their reports. Very frequently, the PR departments of chaebols lobby directly to block unfavourable reporting. In most of these cases, according to the journalists who interviewed for this research, their attempts are successful (Kwak Jung-soo interview 6 Feb. 2009, for example). There are also direct financial incentives for journalists. For example, major chaebols support one year of overseas study of potential journalists and keep in contact with them under the name of a “fellow” after they return to their job. Between 1996 and 2004, 115 journalists received funding from Samsung and 90 journalists from LG (PSPD 2005).

However, apart from lobbying, the “mobilization of bias” also comes from journalistic routine. Most of the business journalists are stationed in press rooms which are furnished by the chaebols’ headquarters and their umbrella associations. Hovering around the press room, journalists regularly have contact with the PR staff or senior managers of chaebols over their lunch or dinner hours. From time to time, PR departments organize conferences or tours in which several key managers from the chaebols’ headquarters stay for one night

with journalists. A former journalist⁴⁶ at *Maeil Business Newspaper*, stated that the frequency of the correspondence that journalists normally have with chaebols' staff hugely outweighs their meetings with managers in small and medium companies or the representatives of labor unions.

As the competition between the media outlets has become intensified, journalists have to produce more pieces of news to fill the enlarged newspaper space. Hence, they have little time to try out in-depth stories or investigative pieces. Even worse, major sources in the chaebols are blocked from the media during ordinary times and journalists can hardly make contact with them without facing the gate-keeping role of PR staff. Song Tae-yup, a senior reporter at YTN, said: 'There is a joke among journalists that reports can access only three rooms in chaebols' headquarters; the pressroom, the spokesman's room and the toilet' (Interview, 10 Dec. 2008). In this respect, the "information subsidy", which is regularly supplied by the chaebols' PR departments or umbrella associations, is indispensable for business journalists.

The similar routines of business journalists lead to a "pack journalism" in which most of the news from the media outlets is almost identical. More seriously, the journalists unknowingly internalize the perspectives and values of the chaebols through their routines in comfortable chaebol pressroom. Kwak Jung-soo, a business journalist, said;

'The symbiosis between the media and capital has already advanced to the stage that the journalists internalize the perspective and ideology of capital. This means that journalists are not only reluctant to dare to address the issues which the capital power may not like. ...but they also willingly fancy themselves to be mouthpieces of the capital power. Now, the Korean media works as a critical medium of the diffusion, empowerment and reproduction of the perspective of capital power' (*Newspaper and Broadcast* 2007: 14).

⁴⁶ Interview (3 Mar. 2009)

6.6 Case Study: The Chaebols' National Agenda Setting

This case material explores how the Korean business elites influenced the social and economic policy change of the new government of President Roh Moo-hyun in 2003 through strategic PR and the dominance of policy discourses. The research especially pays attention to the communication practices in the network between chaebols headquarters, think tanks funded by chaebols and policy makers in government and parliament. The research was conducted mainly through the methods of media content analysis and interviews. The media texts were selected from the archive of KINDS with the key word searching process. Many parts of this case study came from the researcher's previous study for his MA dissertation⁴⁷.

Roh Moo-hyun, a candidate of the ruling but minority party in the parliament⁴⁸, was elected as the 16th president of Korea on 20th December 2002. The little expected, hence dramatic victory of Roh was at the same time a crisis for the chaebols. Roh was believed, by the conservative ruling elites, to be a political maverick, with the image of a leftist or a radical (*Dong-A*, 13 Jan. 2003). Indeed, the campaign pledge of Roh suggested that there would be considerable shifts in socio-economic policies. The new paradigm set on an ideological base that pursued a balance between economic growth and distribution, equilibrium between capital power and labour power, and equity between social classes (*Hankyoreh*, 20 Dec. 2002).

Expecting the sword of the reform policy would eventually fall on them -- on their nepotic corporate governance system -- the chaebols prepared a countermeasure before the beginning of the new government. Their "card" was the campaign for a \$20,000 per capita income.⁴⁹ Although the campaign

⁴⁷ Goldsmiths, University of London.

⁴⁸ Korea has the Presidential system and it happens from time to time that the party which produced incumbent President loses the comfortable majority in the parliament.

⁴⁹ In 1995, the per capita of South Korea had reached \$10,000. But it fell again below \$7,000 during the financial crisis in 1997. Korea recovered to a GDP of \$10,000 per capital in 2002 and it reached \$20,000 in 2007, partly with the help of the appreciation of its currency.

claimed to be a united effort of every rank of people in order to advance an affluent country, in substance, it aimed to induce government policy ultimately to accommodate the interests of the corporate elites.

The chaebols' in-house think-tanks and the media played a critical role in establishing the campaign as a significant social discourse. Most of the Korean press and broadcasters uncritically adopted the framework and arguments which the chaebols and their think-tanks had presented. Some of them actively drive the campaign toward a "change-everything" national movement.

At first, Roh's government was reluctant to accept the campaign. But it was gradually persuaded by the all-out blitz of both the media and the chaebols. At last, six months after his inauguration, President Roh declared that his government would officially adopt the campaign as a national agenda and as an important reference point for socio-economic policy. From that time onward, the priority of economic policy had changed; weight was placed on economic growth, with the cooperation of the chaebols. At the same time, the President's pledge to support the poor and the weak has gradually lost ground.

The success of the chaebols' campaign, however, leaves much room for critical evaluation. The chaebols' agenda almost entirely dominated the framework of reporting, while the critical voice was almost entirely marginalized. Few media covered the campaign from the points of view of the public interest. The policy elites, although they initially proclaimed themselves reformists, were also susceptible to the concerted policy agenda of the chaebols and the media. This resulted in the dumping of their own policy agenda, which the majority of the people had supported in the election just a few months before. Here, the big shift in policy was mobilized by the concurrence of interests among the corporations, the media and the policy elites, rather than the views of the public.

6.6.1 The chaebols' influence on the campaign

Discord between the chaebols and the new government

Even before President Roh's official inauguration, the chaebols and the incoming government revealed their discord. Both sides had a deep-rooted distrust of each other (*Munhwa*, 13 Jan. 2003). Amid the chaebols' concern at a radical reform policy, the Federation of Korean Industries (FKI) held an executive board meeting and announced boldly that they were against the new government's policy on business (*Korea Economic Daily*, 29 Jan. 2003). In particular, they criticized the "three core reform policies",⁵⁰ arguing that these regulations would weaken the competitiveness of big corporations. The chaebols' mistrust reached its highest point when Kim Seok-joong, an executive director of the FKI, was quoted by the *New York Times* as saying that 'It is likely that the ultimate goal of the incoming government is socialism' (*Munhwa*, 29 Jan. 2003).

President Roh and his assistants kept emphasizing the need for vigorous reform of policy towards the chaebols. In a meeting with chaebols chairmen, Roh warned that 'despite repeated reform pledges, several chaebols have yet to part with unsound practices, such as fraudulent accounting, stock manipulation and unlawful inheritance' (*Korean Herald*, 27 Mar. 2003). A senior secretary for President Roh gave the assurance that 'even if the economy may further worsen, the Roh government will not consider compromising with the chaebols. Instead, the government will pursue transparency of the management without hesitation' (*ibid*). Some of the assistants of the President regarded a series of complaints by the chaebols as collective resistance to the new government. As a warning, they hinted that the FKI, the organization for chaebols, would be disbanded (*Munhwa*, 29 Jan. 2003).

All-out efforts to spin a pro-chaebols policy

For the chaebols, it was imperative to have the new government abandon the

⁵⁰ Those policies were intended to enhance the transparency and accountability of big corporations. They were the introduction of securities-related class action lawsuits, the overhaul of the inheritance taxation system and the restriction of the use of customers' money in maintaining the chaebols chairman's governance.

reform policy. They initiated a campaign that was designed to re-orient economic policy from reform to growth. This was epitomized by the slogan: “Believe in a future with \$20,000 income”. The FKI led the campaign with the concerted effort of the business lobbying organizations, prominent entrepreneurs and chaebols think-tanks. This could be described as all-out pre-emptive aggression. Historically, chaebols have often succeeded in this kind of blitz. From Roh Tae-woo to Kim Dae-jung, each President pledged the reform of chaebols in the initial phase of his term. But, as time passed by, it ended in smoke in the face of lobbying by the chaebols.

First of all, the FKI adopted the campaign as their main agenda at their general meeting in February 2003. Then they issued a statement that the big corporations would make every effort to increase the per capita income to \$20,000 by 2007, in order to make Korea an advanced economy in the world (*Korea Herald*, 28 Jan. 2003). The FKI also proposed that the incoming government should set up a committee, over which the President would preside, to promote the campaign. Son Byung-doo, the executive deputy chairman of FKI, insisted that:

‘We hope that president-elect Roh can increase per capital income two-fold in his period in office. It is necessary for him not to bind his presidential election pledge for equity. Everything will become smooth only if his government concentrates on increasing people’s income’ (*Maeil Business Newspaper*, 5 Jan. 2003).

Prominent business leaders such as Park Yong-sung, the chairman of the Korea Chamber of Commerce and Industry (KCCI), and Lee Soo-young, the chairman of Korea Employ Federation (KEF), frequently appeared in the media and reiterated similar stories. Lee Kun-hee, the chairman of Samsung, also played a pivotal role in promoting the campaign. In June 2003, Chairman Lee of Samsung insisted that Korea was trapped at the barrier of a \$10,000 per capita income. He said to the media that:

'Korea should make bigger the economic pie until its per capita income reaches \$20,000 rather than trying to enlarge individual gains. Now we are at the crossroads between the chance of jumping to affluence and the hazards of falling back to becoming a poor country again' (*Hankyoreh*, 6 Jan. 2003).

His remarks were covered with considerable weight in the national press and broadcasts because he was one of the most important newsmakers in Korea.

The LG Economic Research Institute (LGERI), a think-tank of LG, reported that the Korean economy could not reach a GDP of \$20,000 per capita by 2020 unless it gained a new growth momentum (*Hankook*, 13 Jul. 2003). Other chaebols think-tanks, such as KERI and SERI, also produced a lot of related issue papers. Those reports were frequently quoted in the national papers and broadcasts.

Success in establishing the campaign as a significant economic discourse

The bad economic conditions were fully appropriated by the chaebols in promoting the \$20,000 per capita income campaign. At the turn of 2003, the business cycle went rapidly into a slump due to the credit card bubble in 2001~2002.⁵¹ On top of that, the spread of severe acute respiratory syndrome (SARS) and the outbreak of the Iraq war made the economic situation even worse. In mid-2003, for the first time since October 1998 -- during the financial crisis -- economic production, consumption and investment indices simultaneously contracted (*JoongAng*, 29 Jan. 2003). Emphasizing this economic hardship, the chaebols argued that it was time to encourage the big conglomerates, rather than clamping down on them. President Roh was undeservedly blamed for the economic slump, even though he had assumed power only several months previously.

⁵¹ After the financial crisis in 1997, The Korean government boosted household consumption by credit to cope with the economic downturn. It resulted in the huge amount of financial failure of household after 2003.

The main frame of economic news gradually changed from “reform” to “economic growth”, highlighting the need for job creation, investment and global competitiveness. As is illustrated in Table 6-1, \$20,000 per capita GDP became an important agenda of the media around June 2003. Instead, the voices asking for thorough chaebols reform dwindled.

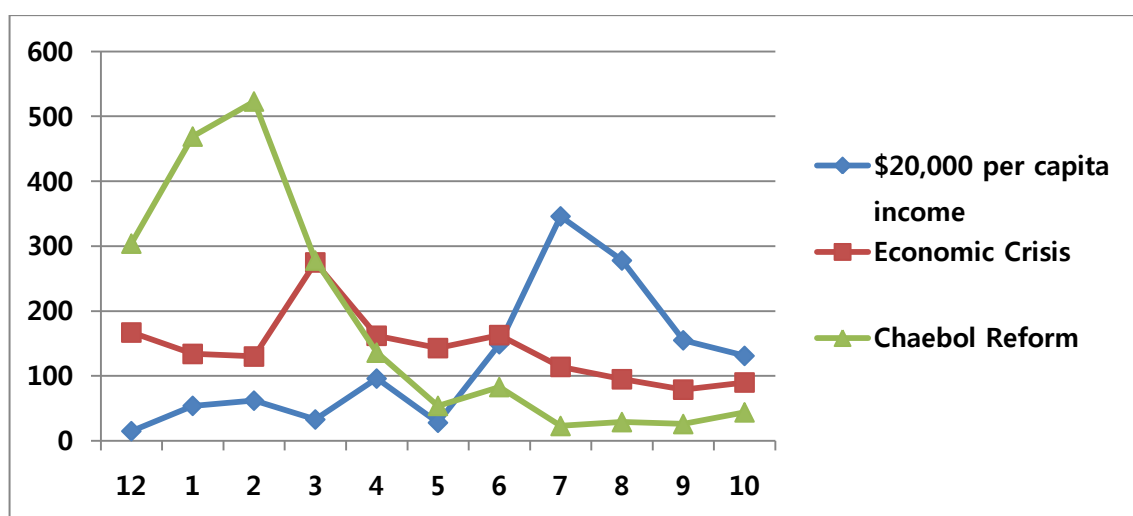
Table 6-1: Frequency of Articles with Economic Discourse

(Dec. 2002~Oct. 2003)

Discourse	Number of Articles by Month										
	12	1	2	3	4	5	6	7	8	9	10
\$20,000 per capita income	15	54	62	33	96	28	149	346	278	155	131
Economic Crisis	167	134	130	275	162	143	163	114	95	79	90
Chaebol Reform	304	469	523	278	136	54	83	23	29	26	44

* The keyword search method available at KINDS is used in counting the numbers of articles published in 8 national newspapers, 2 economic dailies, and 3 broadcast networks. The national papers are *Dong-A*, *Hankook*, *Hankyoreh*, *Kyunghyang*, *Munhwa*, *Kookmin*, *Seoul* and *Sekei*. The economic dailies are *Maeil Business Newspaper* and *Korea Economic Daily*. The broadcast networks are *KBS*, *MBC* and *SBS*.

Figure6-1: Frequency of Articles with Economic Discourse



Using these data, the current researcher can obtain Figure 6-1. It shows that “chaebols reform” appears most frequently in news from December 2002 to February 2003, at the time of hopes (and concerns) about President-elect Roh’s economic reform policies. But it was gradually replaced by the “economic growth” after June 2003.

6.6.2 Capture of the media and policy elites

The discourses that the media disseminated

As far as the \$20,000 per capita income campaign is concerned, most Korean media outlets uncritically followed the general frames of discourse that the business elites established. The discourses that the media disseminate can be categorized into three areas. They were logically inter-related and eventually served the interest of the chaebols. Table 6-2 shows the frame in which the Korean media reported the \$20,000 per capita campaign.

Firstly, the media contended that the government should pay more attention to economic growth than equity. Moon Hyung-pyo, a senior researcher at the Korea Development Institution (KDI), was quoted as saying ‘Now our per capita income is just over \$10,000. If we overly emphasize distribution, it is highly likely that we will follow the (populist) path of the South American states’ (*Maeil Business Newspaper*, 9 Jun. 2003). It was frequently argued that ‘the best welfare policy is creating jobs through economic growth’ (*Dong-A*, 25 Jul. 2003).

Secondly, the media argued that the government should encourage entrepreneurs in order to achieve higher economic growth. To increase investment, the government should resolutely rescind regulations and stop frustrating big corporations with its business reform policy. One economic daily argued in its editorial that ‘Every government pledged chaebols reform policy in its initial stage as if it was a fashion. But it is doubtful how helpful those

promise were for the economy' (*Financial News*, 5 Jan. 2003).

Thirdly, the media highlighted that the trade unions should be more cooperative with management in order to achieve robust economic growth. Employees were asked to refrain from demanding wage increases until the economy grew to the scale of \$20,000 per capita income. The remarks of Ku Bon-mu, the chairman of LG, were widely quoted in the media:

'Entrepreneurs are generally reluctant to invest where the labour union waves its flag. The productivity of China has reached 85 percent of Korean business. Nonetheless, their wages are just one eighth of those in Korea. The labour unions should learn something from this reality' (*Korean Economic Daily*, 23 Jun. 2003).

Table 6-2: The Frames of the Media Report about the \$20,000 Campaign

Point (Number of points)	Frames (Number of arguments)	% of tone
<i>What should be the keynote of socio-economic policy? (71)</i>	Growth (65)	91.5%
	Balance (6)	8.5%
<i>What should be the keynote of business policy? (78)</i>	Encourage entrepreneur (68)	87.2%
	Chaebol reform (10)	12.8%
<i>How could the conflict between social classes be solved? (55)</i>	Concession of labour (50)	90.9%
	Strengthen social security (5)	9.1%

* The keyword search method available at KINDS is used in counting the numbers of articles published in 3 national papers and 2 economic dailies from 1 January to 15 August 2003. The three national papers are *Dong-A*, *Hankook* and *Hankyoreh*. They are conservative, liberal and progressive respectively in their political stances. The two economic dailies are *Maeil Business Newspaper* and *Korean Economic Daily*, which are two major financial papers in Korea. Among 144 articles that have the key phrase of *\$20,000 per capita*, 204 points were analyzed according to the tone of the arguments. Articles with multiple points are counted more than once.

Cha Eun-young, a professor in economics, was also cited as saying that: ‘Economic policy is inclined to be overly pro-labour, but the government should realize that many of the demands of the labour union are excessive unless per capita income reaches \$20,000.’ (*Korea Economic Daily*, 25 Mar. 2007).

Fairly few journalists indicated that the policy shift was an abandonment of the campaign pledge of economic reform. One newspaper quoted an anonymous MP as saying that:

‘Targeting a figure such as \$20,000 is an outdated mobilization strategy while it was once effective in the period of rapid economic growth. This type of policy is a deviation from the presidential election pledge that place more weight on a balanced society and quality of life than rapid economic growth’ (*Hankyoreh*, 1 Jun. 2007).

Kim Sang-jo, an economist at the PSPD, a civil group, was quoted as saying that: ‘A short-sighted stimulus measure without strengthening of economic fundamentals will result in an economic bubble. And the weaker in the society will suffer severe damage from the policy’ (*Hankyoreh*, 4 Aug. 2003).

The chaebols think-tanks, the media and the policy elite

One notable aspect is the role of SERI, the in-house think-tank of Samsung, in the campaign for a \$20,000 per capita income. Many journalists and policy makers believed Samsung designed the idea and orchestrated the overall campaign scheme. The FKI was considerably influenced in its policy and activities by Samsung, because Samsung was the biggest donor to its budget. Its executive deputy chairman at that time, Sohn, Byung-doo, was a former executive of Samsung.

What provided a vigorous momentum for the policy ideas of SERI was the competition among the media to gain the initiative of setting the national

agenda. During the presidential election campaign period, the *Chosun* and the *Dong-A*, two influential conservative presses in Korea, competed against one another to propose a national agenda in their reporting and editorials. The purpose of their competition was to increase their influence by compelling the political elite to accept the agenda they had proposed (*Mediaoneul*, 4 Dec. 2002).

In relation to the campaign for a \$20,000 per capita income, the *Maeil Business Newspaper*, the biggest financial paper, took the initiative. In early 2003, the *Maeil* set the campaign for a \$20,000 per capita income as a main plank of its editorial policy, and promoted it in various ways, such as a series of in-depth reports, overseas case studies, interviews and conferences.

What is significant is that the media was a direct conduit of influence between the chaebols and the policy elites during this campaign. The *Maeil* borrowed the campaign idea from SERI and then persuaded the policy elites to adopt their media campaign as a national agenda. A former journalist at *Maeil Business Newspaper* said:

‘I heard that the *Maeil* browsed broadly plausible ideas for its campaign at the beginning of the new government. Whenever the government changes, the media strives to set the new government’s policy agenda to increase their influence. For this reason, the editorial staff in the *Maeil* kept in contact the SERI and got some hint of the campaign’ (Interview, 15 May 2007)

It is not unusual for the Korean media to contact chaebols think-tanks to get some information or an idea for their media promotion. Lee Won-jae, a former senior researcher at the SERI, said:

‘We occasionally coin policy ideas and bring them to the media outlets. It is true that a lot of the media campaigns were originally proposed by us to the media. The media do not have many ideas; they just ask *Is there any idea that looks smart?* Indeed, supplying the campaign idea is one of our important tasks’ (Interview, 19 May 2007).

After getting the campaign idea from the chaebol think-tanks, the *Maeil* contacted a high-ranking presidential secretary to maximize the influence of the campaign. A former journalist of the newspaper said:

‘Even though the original idea may have come from Samsung, the *Maeil* took the initiative in the media campaign. Editorial executives of the newspaper met Kwon, Oh-kyu, a chief policy-planning secretary of President Roh, and asked whether the government would adopt the campaign as an important national policy agenda. Chief secretary Kwon eventually said O.K and the *Maeil* set forth a vigorous campaign drive’ (Interview, 15 May 2007).

Political calculation and policy shift

Despite the all-out campaign by both the chaebols and the media, Roh was persistent for a while in his political stance. In February 2003, in his visit to the Federation of Korean Trade Unions, the biggest umbrella labor union in Korea, he pledged that: ‘While the business circle is stronger than any other social groups in their influence on public opinion, I now promise I will make the social power balance more equitable’ (*Hankyoreh*, 17 Feb. 2003). Roh also insisted at the “Conference for the small and medium enterprise policy review” that ‘Targets such as a \$10,000 or \$20,000 per capita income must not be an excuse for sacrificing everything other than growth; and it cannot be a justification for inequality’ (*Korea Economic Daily*, 22 Feb. 2003).

But Roh became gradually persuaded by the arguments of the mainstream media and the chaebols. He fretted about the unfavourable appraisals of his first few months of office. Opinion leaders and the media attacked Roh’s government as “unprepared” or “amateurish”, on account of some confusion and awkwardness in its economic policies. His approval ratings plummeted. In opinion polls from the *Hankyoreh*, the approval rate dropped from 71% (Mar. 2003) to 57% (May 2003) and to 40% (Jul. 2003) (*Hankyoreh*, 19 Jul. 2003). Roh could not help but worry about the forthcoming general election in April 2004.

President Roh needed political momentum with which he could show his leadership as a President. The economy was always the main concern of people. In this respect, Roh's government decided to accept the already-set media agenda of a \$20,000 per capita income as its socio-economic policy agenda. Six months after his inauguration, President Roh declared that his government would officially adopt the campaign as a national agenda and as an important reference to socio-economic policy. President Roh also plainly admitted that:

‘The policy of becoming the economic hub of North-East Asia was the thing that I really want to pursue. Actually, I have studied it for a long time. But we have had difficulty in appealing to people, while the \$20,000 campaign has stirred them up’ (*Korea Economic Daily*, 24 Jul. 2003).

By the time of this adoption, Roh's government rearranged its initial socio-economic policy agenda under the umbrella of the \$20,000 per capita income agenda. However, the acceptance of the \$20,000 agenda was not just a change in appearance. The direction of socio-economic policy altered considerably, in favour of growth and the chaebols. Roh's government launched all-round supportive economic policies, including a revised supplementary budget of \$3.9 billion to invest in SOC (Social Overhead Capital), and a consecutive lowering of the short-term policy rate of the central bank to boost the economy (*Dong-A*, 12 Jul. 2003). Step by step, Roh's government put distance between itself and the labour groups. The police crackdown on the railway workers' strike by the police in July 2003 showed the drastic shift of Roh's government to a restrictive stance (*Dong-A*, 3 Jul. 2003).

6.6.3 The chaebols' victory and the “broken promise”

The adoption of the \$20,000 per capita income agenda constituted a policy shift towards the interests of the rich and powerful. This was too simple a departure for the public, who had elected Roh as President several months previously only because he was progressive, reformist and supportive of the common

people. There was hardly any sincere deliberation on the change of the tone of policy. Around the acceptance of the \$20,000 agenda, many of the progressive presidential aides were replaced by technocrats or conservative elites. Park, Joo-hyun, a former high ranking secretary of the president, was quoted later, looking back on this setback:

‘The forces of reaction resisted and charged tenaciously. The progressives should have done the same. We should have endured and stood our ground, once we hoped to build a new paradigm that was imperative for the new socio-economic environment. But, we couldn’t....’ (*Kyunghyang*, 25 Sep. 2006).

Roh’s government could not return to the original pledge of its presidential campaign. And the result was the “broken promise” of a more equitable society. The inequality between the rich and the poor has been considerably exacerbated during President Roh’s term in office. According to the National Statistical Office, the household income of the upper 20% was 8.4 fold that of the lower 20% in Q1 2007. This ratio has worsened during Roh’s term in office from 7.8 (2004), 8.0 (2005), 8.2 (2006) to a historically high level in 2007 (*Seoul Economic Daily*, 9 May 2007).

Contrary to the expectation that President Roh would “wipe away the tears” of the irregular workers, the weakest social class in Korea, they were treated even more harshly by the government. In less than 4 years, from February 2003 to November 2006, 832 workers were arrested and prosecuted amid the dispute between labour and management. This figures almost equaled the total of 892 workers who were arrested and prosecuted during the 5 year term of the previous President, Kim Dea-jung. Among those arrested, 90% were irregular workers (*Kookmin*, 14 Dec. 2006).

The chaebols reform policy almost went up in smoke. The chaebols’ unlawful practices, such as the embezzlement of corporate property by owners’ families, continued as before. Roh’s government was increasingly captured by the

chaebols. The relaxation of the ban on fictitious financing by the chaebols' affiliates was a typical example of the "retreat". PSPD, a leading citizen group which had been stalwart campaigners for the cause of economic justice, was quoted as saying:

'The relaxation is the declaration of surrender of the chaebol reform policy, while the bad practices of the chaebols, such as creating multi-million dollar slush funds and the unlawful handing down of property, remained intact' (*Kyunghyang*, 16 Nov. 2006).

6.7 Conclusion

This chapter investigated how the Korean corporate elites, i.e. the chaebols, influence government policy. Focusing on the cultural and communicative mechanisms of the chaebols' power, this chapter examined the unbalanced ecosystem of policy knowledge in Korea, which feeds the journalists and informs the policy makers. What we found here was that the practical knowledge and the discourses shared by the corporate elites, journalists and policy-makers are as influential as funds, lobby and social networking in advancing the interests of the corporate elites.

In line with the political and economic liberalization, the government policy-making increasingly turned to a game of knowledge and discourse. The corporate elites have developed an ability to produce and disseminate the practical knowledge that informs the policy makers. With ample material and personnel resources, the chaebols think-tanks produce a lot of timely position papers that raised, defined and analyzed the specific socio-economic issues and, as a matter of fact, presented policy measures from their point of view. The headquarters of chaebols also enhanced the impact of this knowledge and discourse by mobilizing strategic PR. They meticulously design its processes, finely targets small parts of elite audience, and systematically organize resources.

The journalists readily treated the corporate elites as a “primary definer” in favor of the trendy and handy information subsidy that their think-tanks fed. Along with the financial dependency of the media companies on the big advertisers, the journalists’ routines, in which they normally spent whole working hours with the PR personnel in the chaebols’ headquarters, have promoted the uncritical co-option of journalists by the chaebols. The policy makers were not afraid of making use of the policy knowledge and discourses of the chaebols. For them, the ready-made policy knowledge of chaebols provides not only convenience, but also a defence against failure, because the business world and the media may possibly promote it. This suggests the existence of an ‘elite discourse network’, in which the media mediates elites, who are the main sources and targets at the same time (Davis 2007: 55).

This mechanism of influence or micro cultures helps to privilege the arguments of chaebols and impose certain interpretations as true, while disqualifying others. As was shown in the case study in this chapter, the domination of policy discourse has occurred to the extent that a reformist government shifted its political stance, after accepting the policy agendas which had been coined by the chaebols.

The unbalanced ecosystem of policy knowledge and the dominant influence on policy of corporate elites raises concerns about democracy. As the unequal influence overwhelmingly advances the advantage of the corporate elites, the resource poor group or the poor have little room to influence the government policy.

Chapter 7

The Financial Market: Disciplining Firms and Households

7.1 Introduction

This chapter documents the ‘growing influence of the capital market on firm and household behaviors’ (Froud et al. 2002: 5) after the full liberalization of the Korean financial market. The purpose of this research is to illustrate how cultural and discursive factors are engaged in the exercise of neo-liberal financial power.

The financial market in Korea changed considerably in its size and characteristics after the economic crisis in 1997. As the Korean government abolished most regulations, global financial capitalists have increased their presence in the equity, bond and foreign exchange markets. As a result, the market became more closely bound to the global financial system. Hand in hand with this, the financial market has increasingly intertwined itself with the daily lives of ordinary Koreans with the advance of “financialization”, i.e. the incorporation of the household savings into the stock market.

This change was accompanied by the transformation of ideas, values and practices that were embedded in the market. The most notable change was the ascendancy of the “shareholder value” doctrine and a corporate governance system associated with shareholder value. Through the consistent endeavor to increase shareholder value, it was argued that firms and managements can benefit the whole economy. As a result, increasing share price became the supreme objective of corporate management.

The sudden rise in the financial market and financialization gave financial elites greater control over ordinary savings and company managers. The share price informed the corporate management’s action -- maximization of shareholder value by complying with the new financial rationale. The day to day change of interest rate and exchange rate in the financial market also had a disciplinary effect. The policy makers spontaneously complied with the policy paradigm that the market was fond of, e.g. monetarism, supply-side economics, deregulation and privatization.

To map out the mechanism of this influence, this chapter regards the financial market as a discrete elite field. The focus of research is placed on the localized cultures, ideology, metrological practices, and communication of the financial market. In this way, this chapter explores how routinized decision-making in the discrete sites of the financial elites gave incentives to, appraised, punished and disciplined the firms and households, and what social consequences this has generated. In the two case studies, this chapter tries to illustrate how the rise of a specific financial rationale, China momentum, in the financial market in the mid 2000s has influenced household savings and corporate management.

7.2 Inside the Financial Market

7.2.1 Actors and actions in the market

Since the early 1980s, the financial market has been an all-important social institution. Finance, once recognized as a secondary economic institution assisting manufacturing industries, has significantly increased its power ‘to determine outcomes in production, consumption, and social welfare’ (Knorr-Cetina and Preda 2005: 3).

Despite the recent rhetoric of ‘democratization of the market’, i.e. the advance of “financialization” (Greenfield and Williams 2007: 416), the financial market is still a discrete elite field dominated by a handful of institutional investors and intermediaries. And the inner working of the market is normally ‘insulated from observation’ (Abolafia 1998: 78).

The traditional account of actors and social relations in the financial market is based on the neo-classical assumption of “homo economicus”: rational individuals exchanging goods with sufficient information to further their self-interest and, in doing so, ‘increasing total utility’ (Brue 2000: 299). The

Efficient Market Hypothesis (EMH), a decades-long hegemonic doctrine in both the academy and the trading room, constitutes the projection of the “homo economicus” idea to the financial market (Knorr-Cetina and Preda 2005). In this perspective, the global financial market comes to approximate the neo-classical vision of the perfect market.

But recurring boom and burst cycle and “herd behaviours” show that actors in the market are considerably influenced by other participants and by social relations. The “reflexive process” illustrated in Keynes’ famous metaphor of a “beauty contest” demonstrates the collective nature of the market (Allen, Moris and Shin 2003). Thus, it would be more realistic to claim that ‘people are imperfect processors of information and are frequently subject to bias, error, and perceptual illusion’ (Shefrin 2002: x). Actors, under uncertainty, often rely on a heuristic way of thinking (Kahneman, Slovic and Tversky 1982), and respond differently according to the way that a problem is “framed” (Shleifer 2000; Weber and Daws 2005). They fall prey to over-confidence and “common judgement errors” (Shiller 2005).

In the market, actors calculate and act within the locally shaped discipline or logic. For example, Abolafia’s cultural approach (1998: 76) to the American financial market showed that constitutive rules, roles and local rationalities are ‘created by market makers and, in turn, come to shape their behaviour’. According to Callon (1998: 23, 25, 26), calculative agencies in the market are formed by economics and by associated calculative tools (metrological devices). Here, economics and measuring tools do not merely observe or record a ‘reality independent of themselves’, rather they play the role of ‘performation’ (metrological performativity). In other words, ‘they contribute powerfully to shaping, simply by measuring it, the reality that they measure’ and ‘contribute to the *disciplining* of behavior and decisions’. For instance, as EPS (earning per share) emerged as a popular measuring tool in the stock market, Meyer (1994, in Callon 1998: 24) argues that, ‘managers adapted to it ... by deferring maintenance, depreciation, research and development, expenditure and the like’.

The approach of metrological performativity supplies a handy conceptual framework for researching the relationship between market and society. However, Callon's approach also omits many aspects of economic action. The market is not unique or simple and actors in the market are not straightforwardly guided by the principle of "performativity". An empirical study of the London Stock Exchange (LSE) also supports the idea that the markets are 'immersed in social relations that go well beyond the exchange act' and 'calculation contains both metrological and non-metrological elements' (Davis 2006: 16).

7.2.2 Shareholder capitalism

Modern corporations operate in a complex web of stakeholders, including shareholders, lenders, employees, managers and local communities. The system in which firms organize their governance and resource allocation differs according to the pattern of capitalist development in each country.

Over the past three decades, "maximization of shareholder value" became prevalent as a principle of corporate governance around the world. This originated from the agency theorists (for example, Jensen and Meckling 1976) who argued that the foremost mission of agents (managers) was the maximization of the interests of the principals (shareholders). Here, the rate of return on corporate stock was the measure of management performance. They also insisted on the need for a corporate control market by means of mergers and acquisitions (M&A), to discipline managers who perform poorly.

During the 1970s, the idea of shareholder value received support from the rapidly growing number of institutional investors. The mutual funds, pension funds and life insurance companies 'made possible the take-overs advocated by agency theorists and gave shareholders more collective power to influence the yield and market value' of the stock they possess (Lazonick and O'Sullivan 2000: 16). At last, this specific 'business cliché and social mantra' (Froud et al.

2000: 81) became an established credo⁵² of the finance-led neo-liberal economy and growth regime, with its capability to change the priorities and behaviours of economic actors.

Although most of the strategy of shareholder value was based on institutional investors' own interests, this is 'set in an interpretative wrap that presents shareholder value as a benign revolution in corporate priorities with entirely beneficial consequences for the broader society' (ibid: 86). The "core-competence theory" and "business process reengineering" were suggested as effective management strategies delivering improved performance in the interest of shareholders. Another key intermediary, consultancy firms, sold corporate managers value-based management measured by metrics such as EVA⁵³ or MVA⁵⁴.

Corporate managers became increasingly sensitive to the rationale of the financial market. The shareholder value model implies 'a new form of competition of all against all whereby every quoted firm must compete as an investment to meet the same financial standard' (Williams 2000: 6). For example, the financial media are able to compare managers' performance in a table, as the metrics supply powerful tools of ranking (Froud et al. 2000). Moreover, the management pay became closely tied to the share price of the company (e.g. stock options), as the agency theory suggested. As investors took profit projection seriously, market analysts successfully established their importance. As scrutiny of the market increased, 'firms began to try to manage and manipulate analysts' projections' (Zorn et al. 2005: 281).

The disciplining power of the shareholder value rationale led to considerable changes in corporate structure and strategy. In the U.S., the strategic orientation

⁵² In the "OECD Principles of Corporate Governance" in 1999, the OECD emphasizes that corporations should be run, first and foremost, in the interest of shareholders (OECD 1999).

⁵³ Economic Value Added. This is the value created in excess of the required return of such investors as shareholders and debt holders.

⁵⁴ Market Value Added. This refers to the difference between the capital contributed by investors and the current market value of a firm. If this measure is positive, the firm added value.

of top corporate manager has clearly shifted from ‘retain and reinvest’ to ‘downsize and distribute’ in the name of ‘creating shareholder value’ over 1980~1990 (Lazonick and O’Sullivan 2000: 18). More importantly, this new financial regime has engendered clear socio-economic consequences like the shrinkage of investments and the weakening of job security. As the rhetoric of value management provides little practical guidance to managers, corporate restructuring or take-overs usually slide into the shedding of labour, the spinning off of peripheral departments and the selling-off of physical assets to push up the market value of the company’s stock

7.3. The Global Integration of the Market after the Crisis

7.3.1 The entry of global financial capital

The economic crisis in 1997 brought about a sea change in the Korean financial market. With the relaxation in investment regulations and liberalization of capital movements to overcome the crisis, the equity, bond and foreign exchange (FX) markets have considerably grown in both the size of transactions and their importance in the national economy. The market has integrated substantially into the global financial system, as a massive amount of foreign financial capital flowed into the Korean financial market.

The increase of foreign investment in the Korean equity market was conspicuous while, before the crisis, the inflow of foreign capital was mainly bank loans. According to the Bank of Korea, for example, the portfolio investments of foreigners in Korea has rapidly increased from \$ 14.1 billion (2005) to \$ 30.4 billion (2007), and to \$ 49.3 billion (2009) (*Maeil Business Newspaper*, 24 Jan. 2010). Accordingly, the share of the global investors in the Korean equity market has considerably increased. In the Korea Composite Stock Price Index (KOSPI), the main stock exchange index in Korea, global investors possessed 42% of aggregate market value at the end of 2004. This was more than three times the 13.7% holding at the end of 1997, when the

economic crisis broke out. In terms of the amount of investment, foreigners possessed \$163.5 billion of equity in the Korean financial market in 2003. This was the largest among the 16 emerging countries (FSS home page)⁵⁵.

Table 7-1: The Increase of Shareholding of Global Investors

(% of aggregated market value of KOSPI)

Year	1992	1995	1997	1998	1999	2000	2001	2002	2003	2004
Share (%)	4.9	11.9	14.6	19.6	21.9	30.1	36.6	36.0	40.1	42.0

Financial Supervisory Service (FSS)

The global investors, in the main, have purchased shares of the best-sought Korean companies. In early 2006, foreigners owned 54.4% of Samsung Electronics Co., the biggest Korean manufacture; 85.8% of KB, the biggest Korean bank; and 46.4% of Shinsaegae, the biggest Korean retail chain. Foreigners possessed more than a 30% share in 76 corporations among 780 listed in KOSPI in December 2010 (*Maeil Business Newspaper* 16 Jan. 2011).

As the “fire sale” of ailing companies and the privatization of public enterprises mushroomed after the crisis, foreign capital has actively increased the management buy-out of corporations. The annual figure of FDI has risen to \$15 billion in 2000 from less than \$2 billion in early 1990 (Ministry of Industry, Commerce and Energy 2005).

Besides the inroads made by global investors, the growth of local financial capital was also conspicuous in the early 2000s as household assets were increasingly incorporated with equity investment, i.e. “financialization”. The mass investment culture which begun to blossom from around 2003~2004 has invited the rapid growth of indigenous equity funds. The trust money of equity investment funds has grown 16.32 times in less than 5 years (Korea Financial Investment Association home page)⁵⁶. The number of so-called ‘giant’

⁵⁵ Financial Supervisory Service (Financial Statistics Information System: <http://fisis.fss.or.kr/>)

⁵⁶ Korea Financial Investment Association (<http://www.kofia.or.kr/kofia/index.cfm>)

indigenous equity funds, with trust money over 1 trillion won, (\$900 million) reached 29 at the end of 2007 (*Seoul Economic Daily*, 12 Oct. 2008). The influence of these indigenous funds on share price and corporate management in Korea almost matched that of foreign capitalists by 2006.

Table 7-2: The Growth of Fund Accounts and Trust Money

	Numbers of equity fund accounts (million)	Trust money of total investment fund (trillion Korean won)
Dec. 2003	0.19	145 (9.4: equity fund)
Dec. 2004	0.86	187(8.6)
Dec. 2005	5.28	204(26.2)
Dec. 2006	7.29	235(46.6)
Dec. 2007	17.1	298(116.4)
Dec. 2008	16.7	361(140.2)

(Korea Financial Investment Association)

Well-established Korean financial capital also made inroad into overseas financial markets in such developing countries as China, India, Vietnam, Brazil and Russia. The number of overseas investment funds was 862 by the end of 2007, a 5.5-fold increases in one year (*Korea Economic Daily*, 27 Dec. 2007). Their investment money has also mushroomed, attracting 70 trillion won (\$64 billion) as of November 2007. This rose almost two-fold in 7 months (*Seoul Economic Daily*, 10 Dec. 2007).

7.3.2 Global-national inter-subjectivity

These changes have made the Korean financial market more sensitive to the global market and the world economy. Ever-intensifying connectivity and interaction between the global and local, along with the growing interchange of on-line financial information, facilitated both markets to move as one entity. As such, participants in both markets hold an identical investment rationale, and follow identical investment fashion. This was in line with the observation by Knorr-Cetina and Bruegger (2005: 265, 274) that, in the global foreign exchange market, ‘participants’ reciprocal observation of the market on screen’ in this highly disembodied social system, overcoming geographical separation, created an ‘inter-subjectivity, i.e. global we-relationship’.

Korean fund managers and analysts became increasingly responsive to the volatility of global financial and commodity markets. The first priority of the professional investors in the morning was, without exception, to monitor market movement in New York and Europe. Lee Jin-woo, an FX (foreign exchange) market analyst, said:

‘When I get up, my mobile phone informs me of last night’s closing data of New York financial market. Then I turn on my PC and study what kind of economic indicators and events have influenced the market’ (Interview, 16 Jan. 2009).

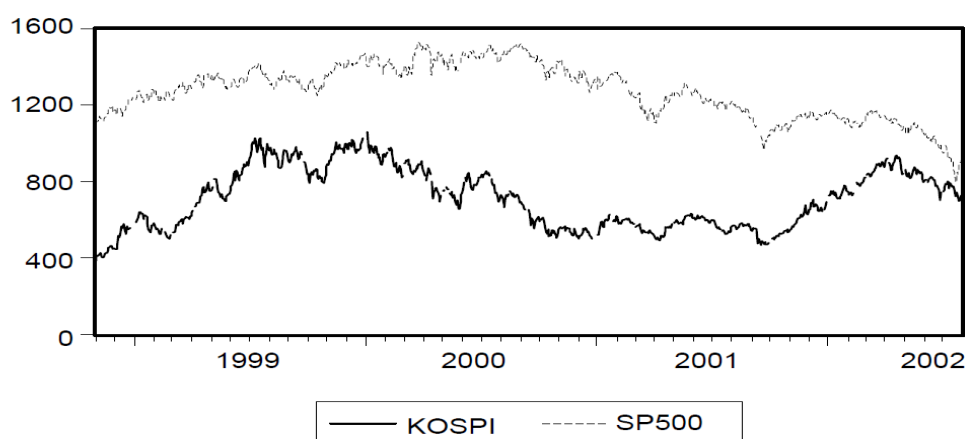
Professional investors have to keep watching global markets during their trading hours because the futures market in New York and Europe, such as NASDAQ 500, runs around the clock. As such, daytime movements in the Asian market, and night-time movements in the future index of New York and Europe, are reflexive. Ji Young-gul, a senior equity fund manager, said that ‘Markets in New York, Japan, China and Korea are all interlocked with each other’ (Interview, 13 Jan. 2009).

The global integration of local markets has facilitated the co-movement of the

Korean equity index with that of the New York stock exchange. According to Lee Chung-un (2002: 22), the coefficient of correlation of stock return between KOSPI and S&P 500 remained above zero since 1998 and rose to 0.6 in early 2000s⁵⁷. Figure 7-1 illustrates how the two markets have moved in lockstep since the economic crisis.

Figure 7-1: The correlation between KOSPI and S&P 500

(Since Nov. 1998)



(KIEF, Lee C-U 2002: 18)

This co-movement can also be explained by the investment pattern of global financial institutions which increased their influence in the Korean market. The global investors tended to synchronize their “buying or selling” of Korean equity with the market mood and fashion of global financial centres. On top of that, the strong influence of global investors on price movement gave birth to a “me-too-ism” in which local traders vigilantly copied the views and portfolios of global investors. Kim Han-jin, a senior equity market analyst, said;

‘We should admit that the Korean financial market is just a part of the global system. It would be a vain effort if someone tries to evaluate Korean equity without understanding the rationale and hegemony of foreign investors’ (Interview, 9 Jan. 2009).

⁵⁷ The coefficient of correlation moves between minus one and plus one. The closer the coefficient approaches to zero, the weaker the extant of correlation is. But the closer it approaches to one (perfect correlation) or minus one (perfect adverse correlation), the stronger the correlation is.

7.4 The Exit Power of Financial Capital

Global investors tend to expect roughly to gain ‘the same risk-adjusted real return’ in every financial market (Leys 2001: 21). When a country offers significantly lower returns, the country will run the risk of massive capital outflows followed by sudden depreciation of the currency. What this implies is that policies that significantly influence the return of financial investments, such as fiscal programs and welfare budgets, are tightly constrained within the ‘golden straitjacket’ of market sentiment (Friedman 2000: 101).

Policies that analysts in the market dislike automatically cause a negative impact on interest rates and stock indexes. The credit rating agencies offer practical guidelines for the assessment of any new policy. Analysts regularly estimate a “political risk factor” for every country, expressed as an interest rate premium on the government’s bonds. A possible political change, if it is thought to be unfavorable to capital, is normally a discount factor. Their surveillance of economic indicators, policies, and social and political change became so rigorous that ‘the international economy is seen as an all-powerful force that national politics cannot compete with’ (Kantola 2001: 65).

In Korea, after the economic crisis, the financial market has also emerged as an automatic surveillance machine of public policies. It was notable that macroeconomic policies became more and more dependent both on various economic indicators, global and local, and the interpretation of them in the financial market. In order to build confidence in the market, the government had to make it clear, through the policies they enacted, that they held market-friendly values. Kang Myeon-mo, a director of Bank of Korea, the central bank, said:

‘(after the crisis) the attitude of the central bank toward the financial market has considerably changed. We vigilantly monitor the market and try to give them what they want. ... We understand the importance of gaining confidence from the market. But building confidence is a long journey.

However, without this, no policy will be effective' (Interview, 5 Jan. 2009).

In a similar vein, the government began to pay more attention to the foreign financial media, including *Bloomberg*, *Reuters* and *AFX*. The Korean government had painful memories of *Bloomberg*, the New York-based financial media company, triggering the full-scale exodus of foreign financial capital when the economic crisis was approaching in October 1997. Bloomberg uncovered the fact the central bank's foreign exchange reserve, available to defend against speculation, was dwindling rapidly. Lee Joo-hee, a former journalist in *Bloomberg Korea*, recalled:

'After the crisis, the government began to post the spokesperson in charge of the foreign media and introduced regular briefing for them. In short, the attitude of the government toward foreign media has changed remarkably' (Interview, 10 Jan. 2009).

At times, the sentiment of the financial market was appropriated by the government, or the business world, as a good excuse for structural adjustment policies that were particularly painful to the economically weak. For instance, resistance against the flexibility of labour, i.e. policies that increased discretion of the management over redundancy or on hiring casual(irregular) labours, was often condemned as recklessness, that would undermine the confidence of the foreign financial capital in the Korean economy (*Seoul*, 20 Jul. 2001).

7.5 The New Law of the Market

After the financial openness, 'the law of the market' (Callon 1998) has changed. What was distinctive about global financial capitalists, in the eyes of Korean professional investors, was that they made investment decisions based on elaborate evaluation of the firms, mobilizing profit-oriented metrological devices. The new law of the market required local markets to leave behind the pre-crisis investment patterns, that rely on the charts of price movement or

insider's information (*Dong-A*, 10 Apr. 2001).

The change of investment rationale that emphasized the earning potential of a firm has brought about a new consensus about measuring and regulating the market. A couple of metrological devices which corresponded with the valuation-based investment were introduced and disseminated. Such measuring tools as PER⁵⁸ and ROE⁵⁹ became prevalent, in line with the tightening of regulation on accounting practices and disclosure of management information. More meticulous measuring tools, such as EVA, MVA, ROIC,⁶⁰ or EV/EBITDA,⁶¹ added precision to the earning-value orientation (*Money Today*, 9 Nov. 2005).

In the new measuring process, the most important factor in buying or selling shares was the earnings forecast in the forthcoming 6~12 months. This is because analysts and fund managers tended to estimate optimal share price by multiplying estimated EPS⁶² with compromised PER. Ji Young-gul, a senior fund manager, conformed that; 'It is of the utmost importance to estimate how much profit the company will make in the coming twelve months' (Interview, 13 Jan. 2009). This explains why analysts and financial journalists were so eager to get even small a hint on earnings prospects when they visit the company, or have conference calls with corporate managers. The application of PER, another crucial but extremely subjective valuation tool,⁶³ was also changed in favour of the earning potentials of the firm. A senior equity analyst was quoted as saying that:

'Before the crisis, the compromised PER was determined mainly by the

⁵⁸ Price Earnings Ratio

⁵⁹ Return On Equity

⁶⁰ Return on Invested Capital

⁶¹ Enterprise Value/Earnings Before Interest, Tax, Depreciation and Amortization

⁶² Earnings Per Share

⁶³ The PER is determined mainly by qualitative factors such as growth potential of the industry. Thus it tended to be compromised among professional investors and there is no formal procedure to gauge it. For example, global investors have applied a low level of PER since 1990s in valuing the Korean equity market than other emerging market countries on account of the so-called "Korea discount" factors, such as the menace from North Korea.

growth potential of the industry or firm. Now, the market leadership and the EBITDA determine the level of the compromise PER of the firm. It is true that the perspective of valuation has totally changed' (*Money Today*, 11 Apr. 2006).

The network of surveillance

Valuation-based investment literally required scrutiny of corporate management within institutionalized settings such as specialist networks, impartial disclosure of management information and stricter regulation on corporate accounting. This consolidated further the “investment chain” composed of analysts, fund managers and corporate IR personnel with a new consensus of metrological discipline.

In this investment network, the analysts played an important role in bridging professional investors and firms. After the crisis, Korean securities firms and asset management firms competitively strengthened their research capabilities. The number of analysts in Korean financial institutions rapidly increased from 794 in 2004, to 934 in 2006 and 1115 in 2007(KFIA home page). Analysts in foreign financial firms enjoyed market leadership for several years after the crisis. Those analysts were believed to have a special eye for economic trends and valuation of companies, with assistance from their global networks. Ha Jung-min, a financial journalist, said;

‘For a while, the analyses from the foreign investment firms had a considerable impact on market sentiment. Accordingly, journalists were busy in putting out a news flash immediately after their reports were issued’ (interview, 29 Jan. 2009).

In around 2000~2003, a lot of big corporations strengthened their investor relationship (IR) activities by posting CFO⁶⁴ and professional IR personnel. A

⁶⁴ Chief Financial Officer. The main task of CFO was to manage stock price and market expectation. The CEO-CFO structure was introduced partly because this seemed to send a positive signal to financial markets that the company respected shareholders (*Korea Economic*

survey in 2002 showed that, among 301 listed companies, 142 (47.2%) had posted IR people and 78 (25.9%) had IR department (*Financial News*, 17 Sep. 2002). The firms became more proactive in disclosing management information through quarterly earnings announcements, official publications and personal meeting with analysts. The CEOs, especially, came to the forefront of IR activities, participating regularly in conferences for their investors. A survey in 2003 showed that 33% of CEOs identified IR as a top priority in financial management (*Herald Economic Daily*, 10 Feb. 2003). Kim Han-jin, a senior analyst, said:

‘When I was a junior analyst, (in early 1990s), I had to spend most of my energy in explaining why I was going to visit the company. They usually asked me *why should we give you our information?*. ... Now, the climate considerably changed. Some CEOs even accompany analysts when they go abroad to have a road show’ (Interview, 9 Jan. 2009).

Investment decisions were made through continuous interaction between analysts, corporate IR managers and fund managers. Analyst visited investment firms and present their specific perspective and projections. If analysts’ arguments and evidences were persuasive, fund managers gave an order to the securities firm in which the analyst worked, giving rise to considerable transaction commissions. Fund managers also evaluate the performance of analysts at a later date, based on the accuracy of their recommendations about specific shares. Analysts are sensitive to this evaluation because their salaries were directly linked to the evaluation. Other than portfolio investors, global private equity funds and hedge funds enhanced their influences in the Korean financial market with their “shareholder activism”.

Discipline and adaptation

The doctrine of shareholder value and the new law of the market turned out to be fairly effective in disciplining the corporations. More and more Korean

Daily, 1 Feb. 2002).

corporations have adapted their management strategy and style to the rationale of the globalized financial market. For the corporate managers, appraisal by the financial market by share price became very important because it determines the reputation of the company, the morale of their employees, and the extent of their vulnerability to a possible take-over bid.

As many firms have linked the performance of the company to remuneration of the management, the share price became the key barometer for the top management. As a result, so-called “share price driven management” became a fashion among Korean corporations. During the researcher’s career as a business journalist, it was not unusual to witness top bankers, or top corporation managers, set their desk-top screen to streamline the share price of their firm, and for them to look at it frequently throughout business hours.

By responding to the law of the market, the corporate managers became increasingly sensitive to the signifiers related to the “earning value” such as operational margin, earning per share, ROE and ROA. As more and more Korean firms concentrated on increasing earning value by adopting value management orthodoxy, i.e. business restructuring and enhancement of core competence, their ROE has rapidly risen. The ROE of total listed companies in the Korean financial market was just 1.5% in 1997. But it rose to 5.7% (2001), 12.7% (2002), and 15% (2006) (*Economic Review*, 30 Aug. 2007). This was dubbed ‘revolution of ROE’ in Korea (*Dong-A*, 27 Mar. 2002).

7.6 Culture and Communication in the Market

Most of the headquarters of the Korean financial firms are concentrated in a small district, *Yoedo*, in Seoul. The culture and communication of the 8.4km² of financial hub is as intensive, cohesive and exclusive as any global financial centers, e.g. City of London and Wall Street of New York. From this discrete and exclusive cultural and communication network, specific consensual

practices, belief and ideology emanate.

7.6.1 The exclusive but intensive communication network

Yoedo is a small universe where most of the routine takes place within a web of professional investors. The bond market and foreign exchange market are operated by 200-300 active traders, brokers, analysts and financial journalists. The equity market has more extensive participants including individual investors. But, the share price is virtually determined by a critical mass of 2000~3000, including 1,000 fund managers and another 1,000 analysts in local and global financial institutions (KFIA home page).⁶⁵

Literally, everything in the world, including political, economic and international affairs, is influential on the market. But, it is not until information is interpreted, and consensus is made by the market participants that these affairs influence the market. Practically, keeping continuous contact with the players in the market is the most efficient way of tracking the market, and hence improving the likelihood of good performance. In this respect, people in *Yoedo* usually work, talk and eat together within small groups of players. Some of them even spend their weekends together, playing golf or going out fishing. A specialist language, code of practices and disposition for social events are shared via the frequent contacts with each other. Lee Kwan-woo, a senior fund manager, said ‘Although the degree of familiarity may vary, most of the players in *Yeoudo* know who is who in their field’ (Interview, 6 Jan. 2009).

It is a dizzy place, full of information and intensive communications. Almost all of the national and financial papers are subscribed in each office. Every morning, e-mail boxes are stuffed with hundreds of research reports from economists, strategists and analysts. The PC monitors ceaselessly pour out news flashes and economic data supplied by the specialist providers and the on-line financial media. During trading hours, the market produces another ton of

⁶⁵ Korean Financial Investment Association
(<http://www.kofia.or.kr/kofia/index.cfm?event=inf.fsi.page01>, retrieved 12 Apr. 2010).

information, such as change in price, volume of transaction, the spread between bid and offer, and the movement of specific investors. A lot of information, interpretations and rumours are continuously exchanged through the instant messengers and the phone calls. Lee Jin-woo, a foreign exchange analyst, said ‘My job is to be immersed in news and information except during the hours I am sleeping’ (Interview, 16 Jan. 2009).

But these ‘informational cascade’[s] (Oberlechner 2002: 408) in the *Yoeudo*, ironically, nurtures the need for a segmented communication network. With the global integration of the financial market and the development of information technology, news and information become commodities in the market. In other words, no matter how much news and information there is, it does not guarantee prominent investment decision. What is important is a sense of ‘trigger’ that is obtained by ‘negotiating a series of data and a series of interpretations of a mix of data’ (Sassen 2005: 27). Park Sung-jin, a senior fixed income trader, explained that:

‘I believe an insight comes suddenly when one systemically update information. ... This arises like a spark but it is a flash aided by accumulation of knowledge. Thus, it is different from the gut feeling at the casino. ... Talking to a group of intimate colleagues is crucial. Through the dialogue, my idea is developed and eventually it triggers a spark’ (Interview, 15 Jan. 2009).

Many of the fund managers and analysts whom the researcher interviewed pointed out the importance of private communication as an incubator for a decision-making. Lee Jin-woo said again: ‘I have 5~6 friends whom I call my *inner circle* ... Sometimes I feel they are as intimate as my family’ (Interview, 16 Jan. 2009). This illustrates that social connectivity still has a strong influence on the market movement, even though the market can be reached from anywhere through electronic systems (Sassen 2005).

7.6.2 Belief and ideology of the market

As *Yoeude* became deeply integrated into the global market after the crisis, a belief that is friendly to market and shareholder value had thrived. The rise of the “financial market micro ideology” was in line with the internalization of specific value and practices that were presented as the “global standard” by Wall Street and the City.

The growth of the financial market has reinforced the credo that placed the financial market above every social, economic institution. This “market centrism” assumes that the financial market was a prop of the national economy in which the idea and actions of each economic actor were judged by the “vote of price” day after day. Hence, it was argued that ‘the index of share price is a barometer which exactly reflects the political, social, economic and cultural potential of a country’ (*Money Today*, 20 Dec.2002).

This mode of thought was associated with the belief that what the market liked was beneficial to the public as well. And unbridled pursuit of profit is supportive to the market. In this sense, privatization, deregulation and low levels of taxation were welcomed. In contrast, political intervention, regulation, redistribution, collectivism and strong unions were shunned as anti-market and therefore anti-public. A senior fund manager was quoted as saying:

‘The government should enforce the law more strictly in order to revitalize market. ... Labour union should now abide by law and order. ... Only the competitiveness of private sector can defend the market principle against the interventionists’ (*Money Today*, 20 Dec. 2002).

In terms of corporate management, it was believed that the sound operation of financial markets could automatically distinguish between efficient and inefficient management. This belief gave birth to two radical doctrines regarding the relationship between shareholder and management. One was that, when a firm failed to develop a profitable business model, i.e. the rate of return

fell short of the “cost of capital” (WACC),⁶⁶ it was preferable to distribute the cash reserve to shareholders as a form of dividend or share buy-back. This distribution of cash, market participants believed, would eventually enhance the overall efficiency of economy as the “invisible hand” redirects capital from incompetent managers to competent managers, or from a mature industry to a growth industry. Chang Ha-sung, a leader of shareholder activism, argued:

‘If a firm finds it difficult to venture into new business, then paying a reasonable dividend is better for the national economy. Retaining huge amounts of cash without a concrete investment plan may cause the firm to be undervalued at present and impair the growth potential of the national economy in the long run’ (*Chosun*, 26 Sep. 2006).

The other doctrine was that take-overs (M&A), including hostile ones, were an effective means of disciplining corporate managers when they were inefficient and the share price was considerably undervalued. Once a firm was taken-over, the financial market believed, new management could increase the value of the firm by restructuring the business, and this would increase the overall utility of the economy.

7.6.3 The financial media: a market player

The turn towards the market after the crisis was accompanied by the blossoming of financial journalism. The global financial media, such as *Reuters*, *Bloomberg*, *Financial Times* and *Wall Street Journal*, enjoyed a startling increase in Korean audiences thanks to the growing influence of foreign capital. Taking full advantage of the development of information technology, local on-line financial newswires, including *E-daily*, *Infomax* and *Money Today*, had also sprung up. In line with the “financialization” of household assets, the national press and broadcasters also increased their coverage of the financial market.

Although the coverage of the market has increased considerably, however, the

⁶⁶ Weighted Average Cost of Capital

core part of the financial market was still outside public awareness. Usually, the mass media were alienated from the professional investors, whereas the financial media were detached from the public. Lee Jin-woo, a foreign exchange analyst, said that:

‘The economic sections of national newspapers and broadcasts are the least reliable information source in terms of promptness and depth. Most of their news cannot be described as information for the professional investors. Hence, the market people often regard news in the mass media as a *reverse indicator*’ (Interview, 16 Jan. 2009).

News of the financial media was circulated amongst a limited numbers of “market people”, who had considerable knowledge and interest in economy and finance. To engage with the financial news, one must be familiar with acronyms, technical jargons and coded terms which are sprinkled all around the articles. In this sense, financial journalism, as Wayne Parsons (1989: 3) put it, was a ‘unique interpreter, less of mass opinion than of the views and values of more limited and narrower elite’.

The behavioural and psychological particularity of the market positions the financial media as market participants. Firstly, they play the role of a mediator of ‘anticipatory reality’ (Oberlechner 2002: 419). According to behavioural economists, it is not reality but expectation that moves price in the financial market. In the world of anticipatory reality, almost every important change takes place before an actual event happens or an announcement comes out. The main role of the financial media is thus, instead of setting a new agenda, to facilitate the integration of expectations and to confirm existing expectations.

As shareholder value became the highest priority after the crisis, Korean financial journalists relentlessly pursued the information that could give a hint about the profitability of firms. Their main audiences -- analysts, fund managers and investment bankers -- all placed the highest priority in expecting and confirming the earnings of the firms. The firms which know well this

characteristic of the market tried to mobilize ‘interpretive politics’ (Abolafia 2005: 208) by managing the expectation of the market. Lee Joo-hee, a financial journalist, said;

‘When I interview the top-management of a company before the economic crisis, I asked about broader issues, such as growth potential, innovation of product and even his philosophy on management. However, after the crisis, the earning prospects of this quarter, the ratio of dividend and any prospective M&A became the first and foremost question as the financial journalists know what the market want to know’ (Interview, 20 Jan. 2009).

The financial media also play the role of building consensus in the market. Theoretically, this role is related to the reflexive nature of the financial market. In other words, financial investors are wary of other market participants’ ‘assumptions and expectations’ on specific issues or ideas (Allen, Morris and Shin 2003: 3). The financial media’s role of consensus building has facilitated the penetration of the rationale, and metrological devices, of global investors into the Korean market in a relatively short period.

7.6.4 The context of group psychology

The professional investors in *Yoedo*, as stated above, have developed discrete and cohesive culture and communication networks. They shared market information, a belief in neo-classical economics, and the credo of shareholder value. This homogeneity of market elites often increased the chance of one-sided expectations and decision-making. If the reflexive characteristics of the market facilitate lop-sided expectations, market people plunge into herd-like behaviour.

The financial media often accelerated herd behaviour and the financial bubble. The relationship between media reports and their sources clearly showed the circularity of collective information processing in the market. This is a situation where the source is the audience and the audience is the source at the same time (Davis 2007). This loop of information processing was identified as a root of

the “common judgment error” that leads to specific group psychology and group behaviour. As Michel Abolafia (2001: 24-25) noted, ‘market rivals make buy and sell decisions by watching each other’. The “reflective reality” mediated by the financial media reinforces and snowballs specific valuations or attitudes, especially those of the dominant players in the market, as an interpretative short cut or main reference point.

The Korean financial media was also accused of aggravating herd behaviour and the financial bubble, including in the late 2000s as will be stated in the case study section of the chapter. Financial journalism played the role of “cheer leader” when the bubble grew. Their optimism at the time of the financial bubble was a systematic error in which the financial media benefited from the growth of advertisement revenue and the demand of information that the bull market generated. Also, the market situation, where the sources were just a few professional investors, limited the watchdog role of the financial media, in that the journalists were reluctant to break ties with the key sources (Kim S-H and Ahn B-U 2007: 25-27).

7.7 Social Consequences of the New Law of the Market

The diffusion of shareholder value into *Yoedo* was accompanied by the institutionalization of incentives, surveillance, and a system of discipline upon corporate management. This new system has considerably changed the priority and the strategy of the large corporations -- those of national economic significance. Following this change, a series of social consequences in relation to employment and investment became evident.

As the shape of corporate finance has drastically changed, from a system centered on banks to the system centered on capital markets, firms realized that they had to maintain a high share price in order to obtain cheap finance. The spread of performance-based remuneration systems, such as stock options and profit-sharing, also encouraged managers to pursue the maximization of profit.

With the financialization of all things from household assets to equity investment, people became increasingly sensitive to the change of share price.

Periodic evaluation through metrological devices, and comparison in league tables of performance, like the ‘Panopticon’ of Jeremy Bentham (Foucault 1977: 200), gave the corporate managers a feeling that they are watched and that they had to comply with the rule of the market. Otherwise, the punishment from a hostile M&A and shareholder activism would discipline the managers. In order not to become a victim, the firms have to maintain their share price as high as possible.

What was notable with this change was that corporate managers increasingly slide into “short-termism”. In the face of “dual competition”, both in the financial market and in the product market, corporate managers became incessantly cautious about short term optimization of their business. As a result, after the crisis, business re-engineering, core competence and constant restructuring became mottoes of Korean managers. The “race to the bottom” of all firms, in terms of rate of returns and share price, has encroached upon the bargaining power of workers. This impacted disproportionately severely on the weakest parts of the corporation – workers in peripheral, unspecialized work; unorganized labor; workers in small and medium sized subcontractors, and older workers with high salaries. Along with the management fashion of outsourcing, business spin-offs and temporary contracts, the number of casual workers has rapidly increased. It has caused grim social repercussions, such as an increase in unemployment and the welfare burden of government.

The culture of shareholder value in *Yoeudo* has also changed the investment pattern of the firms. Managers have become more cautious in assuming risks when they plan large scale investment. Accordingly, the robust dynamics of investment in the pre-crisis era have been considerably subdued and the Korean economy has undergone a chronic slump of employment (Lee K-K 2004). The cautiousness of firms in investment was evidenced from the fact that cash holdings of firms hit their highest amounts since Korea embarked on

“condensed growth”. At the end of 2004, the 1000 largest non-financial companies in Korea possessed a total of 65 trillion won (\$59 billion) of cash, cash equivalents and short-term financial instruments. This was a significant increase from 24 trillion won (\$21.8 billion) in the end of 1996 (Korea Chamber of Commerce and Industry 2006). One convincing explanation of this shrinking in investment is that the “patient financial capital” has withered, as, after the crisis, the main source of corporate financing has migrated from the bank to the capital market.

7.8 Case Study 1: The Rise and Fall of the “China Momentum”

This case study illustrates how the specific financial rationale, “China momentum”, emerged in the Korean financial market and influenced household assets and the whole economy. In around the mid-2000s, “China momentum” which emphasized the growth potentials of the rapidly developing Chinese economy had risen in the global financial market. In Korea as well, the “China momentum” gradually gained interpretative leadership after several local financial elites, especially in a leading fund firm *Mirae*, ardently advocated this financial rationale.

With the market initiative of *Mirae* and unique communication processes in the discrete financial center, the “China momentum” became a dominant investment fashion. And this led to the rush to overseas financial investment in 2006~2008. When the global financial market melted down in the late 2008, however, it became clear that these fund firms had gambled away capital on an irrational investment fashion. The local financial elites, who had enhanced their say thanks to the financialization of Korean household savings after the crisis, had effectively directed Korean savings towards profit-making goals for them, at the expense of the general public.

7.8.1 The financialization and growth of the fund industry

The “financialization” led to the rapid growth of the local investment fund industry. The neo-liberal restructuring of the economy invited a collective uneasiness about a future in which life-time employment no longer existed. The sweeping “wannabe rich” syndrome, after the crisis, reflected this collective anxiety about job security and life after retirement. And Koreans saw the colossal transfer of household financial assets from savings into equity. This was accelerated by the historically low level of interest rates and the global equity market turnaround in 2003.

The total trust money of equity investment funds in the Korean financial market has increased 14.9 times from December 2003 to December 2008 (see Table 7-2, 2nd column). Thanks to this investment boom, in around 2006, the local investment firms increased their influence on corporations, households and economic policies. The advance of local financial capital, along with still influential foreign capital, has further promoted the ascendancy of shareholder values, such as transparency, endless restructuring and distribution of profit.

At the center of this change, there was a local asset management firm named *Mirae* (*Future* in Korean) Asset Group. Until 2002, *Mirae* was one of the smallest asset management firms. But it rose to become the leading player almost overnight, by successfully taking advantage of the financialization and the structural change of the market. *Mirae*, for example, was the first to introduce a “monthly reserving fund” in 2003; this was a big success, introducing an investment boom amongst Koreans. *Mirae* has also been the most aggressive in appropriating investment chances in the overseas financial markets, and has an outstanding track -record. The market share of *Mirae*, among the equity funds, soared from 1.2% in December 2000 to 5.8% in 2003, 25.2% in 2005 and 33.7% in July 2007 (*Hankyoreh*, 14 Apr. 2005; *Korea Economic Daily*, 18 Jul. 2007). Thanks to the growth of fund money, by 2005, *Mirae* became strong enough to affect the share price index in the market.

7.8.2 China momentum: the rise of growth rationale

In around 2003, the world financial market began to recover from the shock of the information technology (IT) bubble crash in the early 2000s. The business cycle had bottomed out from the slump, concomitant with the rise of equity prices. This new cycle of economic expansion lasted for a historically long period, until it melted away with another debacle -- the sub-prime mortgage crash in 2008. What characterized the first half of this enjoyable prosperity was the “Goldilocks economy”. Similarly to the false prophecies of the “New economy” in the late 1990s, hopes mushroomed for a virtuous economic cycle, in which a pump-priming interest rate policy, alongside subdued inflation, can be prolonged.

Along the way, a new rationality for financial investment has emerged in the global financial market. Its primary interest was the growth potential of a country or a region in the age of “global imbalances” between investment, production and consumption. The practical advice to financial investors was that the biggest returns would come from emerging economies, such as the BRICs⁶⁷. At the heart of this rosy expectation, there was an emphasis on the role of China as both a growth engine and an exporter of disinflation. The brilliant achievements and unfathomable potential of the Chinese economy were enough to forge a forceful investment momentum in the first decade of the 21st century.

In around mid-2003, the global financial market began to talk about the “Chinese dream”. Warren Buffett, the chairman of Berkshire Hathaway, triggered the momentum by purchasing a 14% stake in Petro China, the largest Chinese oil and gas producer and distributor (*Herald Business*, 3 May 2003). Financial gurus such as Jim Rogers, the chairman of Rogers Holdings, fancied himself as a preacher of “China momentum” claiming that ‘the 21st century will be an era of China’ (*Money Today*, 23 Feb. 2004).

⁶⁷ The BRICs stands for Brazil, Russia, India and China.

7.8.3 *Mirae*'s market leadership

The rise of China momentum in Korea illustrated how the intensive, cohesive and exclusive culture and communication in the financial market could give birth to a sweeping consensual belief. It was observed that once an ardent advocate succeeded in establishing a financial rationale, it could rapidly develop into a dominant investment fashion through an “increasing spiral process” between the interpretative initiative and the price leadership.

It was *Mirae* that actively introduced China momentum into the Korean financial market. According to the new investment rationale, *Mirae* mainly purchased stocks which seemed to have growth potential. The firms that had close business relationship with China, i.e. “China momentum share”, were one important selection criterion for *Mirae*. The price of these stocks generally rose after *Mirae* included them in its portfolio. *Mirae* was also a pioneer for overseas financial investment in such emerging markets as China, Vietnam and Russia.

Once the trend had become established, its market rivals began to make buying and selling decisions by watching *Mirae*. This reflexive nature of the financial market resulted in still more reinforcement of the rationale of the China momentum. In the end, the stocks that had China momentum or growth potential had more possibility of passing the “beauty contest” of the analysts. As market analysts wanted to forecast the price of a specific share, they did their best to pry into *Mirae*'s new portfolio. The instant messenger and the private communication between fund managers, traders and analysts were filled with the information and rumors saying that *Mirae* was interested in, or had bought, certain stocks. An Sun-hee, a business journalist, said that ‘A new phrase was even coined, the *Mirae watcher*, like the *FED watcher*⁶⁸ in the bond market’ (Interview, 11 Feb. 2011). The prices of these stocks were justified by applying inflated PER or by mobilizing new metrological devices.

⁶⁸ The analysts who closely monitor any slight signal from the FED (Federal Reserve Board), central bank in the U.S.A.

To stand against this wind was not an easy task. An equity analyst admitted that ‘among analysts, it is an unwritten rule not to step on the feet of *Mirae*. In other words, not to issue negative reports on stocks that *Mirae* bought’ (*HanKook*, 13 Nov. 2007). Rather than resisting the trend, some analysts actively cooperated with *Mirae*’s market leadership, in order to make his/her own selection look better. When they got important information or insight on specific stocks, for example, they let *Mirae* know earlier than any other fund managers.

‘As the analysts are appraised by the earning rates of the stocks that he recommends, it is vital for the analyst to persuade the main market maker to include the stocks that he/she recommends. Hence, it is not unusual for the analyst to give analysis reports to *Mirae* even before he provides them to fund managers in his own institution’ (*Financial News*, 4 Jun.2007).

It was, at least, reasonable for the managers in small or medium size funds to think that other fund managers would also buy the stocks that *Mirae* bought. Otherwise, they should run the risk of being labeled a maverick and of losing fund investors. Ji Young-gul, a senior fund manager, explained the reasons for this uncritical following-up:

‘Fund managers who run small sized funds are very keen on the investment of the dominant market player when its power has grown to the verge of controlling the market. In this instance, the stream of money is itself critical investment information’ (Interview, 13 Jan. 2009).

In short, a “circular loop” of information and influence has been established, where the analysts give critical information to the leading fund managers; whereas other fund managers were just copycats.

7.8.4 The financial media: A facilitator

During the establishment of *Mirae*’s market leadership, the financial media played a critical role by promoting the “Midas touch syndrome”. Park Hyun-joo, the founder and the chairman of *Mirae*, was a legendary figure, who rose from a

general equity broker to a financial baron. At the threshold of the fund investment boom, in around 2003, Park began to act as a Korean missionary of China momentum. In many media interviews, Park insisted that Korean firms should adopt an aggressive growth strategy, in order to take full advantage of the opportunities that the Chinese economy has brought about.

‘Growth is the best strategy for increasing share prices. But the growth cannot be achieved without investment. So I advise firms to invest aggressively. *Mirae* will not support at the general shareholders meeting (GSM) those managements who are obsessed in distributing profit at the expense of reinvestment’ (*Hankyoreh*, 22 Sep. 2006).

The financial media made Park a hero authorizing his “interpretative power”. Table 7-3 shows the general inclination of the media reports about Chairman Park. In general, they were affirmative rather than being critical. Among 482 articles, selected from 6 financial newspaper archives, a majority of the articles celebrated Park’s genius.

This favorable tone of the financial media was related to the fact that the investment firms had, by that time, become major advertisers. With the financialization of household assets, investment firms actively advertised their funds in order to attract individual investors. Park Tae-gyon, a business journalist, said:

‘... the media rode the bandwagon of hero-making because they (investment firms) gave them advertisement ... Not a Korean media could be exempted from this delinquency. An interview piece of Chairman Park by a leading national paper on 1 Jan., for example, merely conveyed Park’s belief that the share price would considerably soar again this year. But this turned out to be a nonsense’ (Interview, 29 Dec. 2008).

Table 7-3: Analysis of Articles about Chairman Park

(1. Jan. 2005~ 31 Dec. 2007)

Frame	Contents	Number of articles (total 482)
<i>Midas Touch</i>	‘Park’s success story from the scratch’ ‘The myth of investment history in Korea’	126 (26.1%)
<i>Sage of the Market</i>	‘Comparing Park to Warren Buffet ⁶⁹ , ‘Highlighting Park’s belief in value investment’	85 (17.6%)
<i>Global Leader</i>	‘Explorer of Asian financial market’ ‘Comparing Park to Genghis Khan ⁷⁰ ,	90 (18.6%)

The articles were sought from KINDS. A total of 482 articles were selected, through the keyword of ‘*Mirae* and Park hyun-joo’, from 1 January 2005 to 31 December 2007. The financial media included in this survey were *Maeil Business Newspaper*, *Korea Economic Daily*, *Seoul Economic Daily*, *Herald Economic Daily*, *Financial News* and *Money Today*.

In terms of the financial media’s share in the periodic financial crisis, former Observer editor Will Hutton, amid the global financial crisis in 2008, said that ‘General journalists, as well as business journalists, are really guilty in this. They have indulged madness in the last five years, we should have been better at whistle-blowing than we were’ (*Guardian*, 21 Nov. 2008).

As a consequence of this “hero making”, people rushed to branches of *Mirae* and just cried ‘I want to buy a *Park hyun-joo fund*’ (*Herald Economic Daily*, 6 Dec. 2006). One extreme case was the bustle around the “Insight Fund”, a mutual fund that was sold by *Mirae* in Oct. 2007. It attracted about 4 trillion won (\$ 3.3 billion) in just 10 days of selling and grew into the largest fund ever established in Korea (*Kyunghyang*, 13 Nov. 2007). But this frenzy of investment resulted in the massive tragedy in just one year.

⁶⁹ Because he ‘pioneered the shift of household asset from bank savings to equity investment’ (*Financial News*, 6 Nov. 2007).

⁷⁰ Because he ‘led the overseas advance of Korean financial institutions’ (*Herald Economic Daily*, 28 Dec. 2007).

7.8.5 The consequences of the new financial rationale

The “China momentum” provided a timely cause for Korean financial investors. More than anything else, it facilitated the overseas investment spree of local funds. As their funds grew, Korean financial firms became obsessed with the aspiration to make Korea leading regional power, by increasing its investment bank-style investment as well as its portfolio investment. The government policy agenda of finance-led development has also promoted this aspiration. The idea of a “Financial hub in North-Eastern Asia”, that the Roh Moo-hyun government proposed as an important policy agenda, is a representative example. The overseas portfolio investments into such countries as China, India, Vietnam, Brazil and Russia have mushroomed. The trust money of overseas equity investment funds has inflated to 50 trillion won (\$45.5 billion) at the end of 2007 from 5 trillion won (\$ 4.5 billion) just a year ago (*Financial News*, 3 Jan. 2008).

Thanks to financialization and the “China momentum”, the KOSPI eventually broke the barrier of 1,000 points and soared for the first time to over 2000 points by the end of 2007. Local investment funds played a supporting role, sustaining KOSPI when foreign investors secured profits by massively selling Korean stocks during 2006 - 2008. Foreign investors have chalked up more than 76 trillion won (\$69 billion) of net selling of Korea equity from early 2005 to August 2008 (*Money Today*, 21 Aug. 2008). And the Korean financial industry enjoyed a huge amount of capital gains for the first time from overseas investment, until the sub-prime mortgage crash approached.

But the finale of the new financial rationale was tragedy. As the global economy went into recession after the domino effect from the “sub-prime mortgage crisis”, the profit rate of the funds has plummeted drastically. During 2008, the funds which invested in the overseas equity have shown an average rate of minus 53.2 %. This was 15 percentage points worse than the profit rates of domestic equity funds. In most of the funds that were caught up in the Chinese

(growth) momentum, almost half of the trust money has evaporated (*Munhwa*, 2 Jan. 2009).

The worst was the so-called “China fund” that invested in the Chinese companies listed in the Shanghai and Hong Kong stock exchange, with a profit rate of minus 57.73 % in 2008 (*Money Today*, 31 Dec. 2008). The “Insight Fund” of *Mirae*, which was sold at the pinnacle of the Chinese momentum frenzy, showed a profit rate of minus 52.78% in 2008 (*Kookmin*, 31 Dec. 2008). Investors, many of whom were “wannabe rich” lay people, witnessed the disappearance of almost half of assets that they had invested in funds. The loss from overseas equity funds amounted to 34.6 trillion won (\$31.5 billion) (*Munhwa*, 2 Jan. 2009).

7.9 Case Study 2: The Disciplining of Samsung Electronics

This case study examines how the Korean financial elites disciplined the management of the biggest Korean enterprise, Samsung Electronics, specifically through a financial rationale. The new consensual view in the market, “China momentum”, also generated big price differences between stocks, as it legitimized applying higher PER to the stocks of companies that seemed to have close business relationships with China. However, the stock of Samsung Electronics, was given the cold shoulder in the financial market, on account of the lack of China, or growth, momentum. Samsung, an early Korean adaptor of shareholder value management, was appalled by the prolonged lower performance of its own stock, as well as the bashing it received from financial market agents. Eventually, Samsung Electronic changed its business strategy, complying with the dominant market rationale. But this was not possible without social costs.

7.9.1 Samsung Electronics and shareholder value management

Samsung Electronics, the biggest Korean enterprise, became an example of shareholder value management after the crisis, in response to growing pressures from both the foreign shareholders and the shareholder activism.

In around the early 2000s, Samsung Electronics rose to become to the best “blue-chip” in Korean financial market as its products, such as the semiconductor, cellular phone and LCD display, have rapidly increased its global market share. As Samsung has made a good profit, so the number of foreign shareholders in the company has increased. The proportion of foreign shareholders soared from 29% in January 1998, to 50% in January 1999, and to 60% on April 2004 (*Munhwa*, 10 Jan. 1998; *Yeonhap*, 10 Sep. 2006). The increase of foreign shareholders posed a latent threat of M&A to the management (*Kookmin*, 27 Oct. 2004).

On the other hands, Samsung Electronics has been a major target of shareholder activism, as it was the flagship company of the Samsung business group, the biggest Korean chaebol. The activists in the PSPD, a citizen group that led Korean shareholder activism from the late 1990s, took part in the general shareholders’ meeting of Samsung Electronics year after year. They asked top managements for the transparent disclosure of financial information, as well as the introduction of a management policy accountable to the general shareholders. This was a kind of media event that was designed to facilitate the diffusion of the credo of shareholder value management among Korean corporations (*Dong-A*, 20 Mar. 1999).

As the managers acknowledged that higher share price could provide the company with various benefits in the globalized financial market, including defence against the M&A and favourable pricing in raising capital, Samsung proactively adapted to the new law of the market. They posted senior executives who were in charge of investor relationship and maintained regular contacts with financial analysts in the market. More than anything else, Samsung

distributed a considerable amount of its annual profits in the forms of share buy-back. Samsung, from 2000 to 2006, spent 13 trillion won (\$11.8 billion) in a share buy-back scheme (*Kookmin*, 19 Mar. 2007). On the part of Samsung, the buy-back of shares had two purposes. First, by boosting share price, it satisfied foreign shareholders. Second, the increase in the firm's own stocks had provided the management for a "Pac-Man defense" against possible attack by foreign shareholders.

7.9.2 Unable to ride on China momentum

The rise of "China momentum" had a strong impact on share prices in Korean financial market. The geographical proximity and the close industrial connections of the two countries were believed to be a blessing, which would provide Korean businesses with unprecedentedly powerful growth momentum. The economists and analysts in the financial market have projected the future of Korean economy on the frame of the Chinese economy with a population of 1.3 billion, that was expected to surpass the scale of the American economy in around 2041 (Wilson and Purushothaman 2003). Among others, the four "China momentum industries" of steel, marine transportation, shipbuilding and the chemical industry were expected to secure the largest benefits, because many Korean businesses in these industries already were competitive, or were a market leader in China.

In the equity market, the share price of the "China momentum industry" has outperformed the market. For example, the PER of POSCO, the largest Korean steel maker, had risen to 13.63 in December 2007, from 4.41 in December 2005.⁷¹ But the stock analysts could justify the higher PERs by seasoning the growth premium. One way of doing this was to compare the valuation tools with much higher indicators in the advanced, or the Chinese, financial market. A stock analyst put like this:

⁷¹ FnGuide (http://vip.mk.co.kr/newSt/price/price_corp_frame.php?flag=5&code=A005490)

‘...the foreign investors are now buying Korean stocks as a substitute for the Chinese stocks. This is because the PER of the *Chinese momentum stocks* in Korean financial market is just 3~7, while the PER of the stocks in A-index of Shanghai or Shenzhen stock exchange is 25 and 27 respectively’ (*Korean Economic Daily*, 5 Oct. 2004).

The new investment fashion led to sharp differences of prices between shares with the China momentum and those without. The “China momentum shares” in such industries as steel, heavy machinery and chemicals rose by 2~5 times in less than a year period in around 2007. Interestingly enough, most of these shares were the “bricks and mortar shares” that were shunned during the information technology momentum period in the late 1990s.

On the contrary, Samsung Electronics, the traditional information technology “blue chip” with the biggest aggregate market value in Korea, was given a thoroughly cold shoulders by the fund managers. Indeed, the slump of Samsung Electronic was mainly because of the cyclical slump of its main products, such as LCD, D-RAM and NAND flash memory. But a lot of analysts of information technology industry ascribed the slump to its lack of growth potential, i.e. the failure to develop a new growth engine. A survey conducted by *Maeil Business Newspaper* in April 2007 showed that 13 analysts unanimously indicated the lack of a new growth engine as the main discounting factor for Samsung. One analyst claimed that ‘In the latest investor relationship session, the top management of Samsung Electronics showed little will to develop a new growth engine, but simply stuck to consolidating the established strategy (organic growth)’ (*Maeil Business Newspaper*, 27 Apr. 2007).

7.9.3 The criticism of the corporation by share price

The critical mood was led by the analysts and fund managers in *Mirae*, which was pioneering the growth momentum investment in the Korean financial market. They were especially disapproving of Samsung’s strategy, which was monolithic with organic growth, excluding M&A, notwithstanding the fact that

Samsung has a huge amount of retained earnings. One former executive of Samsung Electronics explained:

‘After consecutive failures in overseas M&A investment in the 1990s, top managers almost became neurotic on M&A investment. But this caused discontent among the majority of overseas shareholders, because growth momentum such as M&A was always the best news for boosting share prices in a short period. Hence, we had no other option but to support share prices by buying -back outstanding shares with a considerable amount of operational profits and giving lucrative dividends at the end of each fiscal year’ (Interview, 8 Dec. 2008).

As the price of semiconductors approached a cyclical trough, the market kept pressing the management to use retained earnings to buy-out rivals or promising start-ups. The “bashing” of Samsung Electronics by the share price grew into skepticism about the current managements of Samsung. Indeed, this mood conformed to the rationale of the market leader, *Mirae* and chairman Park, framed in terms of the growth and China momentum strategy.

The sluggish share price of Samsung Electronics clearly contrasted with the ascendancy of the Chinese momentum shares. In the end, POSCO, the world’s 5th largest steel manufacturer, that had close business relationships with China, overtook Samsung Electronics and became the highest valued firm in Korea. Amid the zenith of the equity boom in 2007, the share price of POSCO rose to 762,000 won on 2nd October 2007 from 300,000 won one year previously, while Samsung Electronics staggered around the 450,000 ~ 550,000 won level, the same as that of 3 years previously.⁷²

Financial journalists largely joined in the “bashing” with uncritical reports. For example, when the aggregate market value of POSCO was expected to surpass that of Samsung Electronics in October 2007, most of the financial media issued “horse-racing style” reporting, admiring the “power-shift”. Among 20

⁷² Paxnet homepage (www.paxnet.co.kr , retrieved 23 Jan. 2010).

articles which covered that story in a month, 14 (70%) dealt with it in a horse-racing style. In terms of the price movement, 13 (65%) quoted analysts with a “bullish view”, although POSCO had risen 69% in just five months. Just one piece of them was critical of the rapid price surge (5%).⁷³

7.9.4 Market discipline and social consequences

The management of Samsung Electronics became increasingly concerned about the under-performance of its share price. One anecdote illustrated the disciplining power of finance and the change in power relations. In October 2007, Joo Woo-sik, the vice-president of Samsung Electronics in charge of investor relationships, opened his heart by saying that he wanted to meet Chairman Park at *Mirae* to deliver a presentation on the management plan of his company. But Chairman Park turned down Joo’s proposal in a roundabout way. The financial market and the media received this episode as a sign that financial capital had established a firmly superior position to industrial capital (*Kyunghyang*, 19 Nov. 2007).

Amidst the anxiety about share price, the top management of Samsung Electronics started to revise its growth strategy from late 2007. Following the demand of the financial market, the management of Samsung adopted the growth strategy through the taking-over other company. In the end, it announced the buy-out of TransChip, a small size system LSI⁷⁴ manufacture in Israel for \$70 million in October 2007, after 13 years of inactivity (*Hankook Economic Daily*, 30 Oct. 2007). As a signal of resuming M&A strategy, Yoon Jong-yong, the executive vice chairman, said to the media that ‘there is no reason for Samsung to shun M&A’ (*Maeil Business Newspaper*, 15 Nov. 2007). And Samsung Electronics made another full scale trial by bidding for SanDisc, the largest flash memory manufacturer in the world, for \$5.85 billion in May

⁷³ A total of 133 articles from 6 financial newspapers, from 15 September to 15 October 2007, were sought with the key word search method at the newspaper online achieve, KINDS (www.kinds.or.kr). The key words were ‘POSCO & Aggregate market value’ (117 articles) and ‘POSCO & Leader’ (16 articles). Among these articles, 20 which had close relevance to the topic were selected and analyzed by the researcher.

⁷⁴ Large scale integrated circuit.

2008 (*Maeil Business Newspaper*, 23 Oct. 2008).⁷⁵

This change of management strategy, basically conforming to the appraisal of the financial market, was done during a mounting sense of crisis. For example, Samsung announced in late 2007 that it would make its organization slimmer and more effective by reshuffling its management and laying-off five thousand (5.8%) staffs (*Money Today*, 11 Sep. 2007).

7.10 Conclusion

The most conspicuous aspect of neo-liberal economic globalization is the trend of the ‘opening and deepening of the financial market’ (Pauly 2005: 176). The transformation of the Korean financial market after its full opening to the global market illustrates how neo-liberal economic globalization generates radical social change in a nation. Although the momentum of those changes was driven by global agents, it was through the interaction between the actors in global and local market that the specific neo-liberal financial rationality -- the upholding of shareholder value -- was presented and shared as a “common sense”.

The elite network in the market, composed of institutional investors, market analysts, consultants, financial media and the like, formulated and promoted new management ideals such as “China momentum”. The cultural and communicative particularity of the exclusive financial market had facilitated the rise of a specific financial rationale and investment fashions. Distinct performances or practices of the market actors emanating from this financial rationality give signals, enacting disciplinary power, to various social agents, including corporate managers, policy-makers and households.

But this change was accompanied by considerable consequences in Korean

⁷⁵ Samsung withdrew the bid in October 2008 as the financial crisis hit the global economy (*Maeil Business Newspaper*, 23 Oct. 2008).

economy and society. Financial elites have effectively directed Korean savings and industry towards profit-making goals for them at the expense of traditional industries and personal savings. And they gambled away capital as part of an irrational investment fashion. As managers have become more cautious about the figures of return on investment (ROI), corporations have been forced into relentless business restructuring and downsizing. As a result, Korean society has experienced higher unemployment, especially among young people, and a weakening of job security.

Chapter 8

The Global-National Nexus: The Iron Triangle

8.1 Introduction

This chapter documents the growth of financial advisory intermediaries⁷⁶ as a mediator of the globalization of investment and production. The research focuses on the way in which these intermediaries operate in networks with global investors and the host government. In order to probe the mechanism of power that this global network exercises, the research explores the structure of connections, practices and communication of the network. Particularly, this chapter concentrates on the mode of communication with which this network garners its “invisibility” (Bobbio 1987) and explores its implication for wider society and democracy.

In Korea, after the economic crisis in 1997, a form of global-national interconnection of experts was consolidated, with the advance of foreign direct investment (FDI) and alternative investments.⁷⁷ This was a business network between transnational corporations (TNCs), private equity or hedge funds, national or international advisory intermediaries, and policy-makers in government departments. In particular, the advisory intermediaries working for law firms, consulting firms and investment banks, after the crisis, have risen to be major mediators of the global-national nexus in the fully liberalized financial regime.

After illustrating the advance of FDI and alternative investment after the economic crisis in 1997, the chapter examines the growth of advisory

⁷⁶ In its original usage, “financial intermediary” includes such institutions as a bank, credit union, financial company, insurance company or brokerage company, which act ‘as the middleman between those who want to lend and those who want to borrow’ (Business Dictionary.com www.businessdictionary.com retrieved 18 Sep. 2011). But here, “advisory intermediaries” refers to the organizations, such as investment banks (IB), law firms and consulting firms, or specialists, such as lawyers, public accountants, business consultants and investment bankers who actively engage in the overall procedures of an investment from deal-sourcing to exit.

⁷⁷ An alternative investment is an ‘investment product other than the traditional investments of stocks, bonds, cash, or property. The term is a relatively loose one and includes tangible assets such as art, wine, antiques, coins, or stamps, as well as financial assets such as commodities, private equity, hedge funds, venture capital, and financial derivatives’ (Wikipedia, http://en.wikipedia.org/wiki/Alternative_investment Retrieved 10 Jul. 2011).

intermediary business in Korea. Then the researcher examines the formation of a symbiotic relationship between global investors, advisory intermediaries and policy-makers in the government. It is argued that not only the institutional connections but also the practices and communication of the network lead to the social consequences produced by the network. The discussion is followed by a case study that illustrates these processes, focusing on the privatization of a quasi-nationalized bank by a U.S.- based private equity fund in mid 2000s.

8.2 The Reappearance of the *Arcana Imperii*

A distinctive feature of globalization is that investment and production are organized globally. In the contemporary economy, TNCs and financial funds play the missionary role of global organizer of FDI or alternative investment. Especially in the countries that the economic crisis hit, including Korea in the late 1990s, FDI and alternative investment touched off a boom lasting some time. This is because, alongside the neo-liberal transformation of the economy, there were “fires sales” of the distressed assets, ailing corporations as well as privatization of the public corporations.

In terms of the national political significance of the FDI and alternative investments, we can point out two general tendencies. One is that they have huge negotiation resources, stemming from the size of their business and diplomatic support from their home state. Thus they are sophisticated lobbyists, not only at the international but also national level of power. This is a situation where ‘the chief executive of a major TNC seldom has to wait long for an appointment with a minister’. The other is that this political capacity, particularly in their negotiations with host governments, is often the major source of their returns to investment. In negotiations, these investors ‘can get regulations altered (or maintained) to their advantage’ (Leys 2001: 17).

As this investment and ‘regulatory arbitrage’ involves sophisticated calculation as well as negotiation with many different national jurisdictions, the TNCs and

funds rely heavily on the technical experts in law firms, consulting firms, public accountants and investment banks (ibid: 10). Most of the investments are designed and proceed within the network of TNCs, funds and advisory intermediaries, empowered by information and lobbying at the national and supranational level.

In line with the growing influence of foreign investment, the network of intermediaries has become a central domain of social and economic influence. The major restructuring and recapitalization of corporations, as well as privatization of state enterprises, could only be done through the enabling role of the network. The investment decisions of the network often have a considerable impact on companies, employees, subcontractors and local communities.

Despite its extensive influence on society, however, most of the operations of the network are located outside the public observation. The exclusive and closed-door culture rendered this network private and self-contained. Deal-making was deemed to be an arena of technocracy where financial, legal and managerial specialties prevailed. And it was conceived to be an entirely private domain, with the good excuse that it dealt with price-sensitive information. The watchdog role of the media was usually blocked by the curtain of expertise and the exclusive culture.

Norberto Bobbio (1987: 18, 92, 93), an Italian political scientist, has pointed out that the survival of 'invisible power' is a distinct symptom of the 'broken promise' of democracy. He has stressed that the '*visibility* or transparency of power' cannot be eliminated from 'the defining characteristics of democracy'. But the 'paradox' is the 'reappearance of the *arcana imperii* (secret power) in the guise of technical experts and technocracy'. Such a tendency, he continued, has been reinforced recently in the area of the management of the economy.

8.3 The “Fire Sale”

The Korean economic crisis has left a lot of debt-ridden firms and distressed financial assets in its wake. For some time, foreign capital was the only source of “fresh money” for the recapitalization of ailing firms, because most of the national firms, including banks, were suffering from a credit crunch. Once the government lifted the financial restrictions, various forms of foreign investments, apart from the portfolio investment in the financial market, rushed into Korea to profit from the lucrative “fire sale”.

The alternative investments were initially led by the private equity funds and hedge funds⁷⁸ based in the U.S.A and Europe. And, around early 2000, the national wealth funds of Asian and Arab countries joined this market. The funds could be classified, according to the purposes or patterns of investment, as vulture funds, buy-out funds, corporate governance funds and venture funds. Though very few people may have heard them before the crisis, Koreans soon became familiar with such names as Carlyle, Lone Star, Newbridge Capital, Temasek, Sovereign Asset Management and Soros, funds that have actively invested in the Korean economy.

Sometimes with the appearance of angels descending to help the Korean economy, sometimes with that of a cold-blooded raider, the foreign funds showed a vigorous appetite for distressed assets, commercial real estate, manufactures and financial firms. As Table 8-1 shows, the M&A deal by foreign investors among FDIs, accounted for \$4.5 billion on average annually, between 1998 and 2005. Most of the investments were conducted by the foreign PEFs. Among others, the financial industry was the most conspicuous in terms of global investors’ advance. As they took over several distressed banks amid economic restructuring, foreigners were able to control 22.4% of the total assets

⁷⁸ The total assets of global hedge funds and private equity funds were estimated to be \$0.82 trillion and \$1.2 trillion respectively, as of the end of 2002 (BOK 2005 : 7-8). Among the funds, around \$60 billion of hedge funds and \$64 billion of PEFs were mainly invested in Asian countries (The Office of Economic Secretary of the President 2005).

of Korean banks in 2004. In 1997, before the crisis, their share was just 8.5% (Bank of Korea 2005: 13).

Table 8-1: Foreign Direct Investment and the M&A deals

Year	1998	1999	2000	2001	2002	2003	2004	2005
FDI (billion dollars)	8.9	15.6	15.2	11.2	9.1	6.5	12.8	11.6
M&A deals (%)	57.3	33.0	18.8	23.5	22.9	45.5	48.2	45.6

(The Ministry of Commerce, Industry and Energy; Jang K-Y 2006: 63-64)

Table 8-2: Major Deals by Foreign Private Equity Funds

(KOTRA 2007)

Funds	Amount of Investment (million dollars)	Year	Target Company	Industry
<i>Newbridge Capital</i>	441.0	2000	Korea First Bank	Finance(Bank)
<i>Carlyle Group</i>	396.0	2000	KorAm Bank	Finance(Bank)
<i>Affinity Equity Partners</i>	446.0	2000	Mando Corporation.	Machinery
<i>Warburg Pincus</i>	370.0	2000	LG Card	Finance (Credit Card)
<i>JP Morgan Partners</i>	470.0	2001	Mando Merchinery	Machinery
<i>CVC Capital Partners</i>	333.0	2001	Mercury	IT
<i>UBS Capital Consortium</i>	410.0	2001	HAITAI	Industry (Food)
<i>Newbridge-AIG</i>	500.0	2003	Hanaro	Tele- communication
<i>Lone Star</i>	1060.0	2003	KEB	Finance(Bank)

Startled by the splendid gains of foreign funds, indigenous private equity funds and national industrial capital have increased the rate of deal-making since the mid-2000s. The indigenous private equity fund industry has mushroomed since the mid-2000s. The number of national PEFs increased from two in 2004, to 16 in 2005 and 28 in 2006. According to the Financial Supervisory Agency, the amount of investment also totaled 2.5 trillion won (\$2.3 billion) in 2006, a seven fold increase in a year (*JoongAng*, 26 Feb. 2007). The field was bustling with global and national deal-seekers.

The returns that foreign private equity funds secured from investment just after the crisis were so enormous that they were admired widely in the global financial market. Each deal of Carlyle, Newbridge Capital and Sovereign, for example, has made a profit of two to four fold of the original investment in less than 3 years (Lee J-H 2006).

8.4 The Growth of Advisory Intermediaries

The “advisory intermediaries” of an investment are the organizations, such as investment banks (IB), law firms and consulting firms, which actively engage in the overall procedures of an investment from deal-sourcing to exit. The investment banker helps private equity or hedge funds to find opportunities for deals, and drafts out the structure of the deal as prime broker or lead manager. Many of the investment decisions are made on the basis of the ‘information and value assessments’ of the investment bank (Sung H-P 2005: 75). Business law firms provide legal advice about the deal. Recently law firms have played an increasingly central role in the deal as they try to provide total solutions, including lobbying for policy change. Consulting firms, along with in-house accounting departments, design the logic of deals and provide managerial advice about the target company.

Thanks to the growth of the alternative investment market after the crisis, the advisory specialists have become particularly busy. A lot of foreign investment banks and consulting firms have made inroads into Korea. The local business law firms have also enjoyed an explosive increase in custom. The lead manager, an investment bank, normally charges a fee of 1~1.5% of the total investment of a deal, while the law firm and the consulting firm charge on an hourly basis.

In line with the growth of demand for advisory services, these firms have hired many of the best talents in the field. Expertise and the social network are cardinal points in this business, and expertise and the network are not mutually exclusive. Many promising judges and public prosecutors have joined business law firms after abandoning the chance of promotion. These firms usually supplied the lawyers with an opportunity to study abroad, for example studying for an LL.M.⁷⁹ in the U.S.A, to forge global contacts and link to networks.

The local managers of funds, the investment bankers, the consultants and the accountants were soon full of the specialists who were Korean residents in America⁸⁰ or Koreans from top-tier global MBA⁸¹ schools. These specialists have regular contact with each other, for example, at their joint alumni clubs. The advisory specialists also are on friendly terms with the foreign investors in such organizations as AMCHAM⁸² or EUCCK.⁸³

Being on the treadmill

⁷⁹ Master of Laws

⁸⁰ A young Korean-American member of staff of Carlyle, in 1999, bragged about his 'king-like life style' in Seoul as a foreign investor. But, his private e-mail correspondence with 11 friends in Wall Street was leaked to papers like the *Washington Post* and attracted a lot of attention. He was dismissed as a result of this scandal (*Kookmin* 23 May 2001).

⁸¹ Master of Business Administration

⁸² American Chamber of Commerce in Korea

⁸³ European Union Chamber of Commerce in Korea

Though the management of private equity funds has emerged as a dream job,⁸⁴ they are subject to a number of major investors (LPs), such as high net worth individuals, pension funds, insurance companies and university endowments.⁸⁵ As hundreds of PEFs and hedge funds compete to raise funds, investors normally maintain a superior position over their managers. The managers of PEFs need to present an attractive investment draft comprising the period, the expected rate of return and management fees. When the track record of the managers is not so impressive, fundraising is possible only after guaranteeing a lucrative minimum rate of return. The influence of an advisory pool or connection is also critical in this initial funding, not just in deal-making.

After the fund is raised, the manager needs to display his ability to develop nice deals along with reporting regularly to the investment committee on the performance of on-going deals and exit strategies. With these constraints in mind, managers have few choices but to strive towards profit targets and the success of the deal. Kim Wan-ski, a former manager of the Lone Star Fund, said:

‘...by the way, it is a cast-iron rule that, once a manager has made a mistake, the investors never give him any money again. There is no trial and error. ... It is like being on a treadmill. ... That is why managers often quit when they are young. ... The sense of oppression is awful. ... A mistake may cancel out all the success stories until then...’ (Interview, 4 Dec. 2009).

The work in this field is very intense, not only because deals normally have time constraints, but also because the hourly rate of the specialists are so high. Hence, the ability to keep up with the tight schedule is thought to be another yardstick of expertise. Kim Sang-jun, a partner in a business law firm, said:

⁸⁴ The manager of a PEF is either a general partner or a limited partner. In terms of jobs, PEFs became the most popular in Wall Street since the PEFs gives 5-6 times bigger salary than the investment banks (*Korean Economic Daily*, 2 Mar. 2007).

⁸⁵ As the major investors are anonymous to outsiders, until recently, many suspected that the origin of the invested capital in PEFs might be dirty money, e.g. derived from arms transactions. But this “conspiracy view” faded away as a wide range of institutional investors, such as pension funds and university endowments started to put their money into PEFs. For example, pension funds for fire fighters, teachers and government officials in the western states in the U.S.A have been regular investors in the Lone Star, a Texas based PEF (Sung H-P 2005: 92).

‘Usually deals have a timetable, such as a data-room opening, bidding... But usually the data are a truckload of files. ... We, 3-4 members of a task force, have to analyze, summarize them and even prepare a bidding strategy. We usually sit up all nights for a whole week’ (Interview, 2 Dec. 2009).

However, one decisive criterion of selecting advisory firms is whether they can provide substantial solutions for the critical parts of the deal. The foreign PEF funds, especially, depend on the local advisory specialists notwithstanding they have to pay extra contingent fees. Hence, the actualization of a given deal, by all means within the constraints of the options and the time, is crucial for the firms in building up their reputations. It is a field where “the rich get richer, the poor get poorer”. Lee Dae-soon, a lawyer in a mid-size business law firm, said:

‘In many cases, the clients come with their own desirable structure of a deal. Then they ask the law firms to provide a total solution or tool... The solution includes every means from legal advice to detours... Considering the fierce competition in the advisory industry, lawyers cannot contract a deal with a client when they are idly saying *this is legally possible and that is not*. On the contrary, we were forced to try every means to help the clients get what they want’ (Interview, 30 Nov. 2009)

In these circumstances, the legal advice and consulting of the advisory firms have increasingly adopted expedients. It was widely accepted that competent lawyers and consultants were sailing very close to the wind. Among other factors, the ability to influence government decision-making has emerged as a critical aspect of competitiveness.

8.5 The “Iron Triangle” of Korea

After studying the Carlyle Group, a Texas based private equity fund, Dan Briody, an American investigative journalist, concluded that the connection between Wall Street, White House and the munitions industry is as solid as an

‘iron triangle’ (Briody 2003). In Korea, similar types of ‘access capitalism’ (Sung H-P 2005: 84) between investment funds, advisory intermediaries and policymakers has burgeoned alongside the brokerage of the big deals after the crisis.

The advisory intermediaries in Korea had strived to cultivate connections with government officials because so frequently it was policymakers who determined the fate of a deal. The economic crisis endowed policymakers with stronger discretionary power, especially in the economic restructuring program. At least, bureaucrats had the last word in the privatization of nationalized banks and public corporations. Spending large amounts of money, the funds and the advisory intermediaries did all they could in order to establish a strong influence with incumbent or former high-ranking policymakers.

Dozens of policymakers have joined law firms or consulting firms as advisors just after quitting their posts in influential departments, such as the Ministry of Strategy and Finance, the Financial Supervisory Service, the Free Trade Commission, and the National Tax Service. Their ranking varied from directors, to minister, to prime ministers. Those policymakers shared a strong elitism and group consciousness, rooted in the extremely competitive recruiting system through state examination. For example, the *Mofia* (Ministry of Finance + Mafia) is a well known phrase that represents the cronyism of the elite officers in the Ministry of Finance. Conversely, this implies that once a core member of the group joins an advisory firm, he can effectively influence the decision-making process of the government. A former senior officer of the Financial Supervisory Service said:

‘These former policymakers often drop into their previous workplace with their client’s case. They advise former junior officers how to deal with the case over dinner or wine. In short, they are a communication or lobby channel between their client and the government’ (*Hankyoreh*, 14 Aug. 2006)

What makes this connection more effective was the rich probability of their making a glorious return to the government departments. These former bureaucrats are often re-appointed by the President to a higher government post, for example, a minister or a deputy prime minister. For instance, Lee Hun-jae, a designer of the economic restructuring plan after the crisis, joined Kim & Chang, the biggest business law firm in Korea, as an advisor after his resignation from the finance ministry in 2001. However, three years later, he was appointed again as the deputy-prime minister administering the overall economic policies of the government. After quitting this post in 2005, he returned to the law firm. The ex-Prime Ministers Han Duk-soo⁸⁶ and Han Seung-soo,⁸⁷ and the ex-deputy prime ministers Jin Yeom and Yoon Jeung-hyun are also cases in point, as the Table 8-3 indicates.

Table 8-3: Advisors from High-Ranking Policymakers

(As of Jan. 2009)

Top-Tier Law Firms	Advisors (ex-minister, vice minister or equivalent)	Re-appointed policymakers after being advisors
<i>Kim&Chang</i>	7 including Koo B-Y (Senior presidential secretary for economic policy)	Han S-S (Prime minister), Yoon J-H (Deputy prime minister) etc.
<i>BKL</i>	9 including Lee K-C (Director of the National Tax Service)	Lee K-K (Head Judge of Constitutional Court) etc.
<i>Lee & Ko</i>	3 including Kim Y-D (Commissioner of Financial Service Commission)	Kim J-C (Governor of Financial Supervisory Service)
<i>Shin & Kim</i>	6 including Kim Y-J (Minster of Commerce, Industry and Energy)	Kim K-H (Minister of Justice) etc.
<i>YYKS & Y</i>	Her S (Secretary general of Fair Trade Commission)	
<i>Yulchon</i>	2 including Lee J-J (Commissioner of Financial Service Commission)	
<i>Sejong</i>	2 including Jin Y (Vice Prime Minister)	

(Korean Economic Daily, 27 Jan. 2009)

⁸⁶ He was a chief secretary of the President (Jul. 2002), advisor of Kim & Chang (Nov. 2002~Jul. 2003), deputy-prime minster (Mar. 2005~Jul. 2006), prime minister (Apr. 2007~Feb. 2008), and advisor of Kim & Chang (Mar. 2008~).

⁸⁷ He was a deputy-prime minister (1996~1997), advisor of Kim and Chang (Jun. 2004~ Feb. 2008), prime minister (Feb. 2008 ~Sep. 2009), and advisor of Kim & Chang (Oct. 2009~).

In Korea, the national assembly holds a confirmation hearing and scrutinizes the candidates when the President appoints the ministers. But there was little criticism, until the mid 2000s, of former policy makers shuttling between public and private posts. Since then, this blurring of the border between public and private has led to concern over a “conflict of interests”. But in practical terms, nothing has been done to prevent it. Rather, this blurring has become commonplace, as many high-ranking officers have linked their post-retirement plans to their advisory role at the firms.

A symbiotic relationship between policymakers and the advisory firms is established when the connection of the “revolving door”⁸⁸ is combined with the authority of the advisory firm as a top specialist in a specific field. This creates a situation where the government officials depend on the legal or managerial advice of the advisory firm to legitimize their decision. In the case of the take-over of KorAm Bank by Carlyle and KEB by Lone Star, this type of influence from the law firm was pivotal for the accomplishment of the deal (Lee J-H 2006).

In order to build a connection with influential figures, the investment banks and consulting firms even hired the sons and daughters of the high-ranking officers and families of the chaebols (*Seoul Economic Daily*, 4 Apr. 2006). The foreign investment funds often appointed local managers who could make full use of the social network. For example, Carlyle employed the son-in-law of then Prime Minister, Park Ta-joon, as a country manager in 1999. With a full mobilization of this connection, Carlyle successfully took over the Koram Bank, the 6th largest Korean bank. The local manager asked his father-in-law, the Prime Minister, for help in evading the regulations that prohibited the taking-over of bank by the private equity funds. The former American President George Bush (Sr.), an advisor of Carlyle at that time, flew to Korea and met a series of high-ranking Korean policymakers (Briody 2003). Finally the deal was approved by the government, with the complicated structure being drafted

⁸⁸ This refers to the phenomenon of the high-ranking policymakers shuttling between government posts and private companies, including law firms and consulting firms.

mainly by Kim & Chang and Shin & Kim, the two major Korean law firms. After the deal was done, the local manager proudly spoke to the *Finance Asia*⁸⁹, a financial magazine published in Hong-Kong, saying that ‘I finally persuaded the troika of the Korean economy...’ (Lee J-H 2006: 118; Im J-I and Chang H-S 2008).

8.6 Communications: Exclusive but Intensive

In this network, communication is intensive but fairly exclusive at the same time. Internal and private communication is very active as information is almost everything in the network. However, public communication is limited and most of the activities and information are closed to outsiders. This private communication is a cradle of information and acquaintances, the two pillars of the alternative investment business. Ahn Dong-won, an executive of securities firm said:

‘As I am in an investment bank, my main business is to meet people. ... The value-added information usually comes from the private communications’
(Interview, 7 Jan. 2009)

A deputy manager of the M&A department in the Korea Development Bank said in a media interview:

‘(the most important element in M&A is) the information. ... Most of the M&A is arranged under the table ... Without this information, the advisor cannot do business... (To get the information) the social network is crucial. I make so many telephone calls that I replace the battery of my mobile phone several times a day’ (*JoongAng*, 8 Apr. 2008).

Private communication is also significant when the advisory intermediaries mull over exactly what their clients want. In a way, consultation is a relentless

⁸⁹ August, 2001.

communication process with the client. According to Han Jae-jung, an accountant of a consulting firm:

‘Frequently, we find that clients know better than the consultants what the problem is and what to do. Nonetheless, they hire consulting firms for the sake of internal persuasion or consensus building through the voice of a third party....This implies that the first priority of the consultant is to communicate intensively with the client’ (Interview, 22 Jan. 2009).

The pursuit of information and access led to the multi-layered communication networks in the field. When it comes to the decision-making level, for example, the manager of a PEF, the partner lawyers and consultants, executives in the investment bank and high-ranking policymakers often develop overlapping elite communication networks within which they develop a symbiotic relationship. Lee Jin-hyuk, a country manager of a foreign bank said:

‘This is a small world and I have been here for 20 years. Though the newspaper is a useful source of information, it is the social networking that I get more useful information from. I would say the network is fairly extensive, including senior people in government and banks, decision makers in industry and so on. We meet at Japanese restaurants or golf clubs. The critical information comes out whilst we are talking about, for example, who is a prospective candidate for the next minister and in that case how the restructuring policy and the industry will be influenced. These tips are really helpful for us to map our mid- or short-term strategies’ (Interview, 19 Jan. 2009).

But this type of communication is a one-way street that is closed to outsiders. This is a field of hermits where the actors hide behind the esotericism of expertise and the thick curtain of the “confidential agreement” that they sign at the initial stages of the deal. The lawyer Kim Sang-jun said again:

‘...along with this, we have a liability for confidentiality. ... Certainly there is an atmosphere that puts the revelation of details of the client under a taboo

even after the deal is done. ... It is a matter of the reputation of a firm as well' (Interview, 2 Dec. 2009).

Journalists are, in general, blocked from activities and information in this field, though some deals have a considerable impact on employment and on the industrial landscape. The banker Lee Jin-hyuk also said:

'Most of the global investment banks are negative about talking to the media. They hardly ever do that. ... They feel little need. ... More than anything else, the clients do not want any disclosure that may move the price of the target company. ... We often sensed that the media reports were very speculative. Often, their reports were complete fiction' (Interview, 19 Jan. 2009).

Cho Hae-dong, a business journalist, said:

'The foreign capitalists are usually unapproachable. The PR agents they hired have few insider stories other than supplying superficial press releases. Even worse, some of the foreign PEFs do not have a PR manager. ... When the deal employs many expediciencies, I think, the funds move more clandestinely, as this is advantageous to them. ... In other words, they are undertaking double-sided operations where, on the one hand, they secretly establish connections with the decision makers in the government; on the other, they shun the media' (Interview, 21 Jan. 2009).

Being a sanctuary

One notable aspect of this field is that some of the specialists, with the combined forces of exclusive culture and influential social networks, have gradually cocooned themselves in a sanctuary that allows no surveillance from the outside world. For example, Kim & Chang do not fully disclose the location of their office building, although they are the largest Korean business law firm. There are not even any directional signs inside the building, or any signs in front of the building. Its annual turn-over and the personal income of the lawyers are behind a veil. It hires a lot of influential former high-ranking

government officials paying extraordinarily high salaries, but it never publicizes this fact, let alone explaining what exactly they are in charge of (Im J-I and Chang H-S 2008).

Their privilege has reached the verge of being able to smother up any surveillance from politicians, the judiciary and the media. When they were forced to make public their suspicious deals, for instance, they mobilized the whole of their social network and expertise to evade these public checks. One former lawmaker recalled an occasion when he called the senior lawyers of Kim & Chang to a parliamentary hearing:

‘(in order to probe the alleged collusion between the law firm and the Ministry of Finance) I requested Lee Hun-jae, the former deputy-prime minister but an advisor of Kim & Chang at that time, and several lawyers at the law firm to attend the congressional committee. But none of them has turned up. Instead, the lobby was very fierce. ... Many, including the former Minister of Justice, have exercised influence for the law firm. It was an experience that reminded me of the power of the law firm’ (Im J-I and Chang W-S 2008: 13).

When the media tried to do investigative reporting on the field, journalists were often faced a libel lawsuit from the advisory firms and funds. Most of the journalists could not overcome the menace of these powerful advisories equipped with abundant resources and expertise in law. Especially, the indemnities that the firms sought were so enormous that they could substantially threaten the survival of the small and medium sized media. The *Weekly Kyunghyang*, a magazine run by a medium sized national newspaper, was forced to issue a correction when it was threatened by Kim & Chang. Im Jong-in, a former lawmaker, said that ‘several journalists in the different media were compelled to write letters of apology after they put out a story about the firm’ (interview, 12 Feb. 2009). Lee Jung-hwan, the journalist who wrote a story in a book about a large Korean consulting firm, Sam Jung, said:

‘They hired a lawyer who specialized in libel lawsuits and, four times in a row, posted me recorded delivery mail asking me to delete the chapter. ... I was still confident of the facts in the book ... But all my acquaintances dissuaded me, saying that no attorney could win the case against their lawyers ... In the end, I reluctantly agreed to the deletion of the chapter from the next edition’ (Interview, 11 Dec. 2009).

Chang Wha-sik, an activist in the watchdog civil group against speculative financial capital said that:

‘When the parliament, the judiciary and the government give up on surveillance, then the media become fairly helpless. ... The media have limited access to these entities which often declined contact. ... The result was the retrenchment of communication in the public sphere and the withering of the liberty and the rights of people. Meanwhile, the domination of the organized network of huge capital and specialists became consolidated’ (Interview, 3 Feb. 2009).

The strategic use of the media

The other side of this exclusiveness is the strategic use of the media. It is also evident that these firms and funds actively approach the media when they need to spin for the sake of deals. The partner of Hermes, a U.K. based PEF, for example, hinted that it had an interest in taking-over Samsung Corporation, a subsidiary of Samsung, in an exclusive interview with the influential daily *Chosun* in 2004. But the fund cashed in all its shares just 2 days later as the share price rose thanks to the interview (*Chosun*, 1 Dec. 2004). Ha Jung-min, a business journalist, told that she had similar experiences when she covered the proxy fighting in 2003 between Sovereign, a Belgium based PEF, and SK, the fourth largest chaebol in Korea:

‘It seemed to me that a Korean member of staff of the advisory firm for Sovereign was shrewdly manipulating the information. One day, for example, he leaked a story to A newspaper. The next day he leaked another story to B

newspaper ... The journalists put out the story with a similar frame of the source because the interviews with sources were very hard, while the journalists were thirsty for the information. The initiative was firmly in the hand of the advisory intermediaries. In this circumstance, journalists tend to be submissive to the source' (Interview, 29 Jan. 2009).

The ingrained exclusiveness and strategic approach to the media, when combined, has rendered the field substantially “invisible” to the public. The public institutions that have the authority and resources to carry out surveillance of this field have quietly given up the fight. The media, at best, have walked up and down as self-invited guests or have fallen prey to the spin. The journalist Cho Hae-dong said:

‘When a country like Korea has just liberalized the financial market, not only is the financial sector in a state of underdevelopment, but also the media have little know-how and experience to watch the liberalized field As it is hard to cover the field, the journalists rely heavily on the word of mouth of the government officers who are engaged in a specific deal. But the hazard is that we usually get information that is dressed up from the point of view of officials, as crosschecking is almost impossible’ (Interview, 21 Jan. 2009).

8.7 Privatization of Profit and Socialization of Loss

The advance of foreign alternative investors, and the concomitant growth of advisory intermediaries, signaled a distinctive change in Korea after the crisis. To be fair, this institutional setting has helped prompt the restructuring of the ailing finance and industry. With the help of vigilant deal hunters, the efficiency of the economy was enhanced to some extent.

The underlying belief in the field was that the increased mobility of capital and the advance of alternative investors are beneficial, in the first place, to investors and shareholders and, in the end, to all the people in a country. This is a “win-win situation”, it is argued, rather than a “zero-sum game”, because the

alternative investment helps a company to develop its latent value and, as a result, it increases the size of the overall economic “pie”. In this respect, the nationality of the capital or the amount of profit it appropriates should not be denounced in a nationalistic manner, as long as the foreign capital pursues its profits without breaching national regulations. This is all the more natural, because Korean financial capital is also trying to make inroads into such countries as China, Vietnam, Malaysia etc., looking for opportunities for investment.

But this was not done without social costs. One notable social consequence was that these alternative investments have caused the relocation of wealth in both the international and the national economy. The foreign private equity and hedge funds have fully appropriated the weakness of the crisis-hit country where the value of overall assets was devastated. Considering the statistic that only 25% of global private equity funds can beat the average return of the equity market, their return of investment in Korea was huge enough to remind people of a windfall (*Financial News*, 13 Dec. 2005)

For example, Sovereign, a Belgium based PEF, gained 779 billion won (\$708 million) of profit (4.3 times of the initial investment) in two and half years after it bought 14.99% of the share of SK Corporation, the largest Korean refinery. Newbridge Capital, a Texas based private equity fund, invested 500 billion won (\$455 million) in the Korea First Bank, a bank that was nationalized after the crisis, and gained 1,151 billion won (\$1,046 million) of profit in 5 years (Lee C-K 2004). Moreover, most of these funds did not pay any tax on their capital gains because the real investment bodies were “paper companies” established in tax havens like Labuan, Cayman Islands (ibid).

The advisory specialists were the other main beneficiaries of the alternative investment boom. The fees that these advisory intermediaries normally charged for their services, after the crisis, were high enough to frustrate ordinary Koreans. For example, Hynix, a distressed semiconductor manufacturer had to

pay 66.3 billion won (\$6 million) to the consulting firm like Citi-Salomon Smith Barney (SSB) in just 6 months from December 2000 (*Financial News*, 1 Sep. 2002).

The investment and restructuring may have increased the efficiency of the corporations. And there may be many, though silent, Korean shareholders who have got benefits from the resulting increase of the value of corporations (Kim W-S and Yoon H-K 2006). But not a few PEFs have revealed their obsession with short-term profit maximization. Many financial or industrial corporations have dwindled as the new owners -- private equity funds -- shrewdly siphoned cash from the companies through unusual methods, such as the reduction of capital, payment of hyper-dividends, or liquidation.

BIH, a Labuan based PEF, for example, reduced the capital of Bridge Securities, a small sized Korean financial institutions, three times in a row from 116.4 billion won to 68.8 billion won in 2002~2003. After retrieving most of their investment by the reduction of capital, the BIH started to sell corporate assets such as office buildings to furnish cash for further capital decrease. When BIH departed the company, after 5 years of investment, Bridge Securities was left with almost empty hands. Kukdong Engineering & Construction (by the Lone Star fund), Orion Electronic Company (by the Metlin Patterson fund), Mando (by JP Morgan) and Meritz securities (by PAMA) are examples of firms with similar experiences (Lee J-H 2006; Im J-I and Chang W-S 2008).

The more the private equity funds were eager for the retrieval of invested capital and return, the more the long-term viability of the corporation was neglected. Such industrial virtues as devotion to technology and innovation, the artisan spirit, and the social responsibility of corporations became obsolete in the face of the “money game” of the alternative investors. The three Korean banks, for example, discarded the role of “enduring capital” after they were sold to the private equity funds. They drastically withdrew their loans to corporations while increasing household loans and mortgage loans which were relatively safer in Korea (Lee J-H 2006).

These experiences illustrate the norm on which alternative investment was based on: ‘privatizing the profits while socializing the expenses’ (ibid: 163). Almost without exception, the employees were the first targets of the restructuring in order to enhance the value of the company. For instance, the 1,500 employees of the Orion Electronic Company, once the world’s third largest display maker, suddenly lost their jobs when Metlin Patterson, an American based private equity fund, broke their promise⁹⁰ and liquidated the company in October 2005. The 50 year old company was liquidated just 6 months after the private equity funds took it over. The government’s support for a deal that aimed to retain the employees was, in this instance, fruitless (*Hankyoreh*, 9 Feb. 2006).

8.8 Case Study: Lone Star’s Buy-out of KEB

This case documents the process of selling a quasi-nationalized commercial bank to a foreign private equity fund; Lone Star’s buyout of the Korea Exchange Bank (KEB) in 2003. This deal shows clearly the significance of “invisible power” in the area of the economy. Although the large commercial bank was very importance to the national economy, almost every aspect of the take-over deal was outside the public sphere behind the culture of confidentiality. The media and the general public were at best uninformed bystanders or the subjects of strategic public relations (PR) from the elites in the network.

Thanks to the fact that the deal has been a matter of concern for several years in Korea, this case study is able to make use of a broad range of official materials,

⁹⁰ Metlin Patterson promised the labour union that it would not lay off employees for three years and would invest in research and development (R&D) when they took over the company. But Metlin Patterson sold the company to Oceanlink in Hong Kong immediately after the take-over. The relationship between Metlin Patterson and Oceanlink was not clearly known, but Oceanlink insisted that it had no obligation to keep Metlin Patterson’s promise.

including the reports from the Board of Audit and Inspection (BAI),⁹¹ the indictment of the Supreme Prosecutors Office (SPO),⁹² the judge's decision, as well as reports from civil groups, media coverage and several interviews with interested persons. Regarding the media analysis, a total of 211 articles were collected from the ten national dailies and two economic dailies. From these, 109 pieces were finally chosen for the analysis based on their relevance.

8.8.1 From success to turmoil

The U.S. based private equity fund's take-over of the fifth largest commercial bank in Korea was the biggest foreign buy-out, with over 1 billion dollars of cash investment since the economic crisis in 1997. The deal seemed to have been successful like several previous buy-outs of banks by foreign PEFs.

In less than two years, however, Koreans were embroiled in a big socio-economic controversy which was provoked by the deal. Frustrated by the 300~400% of windfall-like returns of Lone Star in a relatively short time, many Koreans come to realize that something was wrong with the foreign investment funds' take-over of Korean industries. The media, reflecting this negative public sentiment, have framed the deal as being the apex of foreign attacks on the Korean economy. The Parliament, the BAI and the SPO consecutively set out to investigate the legitimacy of the sale. In late 2006, the SPO announced that there were serious breaches of regulations in the M&A deal, including an intentional undervaluing of KEB (SPO 2006). Around 20 government officials, foreign fund managers, bankers and advisory specialists were put on trial, charged with malpractice or a conspiracy to deceive.

Considering the friendly treatment of Korean governments towards foreign investment, the official investigation of the deal was exceptional. Though the litigation has resulted in a mixed verdict, including several bitter blows to the prosecutor, it is significant that the investigation and subsequent litigation have

⁹¹ A government department which deals with official discipline.

⁹² A senior prosecutors' office in Korea which deals mainly with significant offences.

revealed the inside stories of the clandestine investment network. The multilayered connections between policymakers, advisory specialists, bankers and investment funds had crucial weight in the making of the deal. With these symbiotic connections, a seemingly impossible or arguably unlawful M&A deal was approved by the authority.

8.8.2 The global-national nexus

The “project knight”

KEB was a commercial bank which was partly nationalized after the financial crisis. In 2002, KEB again fell into the red because its corporate lending was deteriorating due to the prolonged economic slump. The government and the top management were compelled to increase KEB’s capital to prevent the capital adequacy ratio (BIS ratio) of the bank from sliding down to under 8%, the guideline that indicates the soundness of a bank. This exigency coincided with the desire of Lone Star which sought to buy a commercial bank in Korea, notwithstanding two previous unsuccessful efforts.

The aim of Lone Star was clear from the start. It wanted to subscribe more than 50% of the stakes, as cheaply as possible, for a maximum of \$ 1 billion. The majority stake, Lone Star hoped, could give it the leverage to yield a better return from the investment. When the country manager of Lone Star spoke his mind to a local head of Citi-Saloman Smith Barney (SSB), according to the court statement, the veteran consultant thought to himself that ‘anyhow this man picked the right thing’ (Spec Watch 2009: 251). But Lone Star’s dream could not come true without overcoming several obstacles.

Firstly, Lone Star had to persuade the existing major shareholders to sell their stakes because they, including the top management of KEB, just hoped to raise the due amounts of capital rather than inviting a new owner. Secondly, Lone Star was not entitled to purchase more than 10% of the stakes, because the

Korean “Law on the banking industry” does not allow non-bankers, e.g. PEFs, to become owners of a commercial bank.

Lone Star recognized this restriction as the most critical issue at the final stage of the deal (the so-called “qualification issue”) and tried its best to work out a solution. One possibility was applying the “compelling reason” of the law that permits a non-banker to take-over a bank. This clause could be applied only when the bank is in such a dire situation that the Financial Supervisory Committee (FSC) ordered the bank to take compulsory restructuring measures. Yet, this was infeasible because KEB, even though its soundness was declining, was expected to retain a sustainable capital base according to the audit of the Financial Supervisory Service (FSS).

To tackle these obstacles, Lone Star hired Kim & Chang as its legal advisor and SSB as a lead manager. The master plan of the deal, namely “Project Knight”, was drafted by the two advisory intermediaries at the end of 2002 as a first step towards carrying out a seemingly unachievable mission.

PEF – Advisory specialists – Policy makers

To state the conclusion first, “Project Knight” has succeeded. In the making of the deal, the government officials played a crucial role as a major stakeholder of KEB, as well as the regulator of the banking industry. The BAI and the SPO later concluded that, without their intimate collaboration, the M&A deal could not have been achieved (BAI 2007; SPO 2006). In particular, the Ministry of Finance and Economy (MOFE), and the Financial Supervisory Committee (FSC) ran the risk of stretching the financial regulations in Lone Star’s favor.

As the policy decisions are not made in a vacuum, it will be useful to examine the social connections or the network around the policymakers. Through this, we can discover what influenced their attitudes and decisions. Throughout the deal, one official in the MOFE, Byun Yang-ho, played a critical role in coordinating various parties of the deal. Byun, a director of financial policy,

virtually managed the deal in close consultation with the president Lee Kang-won of KEB, the law firms and the consulting firms. Due to his role in the deal, director Byun was indicted for malpractice in late 2006.⁹³

Byun had several important connections. For example, he had two friends who were graduates in the same class in Kyongi high school and Seoul National University, the two most prestigious schools in Korea. One is Kim Eun-sang, a country manager (president) of SSB, a lead manager of this deal. Kim told later that his main duty was to persuade two intractable directors, i.e. Byun in the MOFE and Kim Seok-dong in FSC.,⁹⁴ to take a favorable view of the structure of the deal which Lone Star had proposed --buying over 50% of the shares (Spec Watch 2009: 252).

The other key person was a lawyer named Ha Jong-sun who was hired by Lone Star. He was also an old schoolmate of director Byun. His main duty was to persuade Byun to accept Lone Star's solution to the "qualification issue". His role was so crucial that it determined the success or failure of the deal. According to the SPO indictment, Ha secretly received \$ 1.05 million in commission from Lone Star, with the compliment that he had played a 'key' and 'valuable' role (Spec Watch 2009: 227). He was also accused of illegal brokerage in late 2006.

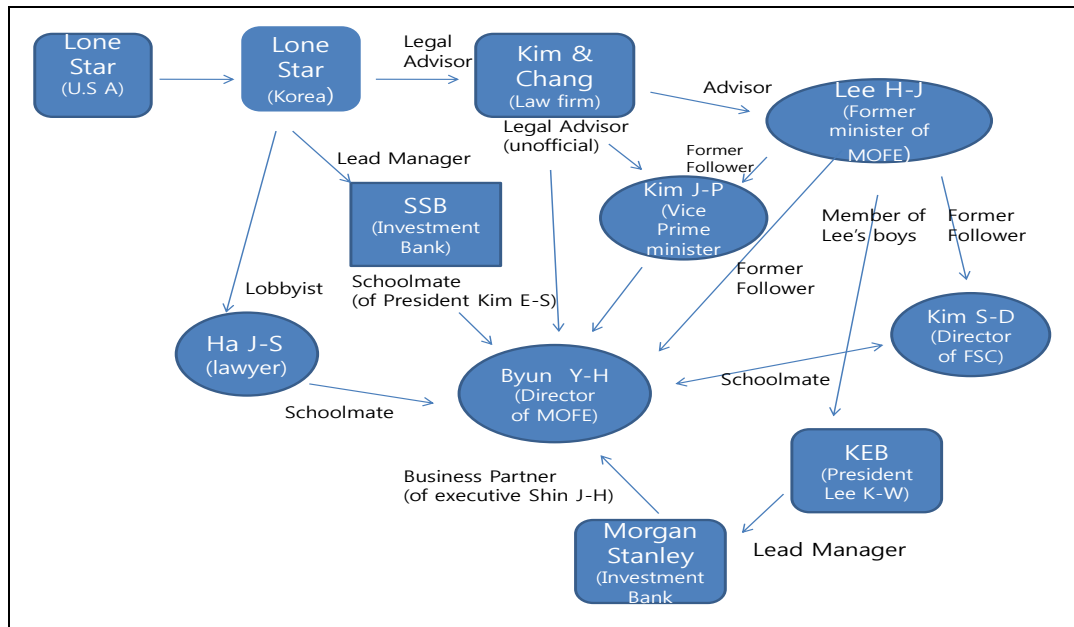
However, it was argued that there might be stronger overarching influences on the officials, as well as the top management of KEB, from senior officials such as the deputy prime minister or the secretary of the president (*Ohmynews*, 4 Dec. 2006). Because of these influences, the role of Kim & Chang, the legal advisors on the deal, attracted particular attention. Civil groups accused the law firm of having provided not only the logic of the deal but also the connections for the lobbying. At the center of this accusation, there was a former finance minister,

⁹³ After three years of litigation, he was declared not guilty at the higher court. But the litigation, as a matter of process, was not able to decide whether there were any invisible influences or not.

⁹⁴ Director Kim Suk-dong in FSS played relatively passive role, compared with Byun, in the deal. But his role was not minor, since he was a director of the government committee which had the right to approve the takeover of a bank.

Lee Hun-jae, who was then a councilor of Kim & Chang. Lee was believed to have a wide range of connections and to have considerable influence on financial industry and policy networks emanating from his career as a minister of MOFE and a commissioner of FSC. Indeed, he was appointed again to the deputy Prime Minister of the MOFE in early 2004. There were several media reports, after the deal began to be questioned, that raised questions about his advisory role in the deal (for example, *Hankyoreh* 18 Jun. 2006; *Chosun* 3 Nov. 2006).

Figure 8- 1: The Global-National Network of the KEB-Lone Star Deal



Source: *Seoul* (8 Dec 2006)

Indeed, President Lee of KEB was reported to be one of the key members of “Lee’s boys” (*Maeil Business Newspaper* 20 Jun. 2006; *Weekly Kyunghyang* 30 Jun. 2006). He was praised by Lone Star as an ‘unusual seller who actively supports the buyer’ (SPO 2006: 37). In return for this support, he teased Lone Star for guaranteeing his post as president (Ibid: 29). Apart from these connections, there were several other government officials and advisory intermediaries who were connected with each other around this deal. Figure 8-1 is the diagram that shows these connections.

8.8.3 A snap shot: decision making within a closed circuit

Unusually, thanks to the public investigation, the black-box like features of the M&A deal could be exposed. Among various anecdotes, one snapshot showed well how the network of the “iron triangle” operated within a closed circuit of communication.

When the so called “qualification issue” arose, in June 2003, the deal was approaching a critical phase. By that time, however, only a handful of people knew that Lone Star wanted to buyout KEB. This was because several key negotiators had monopolized the information and deliberately misled the other interested parties. Director Byun, for example, did not provide detailed information even to the relevant directors in his department. His office deliberately misled other departments by calling the deal, in its official documents, an “increase of capital” instead of a “buy-out”. President Lee of KEB also did not report fully to the board of directors, even after an important decision had already been made (SPO 2006).

As the negotiations continued, however, the deal could not be finalized without settling the “qualification issue”. The country manager of Lone Star, Stephen Lee, with his lobbyist Ha Jong-sun, continually lobbied director Byun and President Lee of KEB to apply the “compelling reason clause” in the financial supervisory regulations, which exceptionally permits PEFs to take-over a bank only when its situation is dire. But the obstacle was that the KEB was not insolvent, hence it did not fall under this provision.

The expedient that the Lone Star found was to construe the compelling reason clause to suit its purpose. Kim & Chang prepared legal advice that the compelling reason could apply to a bank which was expected to become insolvent in the near future. Lone Star persuaded the director Byun with this legal advice and finally succeeded in getting his promise to help. After deciding to give the green light, ironically enough, Byun’s office justified its decision by reference to a secret document named ‘Concerning Lone Star’s qualification for

taking -over KEB’, which was provided by Kim & Chang themselves (Im J-I and Chang W-S 2008: 13).

Once the plan of the deal was prepared, the next step was to provide a financial projection which could highlight the miserable future financial condition of KEB. The top-management of KEB prepared different versions of BIS capital adequacy ratio projections supplied by accounting firms. In order to force the government to give special permission, they provided the ‘worst possible scenario’ when the recipient was the Ministry (BAI 2007: 41).

Having prepared the legal analysis and the financial projections, Byun arranged a secret meeting with several officials from the relevant departments and persuaded them to accept the solution that Lone Star had proposed. When the FSC preliminary session was held on 25 July 2003 in order to discuss the deal, the final decision was virtually made by the working-level officials and lobbyists. The outline of the price of the bank, for example, was drafted by Byun, the country manager Lee of Lone Star and the lawyer Ha ‘over a private dinner table’ as long as four months before the FSC meeting was scheduled (Im J-I and Chang W-S 2008: 137). Without sufficient evidence to oppose the deal, the FSC helplessly gave it a “rubber stamp”.

8.8.4 The economic power behind the “private fence”

Closing of the public debate

Since KEB was a big commercial bank with a lot of industrial and household borrowers, the possible change of ownership rightly deserved public attention. Media coverage of the deal, however, suffered from the culture of confidentiality. Though the journalists may have competed with each other to get some scoops, the information available was scarce and often inaccurate. The analysis of press reports shows that several clusters of reports intermittently relayed the progress of the deal, relying on official announcements or unidentified sources. But the reports, in terms of their timing and accuracy,

generally missed the critical pending issues of the deal when they are compared with the real progress of the deal that was later revealed to the public by the prosecution.

For instance, the most critical issue -- qualification --, which might have broken the deal during the final phase, was almost never covered by the media. According to the later investigations, there were a lot of interactions between Lone Star, advisory firms and government officials, from early June to the end of July 2003, to find a solution to the qualification issue.

Table 8-4: Media Coverage of the KEB-Lone Star Deal

(Dec.2002~ Jul. 2003)

	<i>Dec.</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun.</i>	<i>Jul.</i>
Major issues of the deal	Kick-off the deal		-----→			Price issue	Qualification issue	Government decision was made.
Media coverage			-----→		Kick-off the deal (2~3Apr.)	<i>No price issue</i>	<i>Sell 51% or not (17 May~4 Jun.)</i>	<i>No qualification issue</i> Vice minister gave green light (23 Jul.)

1) Pieces from newspaper about the KEB-Lone Star deal were analyzed in comparison with the BAI investigation reports and SPO indictment.

2) In order to draft Table 8-4 and 8-5, a total of 211 articles were collected from the ten national dailies and two economic dailies. Among these, 109 pieces were finally chosen for the analysis on the basis of their relevance. The articles were collected from KINDS entering keywords for both KEB (*Weihwanenheng*) and Lone Star (*Lonestar*). The pieces from *Chosun* and *ChungAng* were collected from their own websites. The period of collection was between 1 December 2002 and 31 August 2003, which was from the start of the proposal for the deal to the contract. The titles of the newspapers were *Chosun*, *ChungAng*, *Dong-A*, *Hankyoreh*, *Hankook*, *Kyunghyang*, *Munhwa*, *Seoul*, *Sekei*, *Kookmin*, *Mail Business Daily*, *Hankook Economic Daily*.

However, among 109 articles, not a single piece at that time managed to unravel the interplays that, two years later, would provoke such major controversies over the legitimacy of the deal. Only ten pieces questioned whether the private

equity fund's takeover of the commercial bank was legitimate or not (*Segye*, 29 Jul. 2003; *Kyunghyung*, 30 Jul. 2003; *Seoul*, 6 Aug. 2003, for example). But these articles were just calling attention to the financial principles without knowing the seriousness of the issues among the parties of the deal. There was also no media coverage of the two unofficial meetings of government officials in July, where the decision to give Lone Star special permission was virtually made. In this sense, the journalists were almost completely blocked from any information about the deal.

The thick screen of confidentiality surrounding the network has effectively blocked outsiders, including journalists, from obtaining this information. Journalists whom the researcher interviewed said that “no comment” or “there is no one here to answer the question” were the usual replies of the parties that were involved in the deal (for example, Im Dae-hwan, 18 Feb. 2010; Cho Hae-dong, 21 Jan. 2009). Lone Star, as is usual in the case of PEFs, did not even have press officers on their staff until early 2005.

As the information was almost completely blocked from the media, the investigative pieces or reports raising questions about the deal were rare. Table 8-5 shows the analysis of the coverage. Most of the report normally relied on weak sourcing, using such phrases as “a senior official said” or “it is said to be”. But these reports were simply denied by the funds and the firms. Otherwise, attention was deliberately diverted in other directions, as we can see from the fact that the financial authority, until the last phase of the deal, called the deal a just share issue instead of management buy-out.

Table 8-5: Analysis of the Media Coverage of the KEB-Lone Star Deal

Category	Items	Frequency (N=109)	Proportion (100%)
Type of reporting	Straight news	80	73.4
	Analysis	26	23.8
	Investigative pieces	3	2.8
Tone of the reporting (about the deal)	Supportive	5	4.6
	Neutral	91	83.5
	Questioning	13	11.9
Type of main sources	Official announcement	43	39.4
	Named sources	11	10.1
	Unnamed sources	29	26.6
	Picking up other reporting	13	11.9
	Others	13	11.9
Main cue givers	Government officials	17	15.6
	Lone Star	4	3.7
	KEB	51	46.8
	Assistants (Law firms, Consulting firms)	0	0
	Others (a source in the financial industry etc.)	37	33.9
Main thrust of the pieces	The deal is in process	53	48.6
	The scheme of deal (Capital raise or buy-out etc.)	17	15.6
	The issue of price	10	9.2
	The issue of qualification	10	9.2
	Others	19	17.4

Several media, for example the weekly *Newsmaker* (12 Dec. 2006), tried to carry out investigative reporting on the network. But they had to face intimidation, including the prospect of being sued for huge amounts for libel from the law firms or consulting firms (Im J-I and Chang W-S 2008: 183). The journalist Ha Jung-min said:

‘(not only foreign funds but also) Law firms and consulting firms are basically impregnable fortresses to the journalists. I often noticed that senior journalists were striving to contact them through every path of personal connections and begging them *just confirm with a yes or no answer, please*’ (Interview, 29 Jan. 2009).

Strategic use of the media

While the process of the deal has scarcely come into the public awareness, some information was deliberately leaked to the media. This strategic management of the media has proved to be fairly effective, because journalists had little choice but to rely on such leaks because of the paucity of information. Crosschecking of the information was almost impossible. This was a similar situation to that of a war, where the sources have a firm grip on all information (Herman and Chomsky 2002).

When the deputy Prime Minister Kim Jin-pyo of MOFE did an exclusive interview with *Bloomberg* on 22 July 2003, the closed-door deal emerged as an official policy agenda. He gave a hint that the government would allow Lone Star to become the owner of KEB, rather than just increasing its capital. He said that ‘we are now thinking of selling to Lone Star all or part of the shares (32.5%) that EXIM (a government-run bank) possesses’ (*Dong-A; Hankyoreh*, 23 Jul. 2003). This story ran, quoting the interview, in most of the mainstream Korean media, achieving considerable weight.

But the suspicion mounted, when an FSC document on the deal was disclosed several months later, that this interview was a well-timed spinning of the deal.

The document showed that at that time Lone Star, fearing that they would lose the deal due to the qualification issue, kept asking the government for a “verbal assurance” of the eligibility of Lone Star as a majority shareholder (*Shindong-A*, 1 Feb. 2005; *KBS*, 19 Mar. 2006). One report runs: ‘the question arises whether it was because of the importunate request of Lone Star that the vice prime minister, by means of interview with the foreign media, hurriedly publicized Lone Star’s buying out (of the bank)’ (*Shindong-A*, 1 Feb. 2005).

In terms of timing, this interview which made the KEB deal into an established policy was carried out three days before the FSC meeting. In Korea, the deputy prime minister who was in charge of overall economic policy has considerable influence on other economic departments, including the FSC. His interview might or might not have had an influence on the FSC, but the committee gave confirmation to Lone Star that it would approve the deal ‘regardless of the qualification issue’ (Lee J-H 2006: 46-48). It was also made known that several days before the interview, an advisor from Kim & Chang played golf with the deputy prime minister Kim as part of their lobbying efforts for Lone Star (Im J-I and Chang W-S 2008: 160-161).

Also strategic PR was mobilized when the network faced a crisis from around 2005, due to the escalation of critical public sentiment in relation to the deal. It was carried out in a carefully administered manner, selecting the timing and the media. The law firms and consulting firms tried to make use of the media only when they needed them. Kim Kyong-wha, a journalist at Bloomberg Korea, said:

‘One day a senior lawyer phoned me and proposed to have lunch. His law firm was an advisor of Lone star. ... I was surprised, because the lawyers have been incredibly difficult to contact by any means. But this time they phoned me first. ... During our lunch, the lawyer devoted most of his energy in defending his client’s position. ... I felt that these guys move fairly strategically in dealing with the media. When we need them, they never answer. When they need us, they call us spontaneously’ (Interview, 28 Jan. 2009).

Lone Star later hired a local PR agency and defended its position by, for example, putting a column in the national press. Unusually, in mid 2007, the Chairman John Grayken of Lone Star had a series of e-mail interviews with several national media outlets. In these interviews, he insisted that Lone Star would reinvest in Korean industry for a long time, even after it would sell KEB (*Yeonhap*, 25 Jun. 2007; *Reuters*, 30 Jun. 2007). But these exceptional interviews turned out to be a prelude to its exit strategy, because not long afterwards it was disclosed that Lone Star had at that time begun negotiations with the HSBC, the world's largest bank, in order to sell KEB.

8.8.5 The social consequences of the “iron triangle”

According to textbooks of finance, to invest is to take risks. The amount of profit or deficit, principally, should be proportionate to the scale of the risks that one takes. However, it is also true that this principle does not always work. Lone Star can be said to have taken risks when it invested in an ailing KEB in 2003. But the problem was that, for many Koreans, its returns looked disproportionate to the risk that Lone Star took.

After the two years of the lock-in period elapsed, Lone Star started to grope towards selling KEB from the end of 2005. By that time, the bottom line of KEB had changed dramatically and it had begun to make an unprecedented profit, as much as 1.9 trillion won in 2005 (\$1.7 billion), 1 trillion won in 2006 (\$900 million) and 0.95 trillion won in 2007(\$860 million). Thanks to this drastic turn-around of profitability, KEB has attracted a lot of bidders from around the world, including KB, the largest Korean bank, and HSBC. And the return that Lone Star could secure was estimated to top 5 trillion won (\$4.5 billion) in the mid 2011, including the dividends that it has already garnered.⁹⁵

⁹⁵ The return has been further inflated because of the call option which was not publicized at the moment of the closing of the deal.

This splendid return from the investment could hardly be matched by any other financial investments (*Dong-A*, 4 Jul. 2011)

What made this change possible in such a relatively short period? Indeed, Lone Star has tried to increase the corporate value of KEB. But this was largely based on the typical restructuring principle of PEFs -- the maximization of profit in the short term. The new managers of KEB cut 18% of its staff within less than one year of the takeover, when the bank had already started to make a profit (*Kyunghyang*, 13 Oct. 2004). And KEB has put more stress on its mortgage loans, which was a safer way of lending in Korea, while reducing its commercial loans to industry. The percentage of loans to small and medium sized industry by the KEB after Lone Star take it over was 34% of their total loans, while it was 51% in the banks that were owned by domestic capital in 2005 (*E-Daily*, 2 Mar. 2006). The reduction in the number of staff, and the discarding of its “enduring capital role”, may have been the last thing that Koreans expected from the new foreign owner of a domestic bank.

However, it was widely accepted that larger parts of their huge profit came from the upturn of the economic cycle. The recovery of the global economy from mid-2003, along with that of the Korean economy, has helped companies to boost their profits, and has transformed a lot of the non-performing business loans of KEB to lucrative assets. And it was argued that this upturn in their profits was duly anticipated at the height of the negotiations, as many pieces of evidence showed that the bottom line of KEB had already passed its worst point around the middle of 2003 (BAI 2007: 27-28).

This suggests that KEB was sold at an unduly low price to private equity funds, which generally sought short-term profit maximization rather than devoting themselves to the substance of the business. Public sentiment has rapidly worsened towards foreign investment funds as many Koreans have become fed up with a series of casino-style financial investments since the economic crisis. Statistics show that a majority of people think that the deal revealed collusion between investment capital and government officials. An opinion poll showed

that 72% of respondents thought that the accused, i.e. key government officials and advisory specialists, should be remanded in custody due to the significance of the collusion.⁹⁶ From another opinion poll, 77.6% of respondents answered that they thought there might be collusions between government officials and Lone Star in the M&A deal.⁹⁷

Regardless of the verdicts of the key negotiators, it was widely accepted by the people that small numbers of networked financial elites and their invisible decision making processes have alienated journalists and the general public from engaging in important issues in relation to their economic lives.

8.9 Conclusion

As is normal with the crisis-hit economies, the debacle made the Korean economy a lucrative “hunting field” for global investment forces. A lot of distressed assets, debt-ridden financial or industrial corporations came on the market in the “fire sale”. The Korean government lifted almost every restriction on capital movement and investment in order to foster business restructuring and to invite foreign capital. The FDI and alternative investments have flooded in, so that vulture investments, minority share purchases and buy-outs of a firm became, initially, the daily business of the foreign capital, and later of the indigenous capital too.

Alongside this development, the discrete expert network consolidated around the common interest of the main participants in the field. The advisory intermediaries have played an active role in the network as they sought to furnish total solutions for their clients, including expedients based on social networking. When the network had inflated its power to the verge of controlling the decision-making of the government by way of its symbiotic relationship

⁹⁶ This poll was taken by Realmeter (<http://www.realmeter.net/>), a polltaker, interviewing 711 people around the country on 6 November 2006.

⁹⁷ This poll was taken by Pol & Poll (www.polnpoll.com), interviewing 2,000 people around the country on 26~27 April 2006.

with policymakers, e.g. through the “revolving door” practices, it resembled what is called the “iron triangle” in America, a connection between Wall Street, the White House and the munitions industry.

Although the decisions of the investment network had an increasing impact on Korean economy and society, most of the activities of the network remained outside public awareness. The barriers of technical expertise and the culture of exclusiveness have prevented the general public and the media from accessing information about what was happening, because a lot of the deals and investments took place behind the scenes within a closed network of the Korean iron triangle. Apart from the major shareholders, the stakeholders were just left as bystanders.

This “invisibility” was enough to raise concern about democratic accountability, as many of these activities have serious implication for the public sphere. A lot of the mega-deals, for example, were the sales of public property, such as the privatization of nationalized financial firms. The deep engagement of the government officials with the networks often incurred suspicion of “access capitalism”. This was all the more serious because the deals usually resulted in mass dismissals, closing-down of factories, and the outflow of a huge amount of national wealth.

Chapter 9

Conclusion

9.1 The Purpose and Summary of the Thesis

This thesis was initially inspired by the observation that the standard of living of ordinary Koreans has consistently fallen in line with the neo-liberal transformation of its economy and society, especially after its economic crisis in the late 1990s. From the literature review, it was hypothesized that the transnational market forces limited the scale and capacity of the democratic politics, which should ease the harshness of the market system that inevitably generates inequality and the deterioration of social cohesion.

About the downsizing of the democratic politics, two distinct points were singled out from the literature. The one was the salient trend of “closing” of politics in which socio-economic domains were increasingly distanced from democratic governance. The other was the “colonizing” of politics, in which decisions with significant impacts on many people were frequently made by small numbers of economic elites who operate with minimal transparency, legitimacy, and accountability to the national public. Both tendencies, interlocked with each other, brought about a massive shift of resources and power toward transnational market forces, including managers of TNCs, financial capitalists, advisory intermediaries, and bureaucrats in Korean government and international institutions.

Based on these theoretical considerations, this thesis set out to investigate the mechanisms and features of “downsizing of politics” in Korea, with particular interest in the “power value” of the media and communication. Specifically, the research aimed at clarifying the discursive and non-discursive process of power outside the public sphere, as transnational market forces often operate with minimal public accountability. This research aim led to the employment of an alternative approach that focused on the micro-process of power in four key transnational elite sites (or networks). In particular, this thesis investigated how the routinized norms, ideas, practices and communication in the sites repeatedly shaped decisions that had a considerable impact on the general public.

Chapter five investigated the discursive construction of “closing” of democratic politics in the context of Korea after the economic crisis. The diffusion of market fundamentalism and globalism, combined, led to the discourse of “economy first” in which various dimensions of society were to be subordinate to the imperative of the economy. From the discourse that sees politics as a “necessary evil”, a moral order has emerged that preferred the market to politics, experts to politicians, private to public, and efficiency to deliberation. Democratic politics, driven by the tenet of “separation of political and economic matters”, succumbed to the elite private interests. Throughout these processes, Korean economic experts in academia, government and the media played an active role as a pre-existing expert group or epistemic community, through which specific ideas and beliefs were communicated and legitimated. This was facilitated by their shared intellectual background of Chicago School economics, networked connections with the experts in the U.S.A., and exclusionism toward alternative intellectual concepts.

Chapters six to eight documented the “colonizing” of the public and politics by corporate, financial and professional elites. Chapter six explored the mechanism of influences whereby the Korean business elites (chaebols) gain control over the government policy for their benefit. In addition to the traditional accounts of the business elite’s influence on the state, e.g. educational background and regular exchange of personnel, this chapter focused on the cultural, media and discourse factors which dominated policy debate and knowledge of the economy. The chaebols produced the policy knowledge and controlled debate mobilizing their superior resources, including in-house think-tanks, strategic PR, and the co-opted journalists and policy-makers. By privileging their arguments while disqualifying others, the chaebols dominated policy decisions. The unbalanced ecosystem of policy knowledge and debates in Korea advanced the benefit of corporate elites to the detriment of the resource poor groups.

Chapter seven documented the mechanisms of influence of the global financial market on firm and household behaviour. After the full liberalization of foreign investments, the neo-liberal financial rationality, which upholds share holder

value or growth momentum was introduced and constituted as common sense. Specific performances, practices, discourse and communication in private or mass form, emanating from this new management ideal, not only gave signals and incentives to but also appraised, punished, and disciplined the corporations. As corporate managers became more cautious about the evaluation of the financial market by such league tables as ROI or ROE, firms were forced into regular restructuring, downsizing and job shedding. Through the dominant financial rationality and metrological performances, financial elites have effectively directed Korean savings and industry toward their profit-making goals at the expense of traditional industries and household savings.

Chapter eight investigated the process of power around the advisory intermediaries -- the mediators of the globalization of investment and production -- which operate in networks with the foreign direct or fund investors, and national government. Along with the “fire sale” of financial and industrial firms after the economic crisis in the late 1990s, the discrete expert networks were consolidated and increased their influences to the verge of controlling the government’s decision-making. But most of the activities in the network were outside public awareness, as this site was an arena of technical expertise and of exclusiveness and secrecy. What was notable was the difference in the mode of communication between private and public: the network cultivated a symbiotic relationship with one, while garnering “invisibility” from the other. This invisibility raised concerns about democratic accountability because many of their activities, such as the sales of nationalized banks, have a major impact on the public sphere. Moreover, the deals often resulted in mass dismissals, closing-down of factories, and the outflow of a huge amount of national wealth.

9.2 The Findings and Discussion

9.2.1 The communicative practices of the elite sites

This thesis investigated the “power value” of the media and communications, mainly focusing on the private communicative practices of the powerful in elite sites. This is not because the mass form of media is no longer effective in the mediation of power, but because multiple and intensive forms of private communication have become increasingly influential in the neo-liberalized political space or public sphere that increasingly replaces democratic structures. These communication practices often take place outside the public sphere without reference to the majority of citizens. Deacon (2003: 214) rightly pointed out that ‘powerful institutions and individuals seek to exert influence and construct political discourses in arenas other than the media’.

In terms of shaping information environments, forms of elite communication strategies, such as policy planning, lobbying and the establishment of new laws on the financial market, were examined. The mass media was an important resource for such research, but, as Dinan and Miller (2009: 261) suggested, grey literatures, including trade, specialist and professional publications, was also given careful examination.

Each elite site or network was characterized by an intensive communication environment, either in private or in public form. In these communicative spheres, news, data and information were gathered, shared, interpreted, and negotiated. In turn, an insight was extracted for the benefit of decision-making. The chaebols headquarters filed information obtained from various sources, including senior managers’ private correspondence, in order to get tips in relation to business or to “hedge” against possible politico-legal risks. In the financial market, fund managers, analysts and economists relentlessly talked to each other in order to get a triggering insight. A lot of additional information, rumours and interpretations were concomitantly exchanged through instant messengers and phone calls. For the law firms, consulting firms and investment funds, it was communications with clients or policy-makers that enabled them to draw up a mental map for their consultations, thus gaining a critical edge about possible deals.

Several private and less visible forms of communication were observed to exert critical influences in the shaping of elite power in this research. As the government policy-making increasingly tuned into the game of knowledge and discourse, Korean business elites have developed ways of informing the policy makers via practical ideas and knowledge. While part of this policy planning was carried out by building public opinion through the mass media, it could not have been so effective without the ordinary provision of policy ideas, i.e. “brain sharing” between chaebols think-tanks and policy makers. The headquarters of chaebols also enhanced the impact of this knowledge and discourse by mobilizing strategic public relations (PR), in which they meticulously design its procedures, finely targets small numbers of the elite audience, and systematically organizes resources.

The professional investors in the Korean financial market develop discrete and cohesive culture and communication networks. Here, private communication is an incubator for good decision-making. News of the financial media was circulated amongst limited numbers of market people who had considerable knowledge and interest in the economy and finance. The behavioural and psychological particularity of the market endows the financial media with the position of market participants. Through this closed communication network, specific management ideals, which are often narrow in their social vision, emanate from and are promoted by financial elites. Because they shared market information, a belief in neo-classical economics, and a specific rationality, market elites often slid into one-sided expectation and herd-like behavior that had serious impact on the whole economy and society.

In the global network of financial intermediaries, internal and private communication is very active as information is almost everything in the network. When it comes to the decision-making level, for example, the manager of a PEF, the partner lawyers and consultants, executives in the investment bank and high-ranking policymakers often develop overlapping elite communication networks, within which they develop a symbiotic relationship. However, communication with the public is limited and most of the activities

and information are closed to outsiders. This is a field of hermits where the actors hide behind the esotericism of expertise and the thick curtain of the “confidential agreement” that they sign in the first place as part of the deal. Journalists are, in general, blocked from the activities and information in this field, other than when the actors in the network try to mobilize strategic PR.

9.2.2 The process of power in the elite sites

This thesis has documented the process of power that was in operation in the sites of liberal market forces. Among many aspects or dimensions of power, the researcher paid particular attention to the socially structured and culturally patterned behaviors that generates “mobilization of bias”. It was a mobilization of bias in the sense of, as Bachrach and Baraz (1970, in Lukes 2005: 21) put it, ‘a set of predominant values, beliefs, rituals, and institutional procedures (rules of the game) that operate systematically and consistently to the benefit of certain persons and groups at the expense of others’. This is in line with the understanding that ‘localized or networked actions and decision-making have wider social impacts’ (Davis 2007: 170). Four types of power were observed in operation.

The first type of power involves the global imposition of the dominant political economic paradigm, for example, neo-liberalism. The international diffusion of free market orthodoxy has never been just an imposition because it was normally observed that the pre-existing expert group or epistemic community in a country played a missionary role. They reflected external constraints and reshaped them in accordance with the national context and political ends. Hence, the course and features of the internalization of the neo-liberal paradigm varied according to the “diffusion of the diffusers”.

In Korea, the America-trained economists in academia, the government and the media played the diffuser’s role. Based on their shared academic background, they had an intellectual affinity with American mainstream economics. A majority of influential economic experts in Korea obtained their MAs or Ph.D.s

in American universities and shared Chicago -style pro-market economic perspectives. They worked as a hub that linked the domestic and global spheres of economic discourse with their close connection to the American experts in academia and in supranational institutions, such as the IMF, the OECD and the World Bank.

They were also the main Korean recipients of the economic news and academic journals from the U.S. and the U.K. The monolithic academic culture in the community led to an intellectual inbreeding that gave anybody with an alternative perspective a wide berth and led to the academic community's voluntary co-option to the intellectual hegemony of the neo-liberal centre, i.e. to America. Thanks to this intellectual co-option, the interpretation of the economic crisis and subsequent policy measures, that shunned state intervention and democratic politics in economic matters, which were authored by the IMF, the American intellectuals and the media, have penetrated deeply into the Korean economy and society.

The second type of power involves controlling the scope and the options of policy measures through governing ideas and knowledge. With democratization and liberalization, the policy decision-making process, which had long been dominated by the state apparatus, evolved increasingly into a field of contention between the various participants. What is important here is the policy ideas and knowledge that help decision-makers in government and parliament to comprehend and deal with the issues properly. In an ideal situation, therefore, the policy-making process constitutes an "ecosystem" where policy knowledge is produced, circulated and consumed through an active interplay between, for example, think-tanks, the media, civil groups and policy-makers.

This ecosystem, however, works lopsidedly when a group with disproportionate resources dominates the process. The corporate elites, the chaebols in Korea, with their concentration of information, superior research capacity, strategic PR and dense web of social networks, command the process by privileging specific ideas and knowledge while ignoring others. The pro-business think-tanks,

especially, gain the interpretative initiative over various policy issues through their capacity to provide timely and handy policy knowledge. As policy-makers are co-opted into the intellectual leadership of corporate elites, the interests of business are generally advanced with only a passing consideration of counter-arguments or ideas.

The third type of power involved the growth of *arcana imperii* (secret power) in the guise of technical experts, which facilitated the squeeze of regulatory arbitrage from the national countries. In the investment of foreign financial and industrial capital in a national economy, it was normally observed that they extracted regulatory arbitrage based on their superior negotiating power. As this investment and regulatory arbitrage involved sophisticated calculation, as well as negotiations with many different national jurisdictions, the TNCs and funds relied heavily on the technical experts in law firms, consulting firms, public accountants and investment banks.

Alongside this development, a global-national network of investment emerged and rose to become a central domain of social and economic influence. The major restructuring and recapitalization of corporations, as well as the privatization of state enterprises, was carried out mainly through the facilitating role of the network between global capital, advisory intermediaries and the policy-makers. Their influence originated both from the technical expertise with which they could draw up so-called total-solutions, and the cohesive interactions from which they obtained information, advice and, sometimes, political favours. What made the networks even more powerful was their exclusive and exclusionary culture which made possible self-contained detachment from social responsibilities. The deal-making was deemed to be an arena of technocracy as well as an entirely private domain where financial, legal and managerial specialties prevailed.

In Korea, the investment networks inflated their influence to the verge of changing law and policy due to their superior expertise and their symbiotic relationship with the policymakers, e.g. the “revolving door” practices. But the

consequences of this development were not even, as deals often resulted in mass dismissals, closing-down of factories, and the outflow of a huge amount of national wealth.

The fourth type of power is engaged in the disciplining of corporate, government and household behaviour by the dominant set of investment ideals and related metrological devices in the globalized financial market. In the market, economics and measuring tools which are contingent to the dominant financial rationale play the role of “performation”. This denotes that, rather than simply recording a reality independent of themselves, they powerfully shape reality and “discipline” the behaviour of those who are measured.

After the financial crisis in Korea, neo-liberal financial rationality -- the maximization of shareholder value -- was introduced and shared as common sense. The fund managers, analysts, consultants and financial media formulated and promoted it as an alternative management ideal to the despotic corporate governance system of the chaebols. Specific performances or practices emanating from this financial rationality, for example the emphasis on ROA and ROE, give signals, enacting disciplinary power, to corporate managers and employers. The appraisal by the financial market as a form of share price came to determine the reputation of a company, the morale of the employers, the vulnerability of a company to a possible take-over bid, as well as the compensation package (e.g. stock options) of the corporate managers.

This financial rationality turned out to be fairly effective in disciplining the corporate management, but this was not without consequences for the overall economy and society. As managers became more cautious about the “bottom line”, firms were forced into relentless business restructuring and downsizing. Ever higher unemployment, especially among young people, and the weakening of job security, was an acute consequence, among many others, of the new rationality of the globalized financial market.

9.2.3 The media, politics and democracy

The study of the media and politics generally revolves around the theme of public opinion or consent. The legitimacy and the accountability of democratic politics are readily linked to the soundness of the interactions between the elite, the media and public. But, in the age of neo-liberal globalization, when the scope and the capacity of democratic politics are being downsized, this conventional interpretative framework struggles to explain the role of the media and communication in sustaining unequal power relations in society. Instead, this research paid more attention to the ‘closed communicative processes of *strong* public’ that are ‘increasingly replacing democratic structures under neo-liberalism’ (Dinan and Miller 2009: 261).

By employing an alternative approach to inquiry into the media and politics, this thesis discovered that there has developed a more complex and subtle form of political communication in recent decades, in line with social and economic changes. Economic elites in Korea have influence over the whole society not only because they always mould public opinion through the media but also because they inhabit the sites of power. In the site or field, the “mobilization of institutional bias” has a considerable impact on other areas of society. Thus, in their explanations, the media are not necessarily mobilized to inculcate ideology or to brainwash the public. Sometimes, far from forming public opinion, journalists are excluded from what happens in the elite sites or networks, as we emphasized in chapter eight.

A hegemonic global paradigm, such as neo-liberalism and the Washington Consensus, may be imposed on a country via an unequal flow of global economic news and its uncritical co-option by the local media and intellectuals. But the number of Koreans who regularly read the global news is small, let alone those who read the financial news. It is also difficult to detect any form of public opinion being formed in response to the global economic news. Rather, the dissemination begins from the shared preferences and ideas of economic elites in local countries, which are rooted in their educational background and

social networks. The media and communications here help them to spread ideas and discourses, and to consolidate the global-national epistemic community.

Business circles can still control policy decision-making by influencing public opinion with their considerable resources. The influence of the Korean chaebols on the media texts, through their control over ownership and advertisements, is always increasing. But the community of policy-knowledge which is mediated by the journalists can also provide a stable platform of influence for the big corporations. In ordinary times, the scope and angles of the policy are pre-determined within the narrow policy circle without any proper reference to the public sphere.

In the world of investment, financial elites can influence the text of economic news and general investors through their source power and advertising expenses. The financialization of household assets, e.g. the fund investment boom in the mid-2000s in Korea, illustrates well their public influence. But, other than that, the financial market and the investment network are basically discrete sites which are inhabited by a handful of members of the elites. It is a professional world which is full of acronyms, technical jargon and coded terms. Thus, in Korea as well, financial news is a unique interpreter of the views and values of limited elites, not of mass opinion. It is almost as difficult for general investors or general news outlets to influence the decisions of the fund managers or traders. And the network of intermediaries who organize the investment deals usually block out the media almost completely, no matter how their decisions at times generate detrimental effects for the economy and the society.

From this observation, it is obvious that, in many areas of Korean society after the economic crisis, the democratic politics of deliberation and will-formation were replaced by the technocratic rationality of experts and the cult of productivity and efficiency. The “broken promise” of democracy in Korea, i.e. the widening gap between the haves and the have-nots as well as the degradation of the standard of living, is closely related to this weakening of democratic politics by the “closing and colonizing” of politics. All of these

points suggest that the study of the media, politics and democracy should employ further the alternative or complementary paradigm that pays attention to this micro-process of power, instead of automatically presupposing the elite's indoctrination of the public.

9.3. The Contribution of this Thesis

This thesis has tested, through the analysis of the Korean experience of neo-liberal transformation, the emerging theoretical paradigm about the “power value” of the media and communication. Apart from the traditional approach, this thesis tried to broaden the issue of communication and power beyond the role of the mass media institution in power relations. Instead, it addressed the role of think-tank, epistemic community, policy planning, financial market and investment networks. Then it looked into what different type of mediation and communication play a key role in the communicative strategies of the powerful. It found that power also emanates from patterned behaviours that are mediated by less visible, more exclusive forms of communication of the elites. This may broaden our understanding about the utility of the media and communication in sustaining unequal power relations.

This thesis then linked these private forms of communication to the operational features of neo-liberal economic forces. Market liberalism, especially since its global advance in the 1970s, has narrowed the scope and scale of politics which is ideally characterized by participation, deliberation and will-formation. By “downsizing” politics, neo-liberal market forces relentlessly insulated power from democratic accountability. The growth of private and invisible forms of communication, and a technocratic esotericism that has been peculiar in the arena of economic life, evidently constitutes the neo-liberal governance of the present age. In this sense, an exploration of the least visible, most exclusive communication spaces is essential to the study of political communication in liberal democracies, where the importance of the parliamentary system is markedly declining. The analysis of the micro-processes of economic power,

including relevant case materials provided by this thesis, may be useful for the understanding of the dynamics of social relations in the period of neo-liberal globalization.

Ultimately, this thesis attempted to answer the question of why many newly democratized countries during democracy's third wave, including Korea, are suffering from a "broken-promise" of democracy or the retardation of substantive democracy. This question was illuminated with particular attention to the dual liberalization of these countries, i.e. the rivalry between economic liberalization and political democratization. The implication was extracted that the remedy begins with strengthening the scope and capacity of democratic politics.

Appendix 1: List of Interviewees

- Ahn Dong-won, an executive of Kium-Dot-Com Securities, 7 January 2009.
- Ahn Sun-hee, a business journalist at the *Hankyoreh*, 11 February 2011.
- Baik Kee-seung, a former standing director of the Daewoo business group, 10 December 2008.*
- Chang Ha-joon, a reader at Cambridge University, 16 December 2010
- Chang Wha-sik, an activist in Spec Watch (a watchdog civil group), 3 February 2009.
- Chang Young-soo, a senior Manager of the SK business group, 17 December 2008.*
- Cho Hae-dong, a business journalist at the *Munhwa Ilbo*, 21 January 2009.
- Cho Mee-young, a journalist at Thompson Reuters Korea, 16 January 2009.*
- Choi Gong-pil, an executive director of Woori Financial Holdings, 28 January 2009.*
- Choi Jae-hwang, a director of labor policy in the Korea Employer's Federation, 9 December 2008.
- Ga Jae-hak, a PR manager of Hanwha Galleria Co., 9 December 2008.*
- Ha Bok-yong, a broker at Nonghyup Futures, 22 January 2009.*
- Ha Jung-min, a business journalist at the *Dong-A Ilbo*, 29 January 2009.
- Han Jae-jung, an accountant of Deloitte Consulting, 22 January 2009.
- (Hwang O O), a managing director in the Federation of Korean Industry (FKI), 23 December 2008.
- Im Dae-hwan, a business journalist at the *Munhwa Ilbo*, 18 February 2010
- Im Jong-in, a former MP(The Uri Party), 11 February 2009.*
- Ji Young-gul, a senior equity fund manager in the Plus Asset Management, 13 January 2009.
- Jung Tae-ho, a former Presidential secretary of political affairs, 11 February 2009.*
- Jung Tae-in, a former Presidential secretary of economic affairs, 20 February 2009.*
- Kang Myeon-mo, a director of the Bank of Korea (the central bank), 5 January 2009.

Kim Han-jin, a senior equity market analyst in the Fides Securities, 9 January 2009.

Kim Kyong-wha, a journalist at the *Bloomberg Korea*, 28 January 2009.

Kim Sang-jun, a partner lawyer in Jipyung and Jisung (a business law firm), 2 December 2009.

Kim Sang-woo, a fund manager in the Military Mutual Aid Association, 19 January 2009.*

Kim Wan-ski, a former manager of the Lone Star (Private equity fund), 4 December 2009.

Kim Yong-ki, a research fellow of SERI, 15 December 2008 and 5 June 2007.

Kim Young-bae, a business journalist at the *Hankyoreh Shinmun*, 22 May 2007.

Kim Young-sun, an MP(The Grand National Party), 9 February 2009.*

(Kim O O), a manager of SK Telecom, 9 February 2009.*

(Kim O O), a managing executive at Samsung Electronics, 10 December 2008.

Kwak Jung-soo, a business journalist at the *Hankyoreh Shinmun*, 6 February 2009.

Kwan Oh-yong, an executive vice-president of SK holdings, 11 December 2008.*

Lee Choon-jae, a journalist at the *Hankyoreh Shinmun*, 23 November 2009.*

Lee Dae-soon, a lawyer in Jeongyoul (a business law firm), 30 November 2009.

Lee Hyun-suk, an executive vice-president of the Korea Chamber of Commerce and Industry, 11 December 2008.*

Lee Hyung-gun, a partner lawyer in Kwangjang (a business law firm), 10 February 2009.*

Lee Jae-kook, a journalist at the *Kyunghyang Shinmun*, 5 February 2009.*

Lee Jin-hyuk, a country manager in Calyon Bank, 19 January 2009.

Lee Jin-woo, an FX (foreign exchange) market analyst at Nonhyup Futures, 16 January 2009.

Lee Joo-hee, a former journalist at *Bloomberg Korea*, 10 January 2009.

Lee Jung-hwan, a journalist at *Media Oneul*, 11 December 2009.

Lee Kwan-woo, a senior fund manager in the Asset Plus, 6 January 2009.

Lee Snag-jun, a research Team Head at Golden Bridge Investment and Securities, 14 January 2009.*

Lee Won-jae, a former research fellow at SERI, 19 May 2007 and 8 December 2008.

Lee Won-ki, a CEO at KB Asset Management, 4 February 2009.*

(Lee O O), a former journalist at the *Maeil Business Newspaper*, 15 May 2007 and 3 March. 2009.

(Lee O O), a senior researcher in LG Economic Research Institute, 24 December 2008.

Park Chan-hi, a professor of economics in Chung-ang University, 30 January 2009.*

Park Hyun, a staff reporter at the *Hankyoreh*, 4 December 2008

Park Jae-ha, a Vice President of the Korea Institute of Finance , 16 February 2009.*

Park Sung-jin, a senior fixed income trader in the Samsung Securities, 15 January 2009.

Park Tae-gyon, an economic journalist at the *View and News*, 29 December 2008.

Shim Sang-jung, a former MP (The Democratic Labour Party), 9 February 2009.*

Shin Ju-hyun, a Vice President of the Korea Chamber of Commerce and Industry, 16 December 2008.*

Sohn Bok-jo, a CEO at Taurus Investment and Securities Co, 12 January 2009.*

Song Jung-A, a journalist at the *Financial Times Korea*, 3 February 2009.*

Song Tae-yeop, a staff reporter at *YTN*, 10 December 2008.*

Note:

- 1) The titles provided were accurate at the time of interview.
- 2) 34 among the 58 were directly quoted in this thesis. Interviewees with * are the people who were not directly quoted.
- 3) () are the interviewees who asked to remain anonymous.

Appendix2: The Media used for Textual and Content Analyses

Daily newspapers: *Chosun-ilbo, Dong-A-ilbo, JoongAng-ilbo, Hankyoreh-shinmun, Hankook-ilbo, Kyunghyang-shinmun, Segye-ilbo, Seoul-shinmun (Daehan-maeil), Kookmin-ilbo, Munhwa-ilbo, Korean Herald (English), Korea Times (English)*

Economic newspapers: *Korea Economic Daily (Hankook Kyungjae), Maeil Business Newspaper (Maeil Kyungjae), Money Today, E-Daily, Seoul Economic Daily (Seoul Kyungjae), Herald Economic Daily.*

Weekly magazines: *Hankyoreh 21, Sisa Journal, Mediaoneul (Media Today), Ilyoseoul*

Monthly magazines: *Shin Dong-A*

Online newspapers: *Ohmynews, Pressian.*

News agencies: *Yeonhap News*

Broadcasting: *Korea Broadcasting System (KBS), Munhwa Broadcasting Corporation (MBC), Seoul Broadcasting System (SBS), YTN*

Foreign media: *Thompson Reuters, Bloomberg News Service, Guardian*

Appendix 3 The Presidents of Korea and their Terms in Office

Name	From	To
Park Jung-hee	16 May 1961 (military coup d'état)	26 Oct. 1979
Chun Doo-hwan	1 Sep. 1980	24 Feb. 1988
Roh Tae-woo	25 Feb. 1988	24 Feb. 1993
Kim Young-sam	25 Feb. 1993	24 Feb. 1998
Kim Dae-jung	25 Feb. 1998	24 Feb. 2003
Roh Moo-hyun	25 Feb. 2003	24 Feb. 2008
Lee Myung-bak	25 Feb. 2008	24 Feb. 2013

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