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**Capitalist class formation and the limits of class power in Korea**

Suh, Jae Jean, Ph.D.

University of Hawaii, 1988

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**CAPITALIST-CLASS FORMATION  
AND THE LIMITS OF CLASS POWER IN KOREA**

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF THE  
UNIVERSITY OF HAWAII IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

IN SOCIOLOGY

MAY 1968

By

**Jae Jean Suh**

Dissertation Committee:

Patricia G. Steinhoff, Chairperson  
Herbert Barringer  
Hagen Koo  
Michael Shapiro  
Alvin So  
Majid Tehranian

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## ABSTRACT

Previous studies, mostly using a political economy approach, have analyzed the Korean big business groups, or chaebol, as an economic group and focused largely on the process of capital accumulation. Such studies neglected the multiple facets of the chaebol as a social class. This study is based on the conceptualization of the chaebol as "the capitalist class" and has further elaborated the concept of social class into four dimensions - organizational, economic, social network, and ideological. This study then constructed a framework of capitalist class formation in terms of class activity and its interplay with objective conditions (political regime, state, world system, class structure).

Data sources include biographies of businessmen; biographical information on power elites; documents and periodicals of the (FKI); interviews with businessmen, FKI staff, and government officials; newspapers and semi-popular journals; secondary statistics and existing surveys; and other related studies.

Our study found evidence of differential development and differential power leverage between the economic dimension and the non-economic dimension (class organizational activity, social networks, and class ideology) in capitalist class formation. As to economic base, we found that the capitalist class emerged in the 1960s, consolidated itself in the 1970s and achieved economic hegemony in the 1980s. The capitalist class could not, however, consolidate the non-economic dimension to a degree equivalent to its consolidation

of the economic base. In terms of class organization, the FKI, an important political organization of the capitalist class, is active only in the economic sphere. The FKI does not attempt to influence the political regime on noneconomic issues.

In the social network dimension, big businessmen hold a negligible number of government positions. The capitalists are connected to the power elites in only indirect and informal ways. Power positions are occupied mainly by state managers and the military.

In the ideological dimension, the capitalist class has only partially consolidated itself. It has obtained legitimacy in terms of the capitalist system and functional legitimacy through its contribution to Korea's rapid economic development. However, it faces a serious challenge in terms of its moral and legal illegitimacy.

Based on the findings, questions are raised about the applicability of the ruling class thesis and the statist literature on state-capital relations in Korean society and other newly industrialized countries.

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## CHAPTER I

### INTRODUCTION

The remarkable success of rapid industrialization in Korea produced a new social power group, the capitalist class or, in Korean terms, chaebol, roughly defined as about 50-100 family-based large industrial conglomerates. The core of the Korean capitalist class is composed of the chaebol groups. In a sense, chaebol is 'the capitalist class.' Other small to medium capitalists are at best on the periphery of the capitalist class in contemporary Korean society.

The emergence of the capitalist class has a very important meaning for the social formation of Korean society in the near future. Korean society has traditionally been a state-led society. An Asiatic, centralized bureaucracy controlled the society during the Korean dynasties. This tradition was reinforced by the Japanese colonial bureaucracy to coerce and penetrate the society between 1910 and 1945. After World War II, Korea became a world military base in the confrontation of the USA and USSR, and of South and North Korea. Consequently, the military sector in Korea was overdeveloped mainly due to American military assistance. This situation facilitated the military coup in 1961 and became the social background of a military-based authoritarian regime up to the present.

A sociological interest here is whether the Korean society with the emerging new power group of the capitalist class is changing from a state-led society to a class society in which class structure is the basic organizing principle of the society (Giddens 1981:108). This

interest is intimately related to the issue of the process of the formation and the nature of the capitalist class itself. The purpose of the present study is to account for how the capitalist class has been formed and what is the nature of the capitalist class formed in the rapid industrialization process.

Existing studies on the capitalist class in the developing societies have been set within the context of dependent development. According to David Becker (1983:237), dependency theorists maintain that Third World national bourgeoisies are not true dominant classes, since their lack of entrepreneurial dynamism deprives them of the image and reality of developmental leadership; and, because their cosmopolitan value system and culture cut them off from their local societies and thus put out of their reach the achievement of cultural-ideological hegemony.

Furthermore, in an extreme vein, Andre Gunder Frank (1972) shows how dependency in Latin America formed the lumpenbourgeoisie, a class which was no more than the passive tool of foreign industry and commerce and its interests were therefore identical with theirs.

However, it is generally argued that the Korean industrialization pattern differed from the Latin American pattern in that the relative importance of transnational corporations was successfully decreased in the Korean economy. The Korean government was able to exert comprehensive influence on the patterns of foreign investment in Korea. Across the whole period 1962-1979, direct foreign investment accounted for a mere 1.2 percent of gross domestic capital formation (Luedde-Neurath 1984:23; Hamilton 1986:45; Haggard and Cheng 1987:

110). But, whereas Korean domestic capital is not dependent upon foreign capital, it is dependent upon the state and the political regime. The nature of the Korean capitalist class is therefore an important research issue. Thus in this study, special attention will be given to the relationship between the capitalist class and the political regime.

#### Literature Review of Korean Capitalist Class Studies

The rise of the East Asian newly industrializing countries (NICs) has directed a great deal of attention to the question of why rapid economic development has been possible in those NICs. Relatively, little attention has been given to the socio-political consequences of industrialization (Koo 1985). The existing studies were mainly concerned with causal factors of the rapid industrialization. In those research concerns, the most widely accepted approach is the statist approach in which the role of the state is regarded as the major factor in rapid economic development (Koo 1985). This is especially true of the literature on the Korean case (see Wade and White 1985, Sussex bulletin). Consequently, the importance of the capitalist class has been, if not neglected, at least underestimated. "The capitalist class has been treated as little more than an executing agency for the state policy of economic planning" (South 1982:31).

Recently, with its growing significance, increasing attention is being given to the newly emerging Korean capitalist class. Gap-hwan Oh's study (1975) is a pioneering academic effort to illuminate the

newly risen chaebol as a social class in Korea. Using biographical data reported in various journals, he analyzed 57 chaebol owners in terms of their social origins, birth place, age, executive network pattern, and interlockings with the government sector.

Perhaps the most frequently cited study in the literature of Korean chaebol is by Kyong Dong Kim(1976). It focuses on how political factors such as state policies and political connections facilitated economic expansion of big businesses. It illustrates several cases to show how the political factor is important in the capital accumulation of big businesses.

Jones and SaKong(1980), in a chapter of their book analyze private entrepreneurship in 311 enterprises in terms of the province of origin, religion, occupational mobility, education, father's education, work history, family structure, and the self-perception of entrepreneurs.

Yoonhyung Chung(1984) explores the process through which Korean capitalists achieved the monopoly of capital in terms of state policies. Sakakibara(1984) examines the process through which capital is transformed to industrial capital, the concentration of industry and the basic characteristics of chaebol.

Hamilton(1986) makes a remarkable contribution to understanding the economic dominance of the capitalist class. He explains the process in terms of state policies, focusing on how state policies promoted the priority of industrial capital accumulation. His major purpose is to analyze the industrialization in Korea in terms of transformation of the class structure which, he believes, is the

product of state policies. His study is the most detailed analysis of Korean class structure based on specific state policies.

Eun Mee Kim's study (1987), based on Peter Evans' triple alliance model of the state, domestic capital and foreign capital, examines the evolution of large chaebol focusing on the changing relationship between the state and the chaebol. This study concludes that "the relationship between the state and the chaebol has moved from one of clear dominance by the state in 1961 with the rise of the Park Chung Hee regime, to a more symbiotic one in the Chun Doo Hwan regime in 1985" (Pp.2-3).

Except for Oh (1975) and Jones and SaKong(1980), however, most of the existing studies on Korean chaebol, either in the political economy literature or in class analysis literature, stop at the explanation of economic expansion of the chaebol with an excessive emphasis on state policies. Their concern is basically with the capital accumulation of the chaebol. Most importantly, they do not pay attention to the multiple facets of class activity such as class organizational activities, class ideology creation, social networks of the capitalists, and other mechanisms to consolidate class power. The present study conceives the chaebol as the capitalist class rather than simply as an economic group, and goes beyond the economic sphere to examine multiple facets of capitalist class formation: organizational, ideological, social network, as well as economic.

#### **Theoretical Framework**

**Class Conception:** The concept of class as used by traditional

Marxists is defined in terms of the mode and means of production. The capitalist mode of production leads to the development of two main classes in society: the capitalist class and the working class (see Poulantzas 1973 or Wright 1978 for a detailed definition of classes). The capitalist class has been defined as those who control the means of production. Poulantzas (1973) elaborated this Marxian definition. He defines capitalist class, as Marx did, in terms of the substantive dimensions which characterize the social relations of production. According to Poulantzas, two dimensions of social relations of production are economic ownership and possession. Economic ownership refers to the real economic control of the means of production, i.e., the power to assign the means of production to given uses and so to dispose of the production obtained. Possession is defined as the capacity to put the means of production into operation. This refers to the actual control over the physical operation of production. In feudal society, the peasants generally retained possession of the means of production while the feudal ruling class maintained economic ownership; in capitalist society, on the other hand, the capitalist class has both economic ownership and possession of the means of production. In the developed monopoly corporations, where very heterogeneous production units are often united under a single economic ownership, managers of particular units will generally have possession of the means of production of the unit without directly having economic ownership (Wright 1978:43).

This traditional conception of class has been challenged by historically oriented class theorists on two major points. First of

all, the class conception confined to the economic sphere has been challenged (Wallerstein 1979; Thompson 1984, 1963, 1978; So 1986). As Alvin So put it, the production-relations conception usually takes a strict political economy approach to social class (1986:11). This conceptualization is correct as far as economic relations are concerned. But what is challenged is that they stop at the economic relationships defined at the production level, neglecting multiple facets of class activity. Wallerstein (1979) and Thompson (1984) see class as more than an economic relationship. They extend the concept of class beyond the economic level, and include the social and cultural aspects. "We cannot understand class unless we see it as a social and cultural formation" (Thompson 1984:116).

And secondly, the traditional conception of class has been challenged because it focuses on class structure, while Marx emphasized that all history is the history of the class struggle. According to Alvin So (1986:192),

The conventional class analysis can actually be called a "class structure analysis" because its aim of research is to draw up the correct class structure (Poulantzas 1973; Szymanski 1972; Wright 1976; Wright et al. 1982). The class structure analysis generally begins with a discussion of the definition of social class; eg, what is Marx' true meaning of social class and what criteria should be used in the classification of social classes? The next step is to draw up the correct class structure: How many classes are there in the class structure? What is the working class? what is the capitalist class? What are the intermediate classes? Who should be included in what classes and why? While theoreticians generally stop at this level, the empirical researchers tend to go further by using survey or census data to fill up the positions in the class structure.

Thus, historically oriented class theorists emphasize the historical and dynamic aspect of class activity instead of analyzing the class

structure. E.P. Thompson (1984:114-6) argues that class should be understood "as something happens. --- And class happens when some men, as a result of common experiences (inherited or shared), feel and articulate the identity of their interests as between themselves, and as against other men whose interests are different from (and usually opposed to ) theirs."

In summary, conventional class theorists define class in terms of the economic sphere, that is, the mode of production and means of production; and focus on class structure analysis. In contrast, historically oriented class theorists emphasize the multiple facets of class and focus on class activity as historical actors. Our theoretical framework of class formation will be derived from the historically oriented class conception.

**Conception of Class Formation:** Traditionally, as is introduced by Marx in his *Philosophy of Poverty* and as Kautsky developed it, Marxists have understood the process of class formation as a transition from a "class-in-itself" to "class-for-itself." Class-in-itself was a category defined at the level of the "base" - a base that is simultaneously objective and economic. Class-for-itself became the group in the sociological meaning of this term, that is, class characterized by organization and consciousness of solidarity. Given these categories, the problem became formulated in terms of transformation of "objective," that is, economic, into "subjective," that is, political and ideological, class relations (Przeworski 1977: 348; Wright 1982:339).

Since this traditional formulation of class formation is based on the traditional conception of class as discussed above, it suffers from serious criticism by historically oriented class theorists. Przeworski (1977) provided the most systematic criticism of the traditional conception of class formation. According to him, the traditional conception is problematic because it assumes that objective relations in the production sphere necessarily become transformed into subjective relations. For Przeworski, classes as historical actors, the classes that struggle and whose struggle is the motor of history, are not given uniquely by any objective positions because they constitute effects of struggles, and these struggles are not determined uniquely by the relations of production (Pp.366-7).

Przeworski argues that it is necessary to realize that classes are formed in the course of struggles, that these struggles are structured by economic, political, and ideological conditions under which they take place, and that these objective conditions mold the practice of movements that seek to organize people into a class (p.370).

In the same vein, Katznelson and Zolberg (1986:7) argue that the traditional formulations view class formation as the logical outcome of objective class structure and avoids a direct engagement with the actual lives of people. In so doing, this approach reduces the possibility that people will think and act in class-based ways. This approach also conflates class structures, world views, and organizational activities as if the first, that is, class-in-itself, necessarily entails the other, that is, class-for-itself. In so doing, for Katznelson and Zolberg, the traditional formulation reduces

class formation to a formula.

Wallerstein (1979:225) complains that the traditional distinction between objective class status and subjective class membership seems totally artificial. In his view, according to the formulation, an objective class status is only a reality insofar as it becomes a subjective reality for some group or groups, and if it 'objectively' exists, it inevitably will be felt 'subjectively.'

Thus, we completely discard the traditional formulation of class formation, and construct an alternative framework based on the historically oriented class conception: first, class conception goes beyond the economic sphere and includes various levels of class in so far as there are class interests concerning the economic, the political, the ideological, the social, and the cultural; and secondly, the core of class conception is class activity, rather than the objective class structure.

Combining the two points of class conception, we assume that classes are formed in the course of class activity on various levels. In so doing, classes consolidate themselves as a social force with class consciousness and political ability to struggle for their interest. Thus, the study of class formation should focus on the class activity at the various levels of class, dynamically over time.<sup>1</sup>

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<sup>1</sup>This perspective is similar to Przeworski (1977:370) in the sense that class formation is viewed as an outcome of class struggle, but different from his in the sense that multiple facets of class conception are emphasized in this study. However, in the present study of the capitalist class, we prefer the term class activity to class struggle to play down the revolutionary connotation of the term class struggle which is used to refer to working class activity.

What then are the multiple facets of class activity? David Becker (1983: 15) points out four layers of capitalist class activities. According to him, class formation is the process by which individuals

- 1) become aware that they share specific interests and a specific orientation toward the existing mechanism of power and control;
- 2) form a social bond on the basis of that mutuality of interest and commonality of orientation;
- 3) organize to secure more effectively advantages for themselves;
- 4) and collectively employ their political assets to that end.

Also, for the study of working class formation, Katznelson and Zolberg (1986: 14-20) identify four layers or levels of class. The first level is the structure of capitalist economic development, whose main elements include an economy based on privately owned autonomous firms that seek to make profit-maximizing decisions. The second level refers to the social organization of society lived by actual people in real social formations and includes such social relations as work place social relations and labor markets. The third level refers to the shared dispositions or cognitive constructs which are plausible and meaningful responses to the circumstances workers find themselves in. And the fourth level refers to collective action. Groups of people sharing motivational constructs may or may not act collectively to transform dispositions to behavior. For Katznelson and Zolberg, the scheme of four levels of class does not imply a series of necessary stages or a natural progression. Rather, it is a classification that aims to promote the development of theory free from developmental assumptions.

The present study, based on Becker's four levels and Katznelson and Zolberg's four levels, constructs four analytical foci of class

activity: economic, organizational, social network, and ideological. Since the capitalist class happens as the members of the class feel and articulate the identity of their interests among themselves, the capitalist class may form a class organization; the capitalist class can create capitalist class ideology to enhance members' cohesiveness and to control the mental process of the subordinate classes; the capitalist class may form a status group and use social closure among themselves to exclude others from their class interests. Thus to study class formation is to examine these various class practices toward class consolidation. Each level needs to be discussed in more detail with respect to its importance in a study of class formation.

**Organizational Consolidation:** Capitalist class organization is a complex, or formal, organization which identifies its goals with the preferences of the class and attempts to implement these goals. According to Wallerstein (1979:226-7), class organization is aimed, in the short-run, to enhance bargaining advantage, and in the long-run, to seize state power. Resource mobilization theory suggests that movement organization is one of the most important resources of movement formation (Jenkins 1983; McCarthy and Zald 1977). In fact, the presence of a class as a social force presupposes a certain organizational threshold. The organization is not simply the condition for the formation of a class as a distinct class, but the condition of class power (Poulantzas 1973). Thus, the process and outcome of organizational consolidation is an important subject in an analysis of capitalist class formation.

**Economic Consolidation:** The economic level has often been

neglected by class formation theorists amidst the debate over economic and political categorizations of social classes. In the case of the capitalist class, however, unlike the working class, the categorical dimension of ownership or non-ownership is only a necessary condition. For the capitalist class, the degree and nature of ownership of means of production is a fundamental power leverage vis-a-vis the state and other social classes. The degree of ownership and the pattern of capital accumulation of the capitalist class should be the focus of analysis.

**Social Network Consolidation:** The social network literature (Berkowitz 1982; Burt 1982; Lin, Ensel and Vaughn 1981) conceives of the social structure as comprising a network of persons. Social scientists engaged in capitalist class analysis thus have studied various social networks such as kinship linkage, intermarriage, interlocking directorates, intercorporate relations, connections to government, etc. The social network in the corporate community has two functions: enhancing class cohesiveness and mobilizing social resources for class interests. The social ties among members of the capitalist class function to enhance political unity among the members, which is required to consolidate themselves as a social class. Secondly, the social ties among members as well as with other sectors, especially with the government, function as important social resources which are instrumental for class interests. That is, social resources are embedded in the positions of contacts an individual reaches through his social network. For these reasons, the social network pattern of the capitalist class is an integral dimension to

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understand the process and nature of the capitalist class formation.

**Ideological Consolidation:** Since the capitalist system has been developed within the contradictory relations between the capitalist class and the working class, the capitalist class should justify the contradictory class relations. Also, the capitalist class should reproduce the capitalist relations of production to maintain the status quo and to enhance further class interests. Ideology fulfills the two functions of justification and reproduction. Because of these important functions, Gramsci argues that the ideological predominance of a social group is a precondition for the hegemony of the group. According to Gramsci, hegemony involves the successful attempts of the dominant class to use its political, moral, and intellectual leadership to establish its view of the world as all-inclusive and universal, and to shape the interests and needs of subordinate groups (Carnoy 1984:70). In fact, Gramsci argued, it is the ideological superstructure that perpetuates classes and prevents the development of class consciousness of the subordinate class; the superstructure represents the active and positive factor in historical development rather than the economic structure; it is the complex of ideological and cultural relations, spiritual and intellectual life, and the political expression of those relations that become the focus of analysis (Carnoy 1984: 69). Consequently, the ideological level of class activity is crucial to understand class formation. In this study, the specific levels of capitalist class formation include the organizational, economic, social networks, and ideological consolidation.

### **Determinants of Class Formation**

In the preceding discussion, we argued that class formation is the outcome of class activity on the four different levels. As Thompson argues, "classes arise because men and women, in determinate productive relations, identify their antagonistic interests, and come to struggle, to think, and to value in class ways: thus the process of class formation is a process of 'self-making', although under conditions which are given" (Thompson 1978:107). In Thompson's The Making of the English Working Class (1963), the first statement is that class formation is 'making' because it is in an active process, which owes as much to agency as to conditioning. The working class did not rise like the sun at an appointed time. It was present at its own making (p.9).

However, although he emphasizes class's self-making, Thompson never neglects the 'conditions which are given.' Thompson asserts that class formation owes as much to self-making as to conditioning.

By the same token, Przeworski (1977) argues that class struggle is structured by the totality of economic, political, and ideological relations; and they have an autonomous effect upon the process of class formation (p.367). In short, in Przeworski's view, the totality of economic, political, and ideological relations of the society determines the nature of class activities, and the class activities in turn determine the process of class formation.

But Przeworski carefully notes that the assertion that social relations structure class struggles must not be interpreted in a mechanical fashion. Social relations -economic, political, or

ideological - are not something that people 'act out' by reflecting the places that they occupy, but are a structure of choices given at a particular moment of history. Social relations are given to historical actors, individual or collective, as realms of possibilities, as structures of choice. Przeworski continues to argue that social relations are objective with regard to the processes of class formation only in the sense that they structure the struggles that have the formation of classes as their potential effect (p.377).

What are then the objective determinants of class formation? As to the objective conditions, Przeworski suggests the three categories of economic, political, and ideological conditions. However, Przeworski's categorization of the determinants is too abstract for sociological research. Furthermore, the categories of economic, political, and ideological lack theoretical grounds which can coherently link them together.

Our alternative is to utilize the analytical tools developed in the political economy and Marxist development literature. The political economy literature provides three primary foci of analysis: class structure, the state, and world (economic and political) system. Each of these three has been intensively utilized in the study of economic development, political development, and social formation in the study of both advanced and developing societies (Wallerstein 1979; Frank 1967; Evans 1979; Koo 1987; So 1986). Recently, David Becker (1983), in his study of the domestic bourgeoisie in Peru, gave systematic attention to the transnational corporation. However, since Korea differed from the dependency pattern in Latin American

countries, we will give special attention to the political regime, which is assumed to have played a predominant role in social formation.

This study will not repeat the theoretical discussion of the three determinants, but attempts to discuss the 'political regime' as another important focus of analysis in Third World countries. Put more correctly, it is not an additional factor, but an elaboration and division of the concept of the state. There are two important reasons for this. First, in many politically underdeveloped countries, the state is managed by a political regime which came to state power through a military coup or other illegal means. For this reason, all state policies are not formed in the logic of the capitalist state. Many of them are pursued for the sake of power holding by a particular political regime. In turn, the government policies of the regime determine the directions of social formation. The need to distinguish between regime and state becomes quickly evident if one looks at the brief history of political regimes in Korea. The Park regime came to power through a military coup in 1961, transformed itself to a civilian government at the end of 1963, made a constitutional amendment for a third term in power in 1969, and conducted a coup-in-office in 1972 to remain in power until 1979, when Park was killed. During the 18 years of the Park regime, many economic policies were adopted for regime interest rather than state interest.

Secondly, the employment of the concept of political regime is useful because political regimes may vary over time within a constant capitalist state. Thus it can be utilized as an important variable in

historical analyses of a society. It is not intended here to argue that political regime as a variable authoritatively determines the formation of the capitalist class. Rather, we argue that other factors such as the world economic system, the world political system, and internal class structure determine the change of regimes, and the regimes in turn determine the formation of a capitalist class.

Then how do we define the state and regime differently? Except for Cardoso's (1979), there are few previous attempts at distinguishing between the state and regime. By regime Cardoso means "the formal rules that link the main political institutions (legislature to the executives, executive to the judiciary, and party system to them all), as well as the issue of the political nature of the ties between citizens and rulers" (Cardoso 1979:38). That is, regime has to do with a constitutional level. On the basis of the nature of the formal rules, the categories of regime include "democratic, oligarchic, totalitarian, military, monarchical, etc.

By state Cardoso means "the basic pact of domination that exists among social classes or fractions of dominant classes and the norms which guarantee their domination over the subordinate strata" (p.38). When Marx and Engels refer to the state as 'the committee for the management of the common interests of the whole bourgeoisie,' they characterize it at this level of abstraction. In short, "the capitalist state is the expression of the capitalist mode of class domination" (Cardoso 1979:38). The categories of the state include capitalist state, dependent capitalist state, socialist state, feudalist state, etc.

Given the differences in definition between the state and regime, their interests are also different. The utmost interest of the regime is power holding. A regime is primarily characterized as a political group or party that has won control over institutional state power only to the extent that it wins sufficient electoral support in general elections, or through other means. The interest of the state is capital accumulation and legitimation, if we follow the definition of the state in terms of mode of production and the structural theorists of the state (O'Connor 1973; Offe 1973; Poulantzas 1973). Since the regime is in charge of state operation, however, it is supposed to act within the imperatives of the state interests. For this reason, the interests of the regime and those of the state are hardly distinguishable. But the gaps between the two interests vary depending on the nature of the state managers. "In the relative autonomy type of the state, the character of those who control the state apparatuses are of little importance because they are expected ultimately to pursue actions in the general interest of the capitalist class" (Koo 1984:49). But, in the more autonomous type of the state, the state rulers are more autonomous in their impulse of self-interest. In this situation, who the state rulers are becomes an important question. In this regard, in the politically underdeveloped, authoritarian countries, the nature of the regime should be considered as an important determinant in the study of social formation.

In sum, it is necessary to add political regime to the triple foci of analysis for a more comprehensive framework. The specific

categories of the objective conditions include political regime, the state, class structure, and world system.

#### **Focused Agenda of the Theoretical Framework**

In the preceding discussion, we constructed a theoretical framework for class formation. We assumed that class formation is the consolidation process of class activity on the four different levels of class: economic, organizational, social network, and ideological. Class activity is conditioned by objective social conditions which include political regime, the state, class structure, and world system level. The logical linkage of these concepts is schematically shown in Figure 1-1.

Although the theoretical framework elaborated above does not have a starting point nor an ending point, but is an ongoing process, our basic concern is with the activity of the capitalist class as an historical actor in forming itself as a social class. But, as Thompson (1978:149) points out, the capitalist class does not exist as separate entities who look around, find the enemy, and then start to struggle. On the contrary, people find themselves in a society structured in determined ways (crucially, but not exclusively, in production relations), they experience the need to maintain power over those whom they exploit, they identify points of antagonistic interest, and they commence to act. Thus the first task of class-formation analysis is to study the objective conditions under which capitalist class activity takes place. Once class activity begins, the four levels of the economic, organizational, social

network, and ideological activity take place simultaneously. Analysis of the process of class formation is thus supposed to look at the multifaceted activities of the capitalist class altogether at the same time. But for convenience of analysis, our theoretical framework allows us to handle them one by one. That is, within each level of class activity, our agenda is to study how the world system, class structure, the state, and the political regime shape or determine the conditions of class interests and class activity, and to assess which factor is more important than others. Also, within each level, it will be useful to specify historical processes in terms of changes in the world system, class structure, the state, and political regimes, in one way or another.

The second agenda of class-formation analysis is to specify how the capitalist class collectively handles the objective conditions to consolidate its class interests. This agenda may highlight the class activity in class formation.

#### **Specific Research Questions**

Using the theoretical guideline we have elaborated, the research is divided into four primary foci: organizational, economic, ideological, and social network consolidation of the capitalist class. At the level of class organization, we will focus on the Federation of Korean Industries (FKI), the key organization among the four major capitalist class organizations in Korea, the Chamber of Commerce, the Korean Traders' Association, and the Cooperative Association of Small and Medium Firms. The FKI is the only pure, capitalist class

organization in the sense that it is independent of the government in terms of personnel and budget. Other class organizations are either related to small to medium businessmen, or controlled by the government in terms of budget and personnel. Our major questions to ask include: what is the socio-political background from which the FKI was established, what are its organizational characteristics and organizational resources? What is the pattern of its activity? Chapter III will discuss these issues.

The economic level is divided into two chapters: Chapter II dealing with social origins of industrial capitalists and industrial capital in the pre-developing era (before 1961); and chapter IV dealing with economic consolidation processes in the developing era in the 1960s-1980s. Specific questions addressed in Chapter II are: What are the biographical features of the modern industrial capitalists? And what are the historical conditions shaping those patterns in Korea?

Specific questions addressed in Chapter IV are: What are the major steps through which the capitalist class has consolidated its economic base? What are the state policies taken in each step? What are the major elements characterizing those steps? What are the real actors in the processes of those state policy formulation? And what are the impacts on the capitalist class and on the individual capitalists?

At the level of social network, we will address three questions on the social networks the capitalist class developed. What is the pattern of executive interaction within the chaebol and within the corporate community? What is the pattern of outreach networks to the

society? And what is the network pattern between chaebol and the government power elites? These are the topics that will be analyzed in Chapter V.

At the level of class ideology, it is important to ask what is the content of ideology? What are the social and political relations shaping the nature of the capitalist class ideologies? To what degree are the ideologies shared by the subordinate classes? Answers to these questions will be discussed in Chapter VI.

#### Data

This study is grounded on various sets of different data including biographies of businessmen, biographical information of power elites, FKI documents and periodicals, interviews with businessmen, FKI cadres and government officials, newspapers and popular journals, secondary statistics from annual books and existing surveys, and existing studies. Each chapter of this study examines a different sociological level, based on different sets of data. Chapter II has largely drawn upon the biographies of individual businessmen and historical documents. The biographies of businessmen come from four volumes of books dealing with large businessmen which give detailed descriptions of their socio-economic political background of birth, education, marriage and family, source of capital for initial business, process of business growth, and other information. This information was systematic enough to draw a quantitative summary across the variables created. Chapter II also relied upon historical documents for analysis of historical conditions and processes which shaped the

overall biographical pattern of the Korean big businessmen. The historical documents come from various sources such as the Japanese-Government General documents, Korean government documents, and other historical writings.

Chapter III has drawn heavily upon FKI data including monthly and annual periodicals, non-periodical publications, and interviews with cadres of the FKI. Especially, the Monthly FKI serialized articles on the history and activity of the FKI in every issue under the title of Brief History of the FKI (abbreviated as FKIBH when cited). These data provided all the detailed information of the FKI activity and other related episodes, except hidden information.

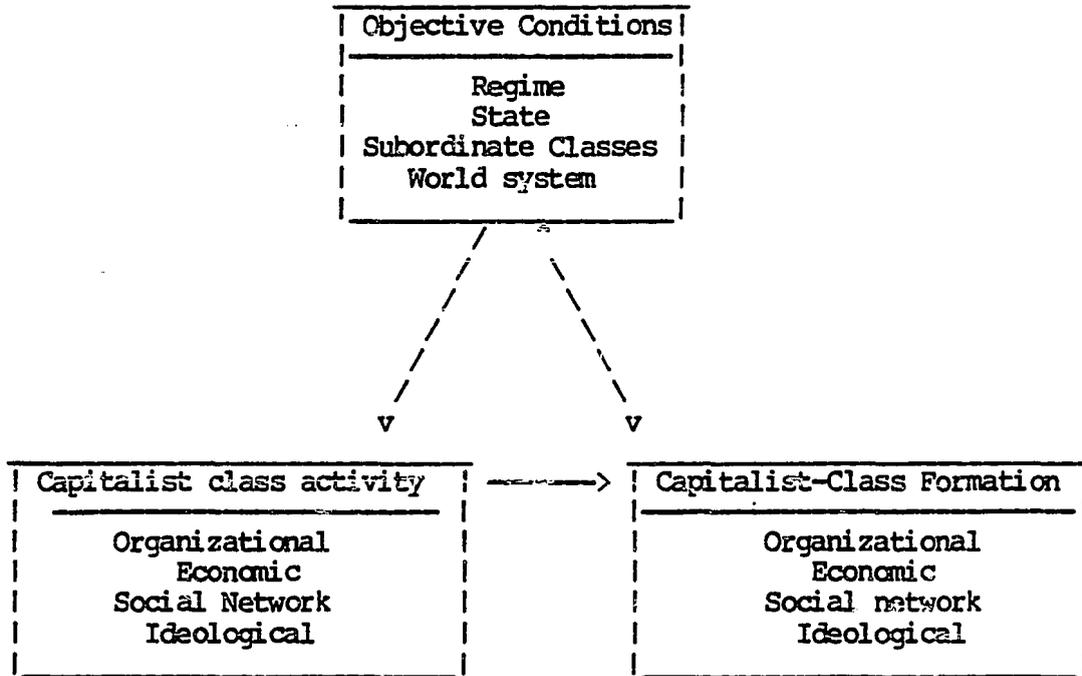
Chapter IV dealing with the state economic policy has relied upon various sources. The FKI data (documents, periodicals, and interviews with FKI cadres) have provided detailed information on the activities of the FKI in the process of state policy formation. Interviews (with government officials such as a former minister of Energy and Resources, an EPB higher official, and two officials in the National Assembly), newspapers, and secondary sources provided the information and data on the Korean economic policies. The secondary sources include data collected from the FKI, the EPB, the National Assembly Library, the Bank of Korea, the Korean Development Institute, the Korea Development Bank, and other existing writings. These data were collected in Korea during Summer of 1986.

Chapter V has relied upon several sets of data. The Seoul Economic Newspaper serialized the report of the total population of executives from the largest 100 chaebol. This data set was utilized

to analyze the executive network pattern. Korean Businessmen Directory (FKI, annual), and Korean Who's Who (Yonhap News Agency, annual) provide biographical information of both big businessmen and government power elites including ministerial and vice-ministerial levels and national assemblymen. This data set was utilized to analyze network and career mobility patterns. Also, journal reports from monthly journals provided good systematic information on the marriages of the big businessmen's families.

Finally, Chapter VI is grounded upon several sets of texts containing ideological content: presidential speeches for political regime ideology; texts of interviews with big businessmen for capitalist class ideology; semi-popular journals for intellectuals' reaction to the capitalist class. Quantitative and/or qualitative content analysis were used to summarize and analyze these data.

Figure 1-1. A Schematic Presentation of Capitalist-class Formation



## CHAPTER II

### SOCIAL ORIGINS OF THE INDUSTRIAL CAPITALISTS: COLONIAL PERIOD TO THE RHEE REGIME

This chapter is concerned with the social origins of industrial capitalists, and the process of transition to industrial capitalism in the colonial period and the Rhee regime (1910-1960). Traditionally, the Marxist literature on the origins of capitalism in each society explains it in terms of the transition from feudalism to capitalism, culminating in the 'debate of transition to capitalism' (see Holton 1985; Sweezy et al. 1978; Hindess and Hirst 1975, 1977; Pavlov 1978). The Marxist writers emphasize certain internal contradictions between the material interests of lords and serfs culminating in the destruction of serfdom through class struggle. Recently, however, Holton(1985) views it differently. He throws doubt on the convention whereby the development of capitalism is seen in terms of a transition from feudalism to capitalism. According to him, "Marxist accounts of internal contradictions within feudalism (or rather servile relations of production) account far better for the decline of unfree labor than they do for the emergence of capitalism (See Holton 1985, for details). Instead, he proposes to look closely at post-feudal institutions. Thus his alternative approach is focused on the role of the emerging nation state and world system in the emergence of capitalism.

The writers on the Korean case assume the traditional Marxist perspective partly in the sense that they assume that Korean industrial capitalism was transformed from feudalism through

commercial capitalism to industrial capitalism. Youngmo Kim(1981) studied the largest 43 capitalists as of 1962, based on questionnaire administration. He holds that 51.2% of the capitalists were formerly large landlords or from the households of large landlords. In the same vein, Hamilton(1984:40) argues that "the wealthier landlords formed a disproportionate number of the capitalists who financed the industrial growth of the 1960s and 1970s." However, Hamilton does not provide any direct empirical evidence for this important proposition. He relies only on Jones and SaKong's survey(1980) of 192 private entrepreneurs in 1976, which shows that no less than 47% of entrepreneurs' fathers had been large-to-medium landowners (Jones and SaKong 1980:228).

But, taking a closer look at both Kim(1981)'s and Jones and SaKong(1980)'s data, firstly, we find some deficiencies in their categories of landlord, and more seriously, misinterpretation of their data. Youngmo Kim categorized the occupations in the agricultural sector into only 'Landlords' and 'Farmers.' By Farmers he means most owner-farmers. Those tenants and agricultural laborers who constituted 86.2% of total farm households in Korea as of 1945 are not included in the list of categories. Furthermore, he never specifies what degree of land ownership he means by the categories of Landlords and Farmers. His methodology and the interpretation based on it thus open to serious question.

Jones and SaKong's data are more valid than Youngmo Kim's. They classified the agricultural occupations into three categories of landlords, owner-operators and other farmers, and specified what each

category means. By Landlords they mean those who hold more than 3.3 chongbo (1 chongbo is about 1 hectare) of land. The problem is, however, that 3.3 chongbo does not mean those landlords who could supply funds for industrial investment. When the Land Reform was conducted in 1950, the upper limit of land ownership was 3 chongbo per household. The criterion was calculated based on the optimal requirement of land for the 5 member-household (Land Reform History Compilation Committee 1970:493-4). Thus those who hold 3 chongbo and a little more land cannot be classified as landlords. Rather, a large portion of the Landlord category of Jones and SaKong(1980) should be reclassified as medium farmers. In fact, Jones and SaKong did not design their survey to analyze the transformation from landlords to industrial entrepreneurs and thus did not seek such information. But Hamilton (1984, 1985) misused their data.

Secondly, both the Kim(1981) and Jones and SaKong(1980) surveys, based on the subjective answers of the subjects, do not consider at all if the fathers' land was confiscated through the Land Reform in 1950, or if they left their land behind them when they took abrupt refuge to the South during the Korean War. Most importantly, the surveys do not consider the political context of the Japanese colonial rule which systematically constrained the transformation of landed assets to industrial capital. For this reason, in the subjective questionnaire answers, we cannot exclude the possibility that the subjects of the survey might have answered that their father used to be a big landlord even though it was before the Korean War or the Land Reform.

To get around the methodological deficiencies of the previous arguments, the present study employs both biographical analysis with revised categories of landlords, and historical analysis methods. First, we analyze the biographies of the major 57 industrial group owners to explore the social origins of industrial capitalists. And then we explore the historical process to examine what shaped this particular pattern of social origins of the capitalists in Korean society. Based on Holton's perception, which is not much different from our theoretical framework discussed in Chapter 1, we analyze the post-feudal institutions, focusing on the role of the Japanese colonial rule, American military government policies of industry in Korea, the land reform under the Rhee government, the Korean War, and the industrial policies of the Rhee government in the 1950s.

### **Methodology**

For the biographical analysis of the capitalists, we selected the largest 57 industrial groups. Fifty of them are currently the most powerful business groups consisting of over 500 largest firms; and the 15 industrial groups are the major groups in the late 1950s, 8 of which overlap with those of the current 50 groups. The current 50 groups were chosen for study because they represent the capitalists, constituting 22.5% of GNP in Korea. The former 15 groups were included because they were active industrial groups in the 1940s and 1950s and thus are known as the largest 15 chaebol in the previous studies (Park 1982, Kim 1981).

The data are based on intensive reading of the biographies of the

founders of each chaebol. Except for a few cases, most of the subjects are of the founding generation. The sources of the data come from the following documents: Korea's Fifty Major Industrial Groups (MERI, 1986), Korean Businessmen (Lee 1973), Park (1983), and the Annual Corporation Report (Daily Economic Newspaper 1986).

Each capitalist was examined in terms of his detailed life cycle sequence based on the information in his biography. The Year of First Business is measured as the year in the person's lifetime when he launched his first commercial or industrial business, whatever size. The Year of Modern Firms is measured as the year when the individual launched a joint-stock company with large to medium sized industrial capital as a major source of profit. First Job is measured as the first major occupation taken after school graduation. By major occupation we mean a job which lasted at least 1-2 years. The Type of Initial source of Capital Accumulation is measured as the type of business in which the major capital was accumulated before the establishment of the modern firms, as defined already.

Fathers' Occupational Status or Economic Status of the Family is measured in terms of the source of investment funds. For example, when a big landlord took abrupt refuge from North to South Korea without bringing his wealth (mainly land because it is the means of production) with him during the Korean War (the information is conveyed in the biography in detail), his Occupational Status is measured as refugee landlord. These were measured as big landlords in Jones and SaKong(1980) and Youngmo Kim(1981). Those who carried other resources for business and could re-establish their businesses in the

South were classified as they were in the North, or were given special interpretation in the analysis. Also, in cases where the wife's families were the major sponsor of the business, the Occupational Status of the wife's families was regarded as Father's Occupational Status. Categories and the measurement are specified in Table 2-2.

It should be noted here that our method using biographies as major source of information has some limitation. The biography may not reveal all the hidden source of capital. It may also distort the real features to beautify the character in the "story". In spite of these limitations, the biography is a more valid source than some social surveys.

The historical analysis explores the impact of the major historical transformations such as Japanese colonial rule, the Korean War, the Land Reform, the American Military Government, and the economic policies of the Rhee government. For this purpose, we analyze the major industrial policies in each historical period.

#### **Biographical Summary of the Social Origins of Korean Capitalists**

Table 2-1 shows the year when modern firms were established by the Korean capitalists under study. Only 10.5% of the firms were established before 1945, the year in which Korea was liberated from Japanese colonial rule. It also indicates that 31.6% were established right after liberation, and as many as 43.9% of the firms were established as modern firms after the Korean War. That is, 89.5% were launched after the Korean nation state was established in 1945.

Table 2-1 also shows the year when the Korean capitalists under

study launched their first business, regardless of the size and type of business. It indicates that 45.6% of them started their businesses before 1945; 24.6%, right after national liberation, and 19.3%, during or after the Korean War (1950-1953). Putting the two panels of Table 2-1 together, we can draw two patterns. First, even though 45.6% of the businessmen launched their business between 1916 and 1945, it is not until 1945 that 77% of them (or 20 out of 26) could grow as modern, industrial capital. This is partly because it took time for them to accumulate capital from very small and marginal businesses to larger businesses, and partly because the nation state after 1945 facilitated industrial development, which assistance was totally lacking before. Secondly, those modern firms established after 1945 became the substantial foundation of current Korean chaebol or capitalists in the 1960s and 1970s. It is important to note here that between 1910 and 1945, there existed many native entrepreneurs. In 1936 when the number reached its peak, there were 2,471 small and medium firms (Sukdam Kim and Yoongyu Choi 1978:309). Why then did most of them disappear and a new generation emerge after 1945 to become modern industrial capitalists? The question will be examined in the later section.

Table 2-2 shows the social class origins of Korean capitalists. It indicates that 28% of the capitalists are from poor and small farm families, 10.5% from poor merchant families, 24.6% from medium sized farm families, 12.3% from refugee landlord families; and only 8.8% are from big landlord families. More generally categorized, 38.5% are from poor farm families and small merchant families. This finding

shows a sharp contrast with the previous studies by Youngmo Kim(1981) and Jones and SaKong(1980), due do the differences of measurement. It is worthwhile to note that 12.3%(refugee landlords) made abrupt downward changes in Father's Occupational Status due to the division of the nation in 1945 and the Korean War in 1950. Even if we include them as of big landlord origins in the sense that they received higher education and obtained prestigious social networks, they still do not reach the 47% derived from Jones and SaKong(1980)'s survey and 51.2% reported by Kim(1981). Only if we regard all medium farmers and refugee landlords as landlords, does the figure reach 45.7%, which is close to the 47% of Jones and SaKong's survey report. But the medium farmers by my definition cannot be regarded as landlords who could transform their land assets to industrial capital. They were simply family farmers with modest holdings.

Table 2-3 shows more detailed associations between Father's Occupational Status and the Son's business funding. It indicates that 59.6% of the capitalists started their careers in non-business occupations, probably due to lack of investment funds. As many as 12.3 percent of them even started as manual laborers. Among those who established business, except in manufacturing and rice mill categories, most of the others started their businesses with very small shops or as street peddlers. Only 14%, included in the categories of manufacture and rice mill factories, seems to have obtained a significant contribution from the Father's financial resources (2 in the construction category came from non-landlord families in the later 1960s and 1970s).

Table 2-4 shows the educational level of the founders of Korean chaebol. As many as 38.6% are primary school and middle school graduates, and 12.3% college dropout or two year college graduates. While 22.8% are college graduates, more than half of these were from the second generation who started their first businesses after 1945. Generally speaking, the founders of Korean chaebol have relatively high levels of education. It is important to note that more than half of those with higher education were self-supporting students without family support. Their biographies show that, smart and industrious enough to become leading capitalists, they obtained such high levels of education without parental support.

Indeed, "it is rare to find the founders of chaebol who had both college educations and business funds based on parent's wealth. There are only four such cases: Kim Yeonsoo in the Samyang group, Park Doobyung in the Oriental Beer group, Cho Hongje in the Hyosung group, and Lee Byungchul in the Samsung group" (MERI 1986:85). Only Kim Yeonsoo transformed landed assets directly to modern industrial capital (Park 1983). Other capitalists, at least 28% from poor and small farm family origins and 10.5% from small merchant origins, became economic successes out of their poverty. Not because they had enough investment funds, but because they were poor, they sought new careers. Starting as manual laborers, street peddlers, or in marginal businesses, they accumulated the capital and business experience to become big industrial capitalists. In this period, many Korean farmers emigrated to Manchuria, Japan and urban cities of Korea. The emigration of the rural populace was not induced by the pull factor of

of those regions, but was caused by the extreme deterioration of rural life under colonial rule. The emigration of farmers reflected miserable rural life and chronic impoverishment aggravated by the unequal landlord-tenant relationship. Only 2.7% of the total farm families owned 63.9% of the total arable land, whereas over 80% held only 10.4% of the land (Hong 1980:25). In fact, our finding suggests that a substantial portion of Korean capitalists made their fortunes by their own efforts and under government policy (see chapter IV), without transforming landed assets directly into larger commercial or industrial capital.

For example, Jooyoung Chung, the owner and founder of the Hyundai group, was born in 1915, as the first son of 8 children of a small farmer. He received three years of Chinese literature education from a traditional school and 5 years of modern primary schooling. After school, he helped his father to feed his young brothers and sister. As he grew, he learned from the adult generation that there are other worlds than that of poor, rural farm life. In spite of his parents, at the age of 16, he ran away from home with a friend without any money, begging from door to door. He was employed as a manual laborer at a railroad construction job which was being undertaken by the Japanese Government-General. At age 18, he worked as a porter on a pier in Inchon. After a year, he obtained a stable job, as a deliveryman for a rice mill in Seoul. Being industrious and smart, he was promoted to a bookkeeper in a year. During this period, he learned the skill of commercial accounting, read many books and accumulated a little capital. At age 22, he opened his own first

business, a rice store. Since rice prices were continually increased due to the Japanese colonial policy that a large portion of Korean rice production was forcibly exported to Japan, his business was lucrative. Unfortunately, however, in 1937, Japan undertook the Sino-Japanese War, and rice was rationed under a controlled economic system. Chung was forced to close his rice business. Soon he opened his second business, an auto repair shop, with funds he had accumulated from the rice business. In 1941 when Japan started the Pacific War, he was again forced to close his business to escape from military conscription for the Japanese army. He opened his third business in transportation because the government would waive his conscription if he delivered strategic war goods. After Japan was defeated in World War II, and Korea was liberated from Japanese rule, he opened the Hyundai Construction Company, the mother firm of his Hyundai group, in 1947. His construction business enabled him to become a capitalist in the wake of military construction during the Korean War and of the post-war reconstruction (Lee 1973).

The biographical analysis from Table 2-1 to Table 2-3 provokes two important questions: 1) Why were Korean capitalists from such lower classes? and 2) why were the contributions from the landlord class minimal, ironically in the tradition of an agrarian society? These will be explained in the historical analysis in the next section.

#### **Japanese Colonial Rule and Discrimination against Korean Native Industrialists**

It was not until the commercial treaty with Japan in 1876 that capitalist industries were launched in Korea. The immediate impacts

of the commercial treaty with Japan were a rapid expansion of foreign trade and penetration of a capitalist mode of production. Some Korean landlords transformed their land assets into financial and industrial capital. By 1910, there were 7 native banks, and 21 native firms (Myoung-Soo Hwang 1976:312, 242). But the growth of capitalism was constrained by two fundamental factors, internal and external: the nature of Korean landlord class and the Japanese colonial policies. Each will be discussed in turn.

The traditional Korean society of the Yi-dynasty was characterized as a rigid estate (or class) system (or *shinbun-jedo*) with two exclusive strata: the yangban (nobles or gentry) as the ruler, and the sangmin (commoners) and the chonmin (the lowly or bondmen) as the ruled. Sangmin refers to those who mainly took the production part of society and engaged in farming, commerce, and handicrafts. The privileged yangban estate monopolized political and administrative power, owned a large acreage of cultivated land that was awarded as rewards for government service, and carried social esteem derived from their noble status. The Weberian trichotomy of class-status-power was all merged into the yangban estate. The landlords were no more than government bureaucrats who comprise the yangban estate (Hong 1980). They were reproduced through the civil service examination based on confucian knowledge. But actually, the estate system was exclusively transmitted over generations within the family because only children of yangban estate were qualified for the examination. At the same time, there was rigid closure in the occupational hierarchy: Sa (the learned) - Nong (farmer) - Gong

(handicrafts or industrialist) - Sang (merchant). Sa covered the most prestigious occupations consisting of bureaucrats and Confucian scholars and monopolized by the yangban; the rest were shared by sangmin and chomin. The social norm stipulated that each estate should not cross the boundary of the strata.

The yangban estate also developed a ruling ideology which is designed to maintain the agricultural industry as a main base of production relations. The ideology is "Agriculture is the greatest mission in the world." Based on this ideology, those who have other occupations such as handicrafts, industrialists and merchants were discriminated against.

In the colonial period, although the rigid estate system became less stringent and was officially abolished after Tonghak peasant revolt in 1894, the yangban estate as ruling class basically remained untouched. Rather, the feudalist landownership was reinforced by imposing a much higher tenancy rate to facilitate the Japanese policy of rice extraction. At the same time, the social norms and value system based on confucian culture were maintained as they were before.

The landlord class reproduced its class base in two ways in the colonial period. They reinvested their surplus by purchasing more and more land, rather than transforming to other sectors because of traditional norms of the yangban estate. Secondly, the landlords educated their sons as highly as possible and made them bureaucrats (Sa) or teachers, as the traditional ethic recommends. In 1915, 10.2% of public school graduates (high school and two year college level) became civil officers, including judge and prosecutor which were the

most prestigious in the colonial period, and 66.4% became teacher (Kim 1969:564-8). Indeed, at that time, smart student were supposed to go to the teacher training college. The former President Park was also a graduate of a teacher college and was a teacher for a short term.

In this way, the landlord class in the colonial period did not contribute much to the formation of industrial capital. The nature of Korean landlord class shows an interesting contrast with the Western European one. For example, the landed class in England transformed itself to an industrial bourgeoisie and the dominant class in England challenging the monarch by establishing a strong parliament. They could do so by commercializing agriculture into the wool trade (Moore 1966:19-36). But Korean landlords stuck to the agricultural sector within the confucian ethic.

It should be noted at this point that in spite of the pure confucian landlords, some industrialists emerged as capitalist industrialism penetrated from the West and Japan. They came mainly from among degraded landlords, various types of merchants, and big landlords educated by modern Japanese schools. Most importantly, the leaders of the nationalist independence movements transformed their landed assets to modern industries as a means of supporting nationalist independence movements. Independence movement leaders such as Lee Sng-Hoon, Ahn Hee-Je and Kim Sung-Soo provided funds for independence movements, and established many nationalist private schools to enlighten the younger generation (Park 1983:112). But why then did they fail to grow as modern industrialists?

The second factor, the Japanese colonial rule (1910-1945),

provides a more fundamental explanation. Since the basic objective of Japan during the first two decades of its administration of Korea was to develop a periphery specializing in producing food grains (Yongha Shin 1979, 1980), industrial development was discouraged. One of the most drastic measures taken right after annexation was the Corporation Law (1911). The law was designed to severely restrict investment in non-agricultural sectors, and to discourage even private Japanese capital inflow into these sectors in order to prevent the establishment of new industries in Korea that might compete with industries in Japan. Above all, the Corporation Law was used to discriminate against Korean business enterprises (Sangchul Suh 1978:9-10). In consequence, as Table 2-6 shows, as of 1919, only 17% of corporations in Korea were Korean owned and Korean held only 11% of invested capital.

The Corporation Law was abolished in 1920 as a direct response to Korean nationalist resistance to the Japanese colonial policies. The "politics of military force" by the Government-General in the 1910s was clearly reflected in a series of independence movements culminating in the nationwide movement of 1919, "Samil Woondong" or March First Movement. The nation wide nationalist movements in Korea led Japan to realize that coercive measures backed by military force could no longer be effective. Thus the second phase of the colonial period began with administrative reforms designed to replace "governing by military force" with "cultural policy" (Shin 1980). However, while the direct controls on investment were lifted, there were nonetheless some formidable obstacles to developing modern

industries during this time.

There were at least five major obstacles which the Japanese Government-General introduced to deter resource flow from agriculture to modern industries. In the first place, the Government-General had Japanese immigrate to Korea and organized the Oriental Development Company to own the land, resulting in the emergence of the Japanese landlord class in Korea. For this purpose, it conducted the Land Survey (1910-1918), which was based on individual registration of land ownership, rather than on other scientific measurement. Based on this policy, the Government-General confiscated all the public land, non-registered land, and non-cultivated land, and sold it to Japanese immigrants at cheap prices. The Oriental Development Company, which was called a colonial exploiting agency, was a strategic instrument to implement this policy. "The ODC was established under the protection of the Imperial Government, to engage in agricultural and industrial undertakings, by inviting and selecting skilled farmers and others as immigrants, and by furnishing them with necessary funds. The business conducted by the company was so extensive and complex that a subsidy of 300,000 yen annually was granted to the Company by the Imperial Government for eight years, beginning from 1908" (Government-General 1912:165). In this manner, the Japanese landlords emerged, and at the same time, Korean farmers were increasingly reduced to tenants, from 33.5% in 1914 to 83.5% in 1945, reinforcing feudalistic land ownership relations. Table 2-7 shows that as of 1918 the year when the land survey was finished, although the great majority of landowners were Korean, there were more Japanese landlords owning larger than 100

chongbo (1 chongbo is about 1 hectare). Among the Japanese landlords, the ODC occupied 20.4% of the Japanese land, which was apparently aimed at facilitating the control over land (Korean Productivity Center 1971:65).

In the second place, in order to deter transformation from landed assets to industrial capital, it was essential to make the ownership of land extremely attractive to landlords and to the potential Japanese immigrants to Korea. Accordingly, the land tax and other measures were designed with a view to ensuring a higher return for investment in land ownership than in non-agricultural sectors (Suh 1978:96-97). According to Shin(1980), an extremely high rate for tenancy was imposed: about 55-65% of annual production, compared to about 33% in the Yi-dynasty. Thus, there were neither investment incentives for landlords nor government mechanisms to channel the agricultural surplus to finance capital formation for industrial development. Instead, the surplus was diverted to the consolidation of landlordship and to the expansion of Japanese holdings.

In the third place, the Government-General controlled the financial institutions. Instead of harnessing domestic resources to finance modern industries, the major function of the financial institutions was to expand agriculture and trade with Japan (Suh 1978:97). This role was carried out through special banks and semi-official types of financial institutions such as the Bank of Chohung, the Chosun Commercial Bank, the Rural Credit Societies, the Oriental Development Company, and so forth. Furthermore, most of the native banks were merged into the Japanese banks by force. In the

1920s, there were more than 20 native Korean banks which were developed from landed assets. But, in 1928, the New Bank Law was promulgated to push mergers of the native banks. In so doing, the native banks were merged into 9 banks in the 1930s and finally 2 banks, ie, Chosun Commercial Bank and Bank of Chohung, in 1941 and in 1943, respectively (Park 1982:62-4). In consequence, until 1930, only 4-8% of total loans were made available for industrial use (Suh 1978:97).

In the fourth place, the absence of an organized money market in Korea also deterred the transfer of resources from agriculture to industry. Along with the complete economic integration with Japan, the money market in Japan became the major source of investment funds in Korea. Investment opportunities in securities and stocks for agriculture surplus were not readily available in Korea.

Finally, formidable obstacles to developing modern industries also stemmed from the fact that Korea's complete economic integration with Japan enhanced competition among Japanese advanced industries (Suh 1978:96-97).

In consequence, as Table 2-8 and Table 2-9 show, as of 1927, most factories owned by Koreans were characterized by minimum provisions of capital, and were simply an extended form of the traditional household industries which met the official definition of a factory in terms of the numbers of workers. The capital per factory of the Korean firms constituted 0.1% of Japanese large factories and 6.7% of Japanese small/medium factories. Also, 97% of all Korean factories employed less than 49 workers. In terms of total capital, Korean industries

made up only 5.3% of the total. They produced mostly vegetable oil, fish fertilizers, Korean liquor, noodles, and so forth. According to Suh(1978), this situation was due to the fact that native industries failed to receive financial support from the financial institutions, and, except for some nationalist movement members, the large Korean landlords did not have any incentives for financing native industries. Thus, instead of developing into modern factories, the Korean traditional industrialists simply enlarged their scale of operation, increasing the number of workers employed, and thus were reclassified as "factories" in the official data.

The Japanese colonial policy faced a turning point in the wake of the World Depression in 1929. The Japanese economy was seriously afflicted especially in the agricultural sector due to the over-supply of rice from Korea. In order to avoid further deterioration of the rural Japanese economy, it was decided to discontinue the expansion of rice production, shifting to heavy-chemical industrialization in Korea (Byong-Jik Ahn 1977). There are two other factors involved in the abrupt shift of policy. First, Japan's large business groups, or zaibatsu, needed to find a fertile ground to export their surplus capital to after the World Depression. Secondly and more importantly, Japan at that time was in urgent need of military expansion following the Manchurian incident of 1931-1932, and thus selected Korea as a base for a military armament industry. In fact, this phase of the colonial period coincides with Japan's era of "semi-war economy"(Suh 1978:13).

Thus the 1930s witnessed a rapid industrialization in the Korean

peninsula in the wake of the heavy-chemical and military industrialization. Native businesses also developed somewhat. As is shown in the right side panel of Table 2-9, as of 1936, medium sized factories were significantly increased, and larger sized factories also increased somewhat.

However, the advanced sector of the Japanese industries was largely unrelated to the indigenous factors of the Korean economy, and failed to harness the traditional sector toward modern economic growth. In this sense, the Japanese industry was a kind of enclave. What is worse, as Japan was engaged in the Sino-Japanese War in 1937 and the Pacific War in 1941, a war time economy system was imposed on all Korean industries. Because of this, most of the native bourgeoisie perished without continuing to exist or expanding toward modern industrialization. Some drastic "war economy" measures, which led the native bourgeoisie to shut down their businesses, are as follows. In the first place, the enactment of the "Temporary Control of Capital Funds" in 1937 was instrumental in channeling capital funds exclusively into Japanese armament industries. As already mentioned, all the native banks were merged into two banks, which were controlled by the Japanese Government-General (Korean Productivity Center 1971: 68).

In the second place, a full-fledged war time control was imposed through the enactment of "the Total National Mobilization Act" in April 1938. Several kinds of control legislation followed on the basis of this ordinance, including the Price Control Ordinance, the Material Control Ordinance, the Soldier Conscription Ordinance, the

Trade Control Ordinance, the Bank Fund Operation Ordinance, the Enterprises Reorganization Ordinance, etc. (Korean Productivity Center 1971:68). In this situation, in which every business activity was controlled under some government agency, most of the Korean workers were conscripted into military armament industries or military service, and thus most of the native bourgeoisie could not recruit workers and engineers, resulting in severe labor shortages. They also could not get supplies of raw materials as they were all channeled into the Japanese armament industries which had priority. In 1940, rice was confiscated at cheap prices for the Japanese war effort and thus the Korean landed capital was heavily afflicted.

The most deadly ordinance was the Enterprise Reorganization Ordinance imposed in 1942, through which most of the small and medium sized native firms, except some pro-Japanese firms, were dissolved and their industrial facilities were confiscated for the war effort. The alleged principle was that smaller factories were unnecessary for war time (Dong-Jin Kang 1966:122). For instance, Yong-Joo Kim, a leading transportation businessman, running The Pohang Trade Inc, and The Pohang Transportation Inc, had all his ships and trucks conscripted and had his transportation company merged into Japanese Chosun Transportation by force (Lee 1973:83-86). We already saw a similar experience in the case of Jooyoung Chung. In so doing, the Japanese Zaibatsu prospered, but most Korean native entrepreneurs had perished by 1945.

In conclusion, many native bourgeoisie transferred from landed assets to other businesses between the open door policy and the

colonial period, but they could neither prosper nor continue to develop to modern capitalists mainly due to the Japanese colonial policies. There is only one exceptional case: Kim Yeonsoo, who transformed from landed assets and continued to grow up till now, being included in the largest 50 chaebol. National liberation in 1945 and emergence of the new nation state brought back freedom to the native bourgeoisie and a booming opportunity for a new generation to emerge as founders of the current capitalists in Korea. The emergence of modern industries and the capitalist development had to do with the emergence of the nation state in Korea. It will be discussed in the next section.

#### **The Rhee Regime and the Land Reform**

Following national liberation in 1945, the war economy was immediately shifted to a liberal economy, and the business world faced a new climate for investment. Many existing businessmen and a new generation launched new businesses. But as Table 2-2 shows, why did the existing landlords, the leading native source of capital, contribute so little? The task in this section is to explain the smaller contribution from the landlord class in the tradition of the agrarian society, in terms of the Land Reforms in 1950, and to explain why the traditional landlord class was too weak to prevent the land reforms which stripped it of economic power.

There were five major factors which weakened the power of the landlord class and facilitated the Land Reform. In the first place, when liberated from Japan, Korean landlords constituted less than half

of the total number of landlords. As Table 2-7 show,<sup>1</sup> there were more Japanese landlords than Korean counterparts in Korea. This implies that the power base of Korean landlords was lessened during the colonial period.

In the second place, tenant farmers, exploited by the Japanese colonial feudalism and the landlords, and comprising 83.5% of the farm households as of 1945 (Bank of Chosun 1948:28), organized themselves on a nation wide basis as the National Federation of Peasants (Chun Nong) in December 1945 right after liberation. The Chun Nong was substantially supported by the middle-leftist People's Republic of Chosun which grasped dominant power after the Japanese Government-General returned to Japan. At the organizing convention, the Chun Nong demanded a land reform to put an end to the colonial, feudalist land ownership, making it the most important social and political issue of that time. In February 1946 it submitted the "Draft of Land Reforms Act" to the American Military Government<sup>2</sup> (The National Agricultural Co-Operative Federation 1965:91). Considering that the major ideology sustaining the nationalist independence movement under Japanese colonialism was communism, land reform was taken for granted by most of the tenant populace.

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<sup>1</sup>The initial inequality between Koreans and Japanese shown in Table 2-7 was reinforced to a large extent until 1945.

<sup>2</sup>As Japan surrendered to the Allies on August 15, 1945, Both Soviet troops and American troops entered North and South Korea, respectively. The troops of the two nations remained in Korea for three years until 1948, when they withdrew leaving two separate and antagonistic political system in their wake (Kim 1975:47). The American Military Government during this period established a capitalist state in Korea.

In the third place, the American Military Government (AMG) played an important role. The primary interest of the AMG in Korea was to establish a capitalist state, which would take a peripheral role to the USA. For this purpose, destroying the landlord class was a primary stage for capitalist development in Korea. The same interest was already realized in Taiwan by implementing a land reform in early 1947. It immediately promulgated "the Proposed Ordinance for Sale of Japanese Agriculture Property" in Feb. 1946, and implemented the policy in 1948 for the land owned by Japanese landlords (NACF 1965:91; see also Yongha Shin 1980:248). This became a prelude for the subsequent land reforms in 1950 under Rhee government.

In the fourth place, communist North Korea, which was separated from the South in 1945, undertook land reform early in 1946, and the communists in South Korea<sup>3</sup> propagandized among the tenant peasants. Thus the issue was ready to become a revolutionary target (Yoo 1977).

Finally, and most importantly, the program coincided with the intention of President Syngman Rhee to cause the collapse of his political enemy, the Korean Democratic Party (or Hammin-dang), which was the dominant party based on landlords, so that Rhee could be re-elected in the 1952 election. In fact, Hammin-dang became an opposition party thereafter and became a root of the current opposition party, New Korean Democratic Party (or Shinmin-dang).

In this socio-political context, the landlords could not effectively resist. Also, the bill had some attraction to landlords

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<sup>3</sup>At that time, the communist power was quite strong before the AMG crippled it and before the Korean War totally abolished it.

because it decreed that the landlords be paid in government bonds which were immediately acceptable in payments for the purchase of the industries formerly owned by the Japanese. The Land Reform was implemented in 1950, based on the principle of land-to-the-tiller. The Land Reform Act set an upper limit of 3 chongbo per household, and decreed that former tenants were to pay for their land 1.5 times the normal annual output of the main crop, payable over 5 years to the government. Landlords were to receive the equivalent in government bonds, which might (if they so desired) be redeemed through the purchase of vested factories formerly owned by the Japanese (LRHCC 1970). By this means, the former landlord class was given a good chance to rise as a new industrial class. Since the principle was pre-distribution and post-payment, tenancy was effectively eliminated.

Then, how was the landlord class transformed after this reform? There were at least five factors which influenced the status of the landlords. First of all, the land reform had a confiscatory element because the landlords were paid only 1.5 times of the normal annual output of the main crop rather than the real price of the land.

Secondly, as Table 2-10 shows, as many as 84.2% of the former landlords were smaller landlords who were to receive less than 50 suk (1 suk is around 5 bushels) for the land price reparation. Thus there were not many landlords who were rich enough to invest their funds in modern industries.

Thirdly, the Korean War, which broke out in June of the same year, seriously affected the process of compensation to the landlords. The payment to the former landlords was delayed partly due to the

failure of farming during the War, and partly due to the government which used 30% of the main crop paid as land price to finance the war effort. Only 28% of the due amount was paid to the landlords by 1955, the due period, and a complete payment was not finished until 1965, taking as long as 15 years (NACF 1965:100). Meanwhile, due to skyrocketing war inflation<sup>4</sup> during and after the Korean War, the real price of the government bonds fell sharply. According to Pak and Gamble (1975:33), most small landowners went bankrupt in the early 1950s.

Fourthly, the nature of the Korean landlords themselves should be considered. As mentioned earlier, the landlords who maintained their status as yangban throughout the Japanese period tended to be the portion of pure yangban estate rejecting the industries because they are the occupation of chonmin (or commoners). Also, according to the Confucian ethic, the yangban were not supposed to leave for urban areas where the industrial factories are, without keeping the home town handed down from ancestors. If that is true, it is hard to expect them to transform their value system and become industrialists, adapting to the requirement of new social order. According to Sakurai (1976), those former landlords who owned the government bonds sold out the bonds at 20-30% of the real price to finance their living costs, including expenditure for their sons' education and to make them bureaucrats or teachers.

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<sup>4</sup>The whole sale price index increased more than 20 times between 1947 and 1951, and 47 times between 1947 and 1952 (Bank of Korea, Economic Yearbook 1949-1955).

Fifthly and most importantly, since the land reform was designed by the Liberal Party to undermine the financial base of the opposition Democratic National Party, the landlords did not have a competitive position vis-a-vis the Liberal Party entrepreneurs in purchasing the Japanese properties. The Liberal Party government controlled licensing, foreign exchange, and loan resources, discriminating against non-Liberal Party landlords (Kim 1975:154).

In so doing, "the government's alleged attempt at converting landlords into capitalists proved to be a failure" (Sakurai 1976:135). "Even though there is no statistical evidence of how they were transformed, there are rare cases of individuals who became industrial capitalists thereafter" (Sakurai 1976:135). In fact, my biographical analysis shows no single landlord who was transformed to an industrial capitalist after the land reform.

Then who benefited by purchasing the government bonds from the landlords and also by purchasing the former Japanese properties with the bonds? According to Ung-yang Choi (1958:138) and Sakurai (1976:135), it was the existing and newly risen Liberal Party entrepreneurs. The entrepreneurs (see Table 2-2 for their origins), residing in the Seoul area and allied with the corrupt Rhee regime (Kim 1981; Kim 1975), quickly utilized the opportunities by purchasing the government bonds. The landlords, however, who stayed in the rural areas and lacked the political connections with the Liberal Party and experience in industry could not take advantage of the opportunity. Furthermore, as mentioned above, they had to sell out the bonds for living costs because of the skyrocketing inflation. Thus, about 38%

of the government bonds were transformed to "Industrial capital" through the hands of existing entrepreneurs, while there are rare cases where the "landlords" were directly transformed to "industrial capitalists".

Through the land reform, the Korean landlord class completely collapsed. At the same time, the traditional stratification structure based on the confucian value system and estate system, with the landlord class monopolizing privilege in class, status and power, was completely terminated, giving rise to a new social order based on capitalist mode of social relations.

In sum, the historical evidence fits our findings based on the biographical analysis. As Table 2-5 shows, 19.3% of the capitalists became modern industrialists based on the purchase of land bonds leading to the purchase of the Japanese factories. According to my biographical analysis, those 19.3% were not landlords at all. They were either existing entrepreneurs or former employees of the Japanese factories. Thus, it is legitimate to argue now that only 8.8% of the capitalists were from big landlord families (see Table 2-2).

#### **Korean War and Dominance of Commercial Capitalism**

Table 2-5 shows the initial sources of capital accumulation, as defined above, before transformation into modern and industrial capitalism. It indicates 56.2% accumulated their capital based on merchant types of businesses, with 40.4% deriving capital from foreign trade. Only 22.8% were based on profits of industrial production. As mentioned above, 19.3% of the capitalists based their enterprises on

Japanese properties which Japanese left behind after World War II. The dominance of commercial capital seems to share common points with Western European society as a usual phase toward industrial capitalism. The issue is, however, what was the social context which facilitated the commercial mode of capitalism in Korea?

We believe that the dominance of commercial capitalism in the forties and especially in the fifties is due to the historical specificity of Korean society at that time. The Korean native bourgeoisie suffered extensive damage as World War II drew to a close under the Japanese war time control economy, as mentioned already. Moreover, the structure of the economy in the South was even more distorted than under the Japanese because the North, now cut off, had produced most of the peninsula's metallic and chemical products and electric power. The factories in operation in the South at that time(1945), were some rubber factories, a match factory, Kyungsoong Textile, Dongyang Spinning, and Chosun Silk (Park 1982). This situation led to a severe shortage of manufactured goods throughout the late forties and fifties. In this situation, foreign trade was the only possible economic activity because it could be started without much capital. The military weapons and junks used by the Japanese army were exported to China which was in civil war against Kuomintang at that time. Korean businessmen in return imported manufactured goods from Macao, which was called Macao trade. Those who wore shoes and clothes from Macao were called Macao gentlemen. Many businessmen participated in this Macao trade. As of July 1946, AMG issued about 528 trader permits. In a year Hong Kong trade and

Japan trade replaced the Macao trade (Park 1982).

The Korean War reinforced this trend, marking a period of commercial capitalism in the history of Korean capitalist development. "During the War, about 80% of the electric power facilities were destroyed and most of the production activities stopped" (Lee 1984:110). To overcome the serious shortage of necessities of life, the government promoted imports by giving special loans of dollars to merchants or traders. Many businessmen, most of whom were of the old generation of entrepreneurs who had emerged before 1945, took refuge in Pusan and participated in the import trade. For this purpose, several policy decrees were taken, including Special Dollar Loan, Government Payment Guaranteed Loan, etc (Park 1982:122). For instance, the so-called "tungsten dollar" incident was a case in point. In 1952 during the Korean War, the Rhee government allocated 3 million dollars of foreign exchange earned through tungsten exports to 40 private businessmen. The funds were used to import grains and fertilizers which, when sold at monopoly prices taking advantage of the discrepancy in foreign exchange rates, earned enormous profits. The corrupt Rhee regime was then offered a large contribution in return for the favor of this special loan, which was allegedly used in Rhee's Liberal Party campaign for a constitutional amendment that permitted his re-election as President in 1952 (Kyong Dong Kim 1976:468). In fact, this is the origin of the close alliance between the regime and the capitalists in Korea.

The basis for accumulation through trade lay in foreign exchange allocation. According to Hamilton (1986), it was a privilege to get a

foreign exchange allocation since imports guaranteed profitable opportunities because of the general shortage in every kind of consumer goods. The access to loans, rather than the production itself, was the backbone of profitable capital accumulation at that time (Hamilton 1986). In this process, those who participated in import trade under government favor accumulated capital which became a substantial basis of the industrial capitalism that followed the 1950s. In sum, the point here is that the dominant trend during and a little after the Korean War was the emergence of capitalism in merchant form.

#### **Creation of Political Monopoly Capitalists by the Rhee Regime**

After the end of the Korean War, which destroyed almost everything on the peninsula, social order was recovered with new climate of investment. Many of those who accumulated capital through foreign trade in the Pusan area during the Korean War immediately transformed the capital into industrial capital by building industrial factories with some help from foreign aid. Byungchul Lee built the first and largest Jeil Sugar Mill in 1953 and Jeil Woolen Textile in 1954, which became the mother firms of the current Samsung Group, the number one chaebol in Korea. Subsequently, many other factories were built, about 40 in all.

In this context, there were three other crucially important factors involved in the transition from commercial to industrial capitalism: the politics of the Rhee regime, the privatization of Japanese properties, and the huge amount of foreign aid. They will be

discussed in turn.

First of all, Syngman Rhee, who had been a national independence leader in the USA during the colonial period, did not have any power base when he came back to Korea upon liberation in 1945. The Hanmin-dang (or Korean Democratic Party, and later, Democratic National Party), based on the ruling landlord class, enthroned Rhee as its figurehead to grasp state power. Rhee thus came to power with the financial and organizational assistance of the Hanmin-dang as well as support of the USA. But his new position enabled him to dispense with the support of the Hanmin-dang. The provisions of the Korean constitution gave the government a monopoly in many major industries and in all utilities (History of Liberation 30 Years 2, Kim 1975:124). A more important reason was that the Hanmin-dang had many pro-Japan members, which Rhee, as an anti-Japanese independence movement leader, could not accept. Betrayed by President Rhee, Hanmin-dang formed a joint opposition with Korean Provisional Government group, taking the name the Democratic National Party(DNP), and staged incessant political opposition in protest to Rhee.

To consolidate his power base, Rhee established his own Liberal Party in 1952, undermined the financial base of the opposition DNP landlords through the land reform in 1950-1955, and created nouveau riche Liberal Party entrepreneurs to finance his party and other illegitimate politics such as two constitutional revisions (Kim 1975:154; History of Liberation 30 Years 2; History of Korean revolutionary Court 1962:92-98). By 1950, Yi Ki-pung, controller of the Liberal Party, was estimated to have large interests in 29

projects of building factories, and the party was believed to have a substantial interest in at least 50% of the private projects receiving American aid (HKRC 1962:92-98). Jones and SaKong(1980:271-2) point out five major ways the Rhee regime gave special favors to the Liberal Party entrepreneurs:

- 1) non-competitive allocation of import quotas and import licenses.
- 2) Bargain price acquisition of former Japanese properties.
- 3) The selective allocation of aid funds and materials.
- 4) Privileged access to cheap bank loans.
- 5) Non-competitive award of government and US military contracts for reconstruction activities (See Jones and Sakong 1980:271-72 for detail).

These policies of the Rhee regime resulted in the creation of 'political monopoly capital' from the outset of industrial capitalism in Korea.

Secondly, Japanese properties played a role in preparing industrial capitalism in Korea. Before liberation, about 80% of the industrial facilities were Japanese properties (70% of which were located in the North), all of which reverted to the government of Korea. In South Korea, there were 2,707 industrial factories, small or large. In February 1949, the Law for Dealing with the Reverted Properties was promulgated, but the actual sales were delayed by the Korean War. By the end of 1953, the sales of 1649 factories were completed, 459 factories were shut down, and the remaining 599 were classified as large firms to be managed by the government. But one third were destroyed during the War, and many were sold to those who had political connection with the Liberal Party but no business experience. Most of these factories were shut down, dismantled piece

by piece, and sold separately as machineries, materials, and land. Only 40-50 of them are still active (Taniura 1981:304, Park 1982:92). Only those who were previously small industrialists with business experience and who were employed as skilled workers under Japanese rule became large capitalists based on the reverted properties. As Table 2-5 shows, 19.3% of the capitalists under study grew to capitalists based on the Japanese properties.

Thirdly, the most overwhelmingly important factor was foreign aid and loans, especially American aid through UNKRA and ICA, which were given for the purpose of post-war reconstruction. Because of Korea's strategic importance in the confrontation between the USA and the USSR in East-Asia, the USA offered much economic and military assistance. "From 1953 through 1962, economic assistance amounted to roughly \$2 billion and military assistance to roughly \$1 billion" (Mason et al 1980:181; Kreuger 1979:67).

According to Mason et al(1980:184), the contribution of foreign assistance to a country's development is generally assessed in two dimensions: as a supplement to domestic savings which makes possible a higher rate of capital formation; and as a supplement to imports that permits a higher rate of production from the existing capacity. Table 2-11 shows what role foreign assistance played in the economic reconstruction in this period. It indicates that the foreign aid financed 69% of total imports from 1953 through 1962. It was equal to 77% of total fixed capital formation and 8.1% of GNP.

How did foreign assistance affect the transition to industrial capitalism in Korea? First of all, since nearly half of the USA aid

consisted of surplus agricultural commodities in raw material form, it immediately affected the construction of industries to refine them: sugar mill factories, flour mill factories, and cotton spinning factories. Many firms were established in this context to utilize the raw materials and development grants given as aid. Those industries were so prevalent at that time that they were called the "three whites" industries, including sugar, flour, and cotton. Most of the raw materials of sugar, flour, and cotton were dependent on USA aid, and the funds for factory construction or reconstruction were partly dependent on assistance from UNKRA and ICA. These aid agencies also supported the construction of some infrastructure industries.

Thus, by 1960, about 15 big industrial groups were formed, 8 of which became part of the current largest 50 chaebol. It is important to note that the accumulation process for these big industrialist groups was largely based on foreign assistance and foreign savings rather than on domestic landed assets or production.

It is also important to keep in mind that even though the 15 industrial groups became the solid foundation for subsequent development in the 1960s and 1970s, it was premature to argue that the transition from commercial to industrial capitalism was completed.<sup>5</sup> It is generally held that zero-sum accumulation rather than production

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<sup>5</sup>A full-fledged transition to industrial capitalism came about under the Park government. The military junta defined the existing mode of accumulation as illicit wealth accumulation and passed a special law to punish those who accumulated wealth illicitly by taking advantage of their positions of power. In the Park period, the five sources of zero-sum accumulation were largely eliminated (Jones and SaKong 1980:273). The profits made by the industrial capitalists were increasingly tied to production activity.

and competitive accumulation prevailed in the 1950s.

### Conclusions

This chapter has examined the social origins of the industrial capitalists and the creation of political monopoly capitalists in Korea, based on two methods of analysis: the biographical analysis of the largest 57 capitalists and the historical analysis of the major historical periods between 1910 and 1960.

From the biographical analysis, we found that most of the modern firms were established after liberation and especially during the reconstruction period after the Korean War. The class origin of the capitalists seldom provided them with landed assets. Most of them were from the lower classes, such as small farmers and poor merchants. In fact, many current chaebol owners are proud of the fact that they made their own fortunes by their own efforts. In terms of educational background, the Korean capitalists received relatively high levels of education. This was largely due to industrious self-effort rather than to parental wealth. These findings show a sharp contrast with the previous studies of Youngmo Kim(1981), Jones and SaKong (1980), and Hamilton(1984,1985). This contrast is due to the methodological differences in the sense that the previous studies were based on inadequate categories of measurement in the questionnaire survey. The biographical analysis also revealed that over half of the capitalists had accumulated their primitive capital in a commercial mode of business after the Liberation, especially during the Korean War.

The historical analysis supplemented the biographical analysis, explaining how these particular patterns of social origins were shaped in Korean society. The historical analysis revealed three major findings. Firstly, it identified three major historical factors related to the lower contribution of landlords to the formation of the industrial capitalists in Korea. 1) The transformation of the landed assets to industrial capital was systematically constrained by the inherent nature of Korean landlords embodied in the traditional estate system and Confucian ethic. 2) An external factor was the Japanese colonial policy which was designed to develop Korea as a periphery specializing in producing food grains to the interest of the Japanese economic system. 3) Even under the nation state, the transformation from the landlords to industrial capitalists was constrained due to the Korean War and the Land Reform which was undertaken through tenant-peasant class struggle and the Rhee regime's power struggle. In sum, there was no contribution from the landlords themselves to the industrialists, while there was somewhat contribution from the landed assets to industrial capital.

Secondly, the historical analysis revealed that, since the landlord class as leading native capital failed to fund industrial capitalists, the transition to industrial capitalism was mainly funded from external sources such as commercial capital accumulated through the import trade during the Korean War, the Japanese properties, and the American aid given during the post-war reconstruction period.

Finally, we found that, in the process of transition to modern industrial capitalism, the Korean capitalist class established

monopoly capital from the outset of industrialization, resulting in the formation of 'political monopoly capital'. This pattern was due to the nature of the Rhee regime which gave exclusive favor to a small group of pro-Liberal Party entrepreneurs in return for their political contributions.

The historical analysis also implies that the emergence of industrial capitalism in Korea is not simply a transition from feudalism, as traditional Marxists argued. This is firstly because the Korean landlord class came from a different tradition, historically and culturally, from that of the Western society. And secondly, as Holton asserted, there were too many post-feudal institutions involved between traditional feudalism and modern industrial capitalism: Japanese colonialism, the Korean War, the Korean nation state, the Land Reform, and the world system, mainly of the USA.

What do these findings of social origins of the capitalists imply for the subsequent formation of the capitalist class since the 1960s? Are the failure of transformation from landed assets to industrial capital related to the dependent development of the capitalist class both on the state and foreign capital since the 1960s? And are the close political coalition between the political regimes and the capitalists related to the unique pattern of economic development strategies which were characterized as big-business oriented industrialization? These questions will be addressed in Chapter IV.

Table 2-1: Distribution of Modern Firms and First Business BY Year

Year	First Business		Modern Firm	
	%	N	%	N
1916-1944	45.6	(26)	10.5	(6)
1945-1949	24.6	(14)	31.6	(18)
1950-1960	19.3	(11)	43.9	(25)
1961-	8.8	(5)	14.0	(8)
	100%	(N=57)	100%	(N=57)

Table 2-2: Distribution of Father's Occupational Status

Occupational Status	% (N)	Occupational Status	% (N)
Small Farmer <sup>a</sup>	28.0 (16)	Factory owner	1.8 (1)
Small merchant <sup>b</sup>	10.5 (6)	Professor	1.8
Medium farmer <sup>c</sup>	24.6 (14)	Unification Church	1.8
Landlord <sup>d</sup>	8.8 (5)	Higher politician	1.8
Refugee landlords	12.3 (7) <sup>e</sup>	Don't know	1.8
		Total	100 (57)

## Note:

- a. Includes those household which barely earn their living under povertyline.
- b. Includes street peddler and small shop with less than 2 employees.
- c. Includes those who earn enough living and educate their sons up to middle school level.
- d. Includes those who hold land enough to acquire surplus savings and to educate their sons at least through high school level.
- e. Refugee landlords may be included in the Small farmer category in terms of their economic situation. But since they had higher education handed down from previous wealth, they are separately listed.

Table 2-3: Korean capitalist's First Job by Father's Occupational Status

First Job	Father's Occupational Status					Total (%)
	Small farmer	Small merchant	Medium farmer	Landlord	Other/DK	
<b>Business Job, owner of:</b>						
Manufacturer			1	1	1	3 (5.3)
Rice mill			3	2		5 (8.8)
Rice store	1		1	1		3 (5.3)
Construction Co.					2	2 (3.5)
Garment/Grocery	2	1	2		2	5 (10.5)
Street peddler	2					2 (3.5)
subtotal						(36.8%)
<b>Non-business Job</b>						
Salaryman	1	1	2		1	5 (8.8)
State officials	4		2		2	8 (14.0)
Bank salaryman	2	1	1			4 (7.0)
Skilled worker	2	1	1	1		5 (8.8)
Shop keeper	2	2				4 (7.0)
manual laborer	6		1			7 (12.3)
subtotal						(59.6%)
DK	1				1	2 (3.5)
<b>Total</b>	<b>23</b>	<b>6</b>	<b>14</b>	<b>5</b>	<b>9</b>	<b>57 (100)</b>

Table 2-4: Distribution of Level of Education

Education	N	%
Primary	12	21.1
middle	10	17.5
High	11	19.3
College drop or two year college	7	12.3
College	13	22.8
DK	4	7.0
<b>Total</b>	<b>57</b>	<b>100%</b>

Table 2-5: Distribution of Type of Initial Source of Capital Accumulation

Type	% (n)
Foreign trade	40.4 (23)
Merchant	15.8 (9)
Small/medium manufacture	22.8 (13)
Rice mill and rice store	21.1 (12)
Japanese property	19.3 (11)
Transportation	8.8 (5)
Construction	8.8 (5)
Manager	3.5 (2)
Total	100% N=57

Table 2-6: Number of Firms and Percentage of Investment Capital by Nationality, 1919

	Number of firms	Investment capital
Japanese	280 (76%)	77%
Korean	63 (17%)	11%
Korean-Japanese joint	22 (7%)	10%
American-Japanese joint	1	2%
Total	366 (100%)	761,573 (KY)

Source: The Government-General, Recent Chosen Review, 1921:278-281

Table 2-7: Frequencies of Landowners with More Than 10 chongbo by Nationality, 1918

Level of Landowners	Korean	Japanese
10-20	29,062	1,135
20-30	7,935	600
30-50	4,311	581
50-70	507	206
70-100	194	164
100-150	94	115
150-200	74	96
+ 200	60	144

Source: Government-General, Official Report, Feb.27, 1919.  
as cited in Yoo 1979:68.

Table 2-8: Number of Factories, Amounts of Total Capital, and Capital per Factory by the Nationality of Ownership, 1927

Nationality	No. of Factory	Total capital (KY 1000)	Capital per factory (KY 1000)
Korean	2,457	23,289	9
Japanese			
Large factory	14	115,960	8,283
Small/medium	2,265	303,558	134
Other foreign	93	18,609	200

Source: The Government-General, The Statistical Yearbook, 1927

Table 2-9: Distribution of Factories by Size, 1930 and 1936

Size (No. Worker)	1930		1936	
	No. Factory	%	No. Factory	%
5-49	2031	97	2307	93.4
50-99	42	2.0	120	4.8
100-199	12	.6	30	1.2
200 and over	8	.4	14	.6
Total	2093	100%	2471	100%

Source: The Government-General, Chosun Factory Directory, 1931, 1937

Table 2-10: Distribution of Landlords BY Amounts of Land Price Reparation

Amounts	N	%	Amounts	N	%
-50	143,056	84.2	400-1,000	2,454	1.4
50-75	7,006	4.1	1,000-2,000	608	.36
75-100	4,293	2.5	2,000-5,000	227	.13
100-130	3,381	1.9	5,000-10,000	49	
130-200	4,213	2.5	+10,000	21	
200-400	4,475	2.6	Total	169,803	100%

Source: Bank of Korea, Economic Yearbook, 1955.

Table 2-11: Ratios of Aid Imports, and Net Foreign Savings to GNP,  
Total Imports, and Fixed Capital Formation, 1953-62  
(%)

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Ratios to GNP of:	
Total Imports	11.7
Fixed Capital Formation	10.5
Foreign Savings	9.1
Aid Imports	8.1
Ratio to Total Imports of:	
Foreign Savings	78
Aid imports	69
Ratio to fixed Capital Formation of:	
Foreign Savings	88
Aid Imports	77

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Source: Bank of Korea, Economic Statistics Yearbook, and National  
Income of Korea. 1975, as cited in Masen et al. 1980:185.

### CHAPTER III

#### ORGANIZATIONAL CONSOLIDATION OF THE CAPITALIST CLASS AND THE FEDERATION OF KOREAN INDUSTRIES

A central issue in the study of capitalist class formation is the question of the extent to which capitalists are capable of organizing themselves as a social force. Many writers agreed that the capitalist class normally has a higher and more homogeneous class consciousness than any other classes in society. As researchers such as Mills (1964), Domhoff (1974,1978,1976), Whitt (1980), Ratcliff (1980), and Ornstein (1986) have argued, considerable social cohesion and political self-awareness draws together the members of the capitalist class. "Even though capitalists are economically competitive, their political unity is more relevant" (Bridges 1974:174). The close social ties that members of the capitalist class acquire from their exclusive clubs, resorts, common membership on board of directives, and kin networks mean that their common interests are manifested in a high level of class consciousness.

As a consequence, in fact, "the capitalist class normally has a higher and more homogeneous class consciousness than any other class in society" (Szymanski 1978:39; Seider 1974:803). In addition, the development of an ideology takes place on the basis of this awareness of a community of interest, the interpretation of the existing structure of society and the strategy and tactics of action. During this process, organizations for the defense of class interest are formed. The development of organization and ideology will result in

forms of organized action.

Domhoff(1978) provides good evidences of how capitalists organize themselves into policy discussion groups and influence state policy formation in the United States. He examines both the Big Four and small policy organizations. The former includes the Council on Foreign Relations, the Committee for Economic Development, the Conference Board, and the Business Council. The latter includes the National Planning Association, American Assembly, etc. There are many other studies on capitalist class organization (Useem 1979; Useem and McCormack 1981; Darknell 1975; Shoup 1977; Yanaga 1968; Vogel 1975).

The purpose of this chapter is to explore how Korean capitalist class consciousness was raised and how the Federation of Korean Industries (FKI) was organized and operated to articulate the interests of the capitalist class. Four research questions will be answered in this chapter: What was the social and political context in which the Korean capitalist class became aware of itself as a social group sharing common interests, and how was the FKI established? What are the organizational resources of the FKI? What are the formal and informal channels through which the FKI influences government policy formation? And finally, what is the nature of FKI activity in terms of degree of power leverage?

#### **Socio-Political Background of the FKI Establishment**

The FKI is rooted in the April Student Uprising of 1960 and developed through the military coup in 1961. The April Student Uprising took place in protest to the corruption in the Rhee

government, economic depression, Rhee being in power too long, and most importantly, the rigging of the presidential election held on March 15, 1960. From the outset of the presidential campaign, the collaboration of the ruling Liberal Party, the government bureaucrats, and the police made every effort, legal or illegal, to suppress the opposition, the Democratic Party, spending a huge amount of election funds extracted from the capitalists.<sup>1</sup> As a natural response, on the day of the election, protest demonstrations took place in several cities. The discovery of the mauled body of a student, killed during protests over election irregularities in the city of Masan, finally sparked the revolution. Nation-wide student protests developed as the press spread the story throughout Korea's cities on April 19, jolting the whole country. About 128 people were killed, and nearly 800 wounded by the fire of police (Korea Times, 4/26/60). A group of 258 university professors marched in the street asking a price for their students' bloody sacrifices (DongA Daily 4/26/60). With the participation of university professors, demonstrations were again ignited throughout the country. At last, Syngman Rhee resigned, vice president-elect Yi Kipung committed suicide, and the Transitional Government, led by Ruh Chung, the new foreign minister, was established on April 28, and lasted until August 14 when the newly elected Democratic Party government was launched under a new parliamentary cabinet system.

The slogans and statements issued during the uprising demanded

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<sup>1</sup>For a detail of the April Student Uprising, see Joungwon Kim 1975; Henderson 1968.

several revolutionary changes, as is the case of most movements and revolutions. Among others, they include:

1. Current regime should immediately resign because of the accumulated corruption, injustice, and the violence of civil rights (statements by a Group of University Professor, item 4).
2. Execute those who plotted the March 15 election rigging and who participated in the massacre of students (slogan by the Yonsei and Koryo University students; Statement by Group of University Professors, item 6).
3. Punish those who accumulated illicit wealth in collusion with the bureaucrats and power groups (statement by a Group of University Professors, item 10).

Syngman Rhee and the Liberal Party were the targets of the student uprising. But as expressed in item 3 above, the issue of illicit wealth accumulation was raised during the April Student Uprising by the Group of University Professors, and revived as an important social issue after the uprising ended. It was commonly believed that the capitalists were in close coalition with the Liberal Party providing political funds in return for special favors from the regime. In fact, almost all of the enterprises at that time were so-called Liberal Party enterprises as was discussed in Chapter II. Without being allied with the Liberal Party, no big entrepreneur could manage to survive from the political pressure at all. For each presidential and general election in 1954, 1956, and 1958, the Liberal Party pressed the Commerce Bank<sup>2</sup> to loan money to capitalists who in turn handed the money over to the Liberal Party for campaign funds. Later the bank president was rewarded by being appointed a member of the cabinet (Kim 1975:152).

The same method was used in the 1960 presidential election.

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<sup>2</sup>The Commerce Bank was privatized in 1956 and re-nationalized in 1961.

Knowing that the regime had already lost popular support, the Liberal Party plotted an unprecedented election rigging. The Liberal Party had the Bank of Development, a public policy bank, issue 4,300 million hwan (about 66.2 million U.S. dollars) of industrial finance bonds and 2,400 million hwan of agricultural finance bonds and to loan them to larger Liberal Party enterprises. The businessmen selected were forced to contribute the money to the Liberal Party for its political funds. Most of the businessmen involved did not even touch the money. The details are shown in Table 3-1. The businessmen were promised special favors from the Liberal Party after the election. Thus 5,000 million hwan was given from the Bank of Development through the businessmen to the Liberal Party (Committee for Compilation of Revolution Court History 1962:140-141; DongA Daily 5/7/60).

On May 5, 1960, there occurred a demonstration at Pagoda Park, Seoul, asking for punishment of the illicit capital accumulators by confiscating their wealth (History of Liberation 30 Years 3:202). Pushed by the demonstration, the Transitional Government decided to punish those capitalists who were involved in election funding for the March 15 rigged election and who in turn received some favors from the Liberal Party government (DongA Daily 5/5/60). In fact, the Transitional Government was expected to implement all the reforms invoked during the student uprising. No government could have pacified the wrath of the masses without implementing the reforms: political, economic, and social. The first public statement of the Huh government shows the response:

The care-taker cabinet should strive for the settlement of the current political crisis by establishing a government free from

corruption and maladministration. — The administration should be mindful of the major grievances of the people and the redressing measures should be realized in a bold and swift manner (Korea Times 4/30/60).

Other social groups also pushed the issue. For example, on May 28, the Korean Economics Association, an academic organization, officially demanded that those who earned profit in an illicit way should be imposed a heavy taxation through an enactment of a special tax law (Kim 1964:161). Student groups staged demonstrations every day to push and criticize the government for reforms. An extreme example is that the students took over the National Assembly in protest to the light sentences passed by the courts on some members of the former Rhee government.

In this political context, the Prosecutor's Office began to investigate 52 individual entrepreneurs on June 21 (DongA Daily 6/22/60). On July 6, the Prosecutor's Office announced that 5 major chaebol would be subject to confiscation of their entire wealth and properties (DongA Daily 7/7).

However, there was some disagreement between the Prosecutor's Office and the Huh government. The Huh government, with the slogan of "In Non-Revolutionary Way of Revolution," attempted to deal with the illicit wealth accumulators through current tax law, while the Prosecutor's Office argued for revolutionary punishment. Because of the disagreement between them, an implementation of punishment was delayed and at last transferred to the new Democratic Party regime of Chang Myun<sup>3</sup> launched in August 14, 1960. The Democratic Party regime's position was that the existing tax law should be applied in

dealing with the case. The apparent commitment of the state managers to punish the businessmen was overshadowed by a pressing need for political funds, to say nothing of the imperative of capitalist system. During the campaign for the July 29 election under the new constitution, the Democratic Party asked for political funds from the businessmen. Ten leading Democratic Party members, including Chang Myun and Yoon Bosun, who were elected as prime minister and president, respectively, in the following election, secretly met with 6 representatives of big businessmen. In that meeting, 220 million hwan was contributed to the Democratic Party and the party promised in turn to respect the policy recommendation of the business groups (Kyungnam Lee 1982:130; FKIBH #2).

The Democratic Party government, already allied with the big businessmen, announced a final decision for dealing with the illicit wealth accumulation case based on the existing tax law: 24 chaebol or

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<sup>3</sup>There were two major political parties in the Syngman Rhee regime: ruling Liberal Party, and opposition Democratic Party. The Democratic Party was established earlier than the LP, in 1948, right after Liberation, as a dominant party based on the then dominant landlord class. Syngman Rhee was chosen as President under the Democratic Party's support. But soon President Rhee abandoned the Democratic Party because the Democratic Party was quite pro-Japan party based on pro-Japan landlord class. President Rhee created his own Liberal Party in 1952. The Rhee government crushed the financial base of the Democratic Party through the Land Reform between 1950 and 1954, and supported industrial capitalists by giving an exclusively favorable policy for a financial base of the Liberal Party. In this process, the industrial businesses and the Rhee regime were allied as a dominant faction of the society. After the Rhee government's downfall through the April Student Uprising, the Democratic Party became a dominant party by winning the election under the new cabinet system constitution. But the Democratic Party had no financial base, it soon became allied with the industrial capitalists by obtaining political funds and promising light punishment of the illicit wealth accumulation charge.

46 firms shall pay 8.7 billion hwan of fines and 10.9 billion hwan of additional charges for their avoiding taxes (DongA Daily 9/2/60; Chongsik Lee 1976:209). However, "the mob rule, which was a prevalent political process at that time, did not accept the decision because it seemed to be too light a punishment" (Lee 1976:200). Especially, student groups, who participated in the April Student Uprising and thus provided the Democratic Party with the crucial opportunity for dominant power, demanded enactment of a special law to deal with the case more harshly. In this context, the Democratic Party government transferred the case to the National Assembly to get out of the trouble (History of Liberation 30 Years 3:200). In this process, the Democratic Party submitted a bill of special law to the House on September 17, 1960. The bill, passed in the House on Feb, 1961, and was submitted to the Senate, defined illicit wealth accumulators as those who, for the last 5 years, had:

1. Earned profits illicitly by taking advantage of their positions and power.
2. Contributed political funds of more than 10 million hwan to the March presidential election.
3. Avoided taxes of more than 10 million hwan annually over the last 5 years.
4. Earned profits of more than 6 million hwan by either bidding for public works, or transferring their wealth abroad, or offering bribery to government officials (FKIBH #6).

**The initial organization of the capitalists:** While these social and political measures were being processed, a group of capitalists, who were involved in the case of illicit wealth accumulation became keenly aware of the class-based interests, and they met at the office of the Korean Chamber of Commerce,<sup>4</sup> met together on September 5, 1960

and agreed that the measure by the Chang government was unfair because the tax law itself under the Rhee government was unfair and furthermore the businessmen were coerced by the state power to contribute political funds. They also agreed that they would stage a struggle if the government measure was not revised to a minimal level (DongA-Ilbo 9/6/60).

In October, leading capitalists felt that they needed a more effective organization to unite the larger capitalists and articulate their own interests. They agreed that the principle of the new organization should be as follows:

1. The businessmen should be organized to liberate them from the rule of the political bureaucrats, and promote the autonomy of capital and the free economic system as in advanced capitalist countries.
2. A political funding channel should be institutionalized to prevent irregularities and to purify political and economic order.
3. The business group should do its best to promote industrialization so as to increase employment and reconstruct the agricultural economy and to stabilize the national economy.
4. The business group should reflect its professional knowledge and practical experiences on state policy formation.
5. The business group should pay attention to the world market to initiate its debut in the world system (FKIBH #1).

On Dec.3, 1960, the businessmen met in the Preparatory Conference for Organization and established a basic constitution of the prospective organization as follows:

1. The members shall be large capitalists with larger than certain degree of firms to make a capitalist association.
2. The organization shall be a nation-wide one, rather than a

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<sup>4</sup>The Korean Chamber of Commerce was organized in 1952 based on the Chamber of Commerce Act. This is a government-led businessmen organization in which all businessmen except agricultural and fishermen are required to enroll in an appropriate local chamber of commerce. Thus this is not for only big businessmen.

- local one like the Korean Chamber of Commerce.
3. Other business organizations shall be included as group members to unite all the business world in Korea.
  4. The organization shall be a pure civilian association not influenced by the state bureaucracy.
  5. The organization shall not confine its activity to commerce and industries. It shall also cover all the issues such as development of agriculture and fisheries as well as social stability.
  6. The organization shall also be concerned with political issues when necessary.
  7. The organization shall become a forum for communication with the people from the political, cultural, social, academic, press, religious, and art community.
  8. The organization shall make efforts to establish further foreign relations with other capitalist countries so that the organization become the bulwark of civilian foreign diplomacy.
  9. The organization shall prepare basic policy to promote the normalization of Korea-Japan relations. And,
  10. The organization shall realize a full employment by a technology-learning movement for all the people (FKIBH #3).

At last, the capitalists who were conscious of common interests and of the challenge from opposing groups were organized as a power group in the name of Korean Economic Council (Hanguk Kyungje Hyubihoe) made up of members of 78 larger capitalists on January 10, 1961. Since the Korean Economic Council was established in response to the challenge of the populace and the government, the solidarity among members was quite strong. As mentioned above, the Korean Economic Council was organized as a channel to influence the government and to liberate business from the rule of the political regime, and as a leading component in economic development in Korea. The Korean Economic Council seemed to resemble the Keidanren, the Japanese capitalists' organization, in the sense that the basic aim was to handle the state policy (Namjun Cho 1986). Kim Yeon-soo, chair of the Samyang group, was elected as first chair of the Korean Economic Council. Five special committees were formed to deal with special

issues and all the members of the FKI were to be members of the special committees.

The first task of the organization was to attack the Bill for Dealing with Illegal Wealth Accumulation, which was already passed in the House and submitted to the Senate on February 9, 1961. The Korean Economic Council met on Feb. 15 to discuss the bill and to adopt a resolution as follows:

1. The bill will not only discourage businessmen's creativity and entrepreneurship in the free economic system, but also bring about industrial disorder.
2. The Korean Economic Council should collaborate with four other business organizations - the Korean Chamber of Commerce, the Korean Traders Association, the Textile Association, and the Construction Association.<sup>5</sup>
3. The Korean Economic Council and the collaborating business groups should urge the state to revise the bill (FKIBH #6).

The Korean Economic Council and its collaborating groups then issued a class-based statement on the bill on March 4. The statement is summarized as follows:

1. The bill was designed as a socialist revolution which will pave the way to a communist conspiracy of Kim Ilsung group of North Korea.
2. The April Student Uprising is a political revolution, but not a social and economic revolution. Thus the economic revolution like the pending bill is irrelevant to the reforms asked in the April Student Uprising.
3. The economic crisis expected from the bill will be directly related to the crisis of the regime's legitimacy.
4. Thus the bill should be revised to a minimal level (FKIBH #7).

The National Assembly immediately protested against the statement of the Korean Economic Council which labeled the assemblymen as

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<sup>5</sup>The memberships of these four organizations were overlapping with those of the Korean Economic Council, and were actually controlled by the same members of the Korean Economic Council, although their organizational functions were different.

socialists. But it should be noted that seeming conflict between the Korean Economic Council and the National Assembly and the government was nothing but a show for the populace which asked a heavy punishment of the illicit accumulators. The government had already received political funds from the very businessmen to be punished under the alleged punishment measure and knew that punishment of the businessmen would shake the economy. The National Assembly was also another ally of the dominant faction. The National Assembly was dominated by the Democratic Party. The House had 75.1% members from the Democratic Party, and the Senate had 53.4% members from the Democratic Party (Lee 1976:114). For this reason, the Korean Economic Council and the assembly soon reached an agreement that the bill would be revised to lessen the degree of punishment. Also, on March 24, the representatives of Korean Economic Council met with Chang Myun, the Prime minister, 7 related ministers, some members of the House and Senate and reached a final conclusion after an overnight debate. The agreements reached in the secret meeting are as follows:

1. The business groups will finance the state efforts in stabilizing social disorder prevalent at that time.
2. The bill passed in the House will be revised to a large extent so as to avoid a crisis of business world.
3. The government will fully reflect the opinion of the business world. To do that, the government and business groups will meet together on a regular basis.
4. Both the government and the business organizations will make a joint economic plan and implement it cooperatively.
5. The economic plan should be based on parallel emphasis on both agriculture and industry.
6. The state should help overcome the shortage of industrial capital.
7. The state should formulate rational economic policies based on the experience of the businessmen, getting out of the former style under the Rhee government (FKIBH #9).

This agreement is really amazing because the Korean Economic Council exerted a much stronger influence on the state than it had in any other period in Korea and, perhaps, any other country's capitalist class. But it should be considered that the capitalist class did not become that strong even though it became quite stronger with the organization of the Korean Economic Council. Rather, it was mainly due to the nature of the Democratic Party government. The Democratic Party government rose to power without a large power base after the 12 year dictatorship of the Liberal Party regime, and the Democratic Party government had not had enough time to consolidate its power base yet. The Democratic Party government did not have control over any financial resources, nor the military yet, which the Liberal Party government had had under control. For this reason, the Korean Economic Council could enjoy relative strength over the state, and the state agreed to the demands of the capitalist class.

After this agreement, the bill passed in the Senate was revised even in the definition of the illicitly accumulated wealth: "the illicit wealth accumulation refers to those who voluntarily contributed to the March 15 election political fund of more than 30 million hwan (FKIBH #10). The previous bill was intended to include almost all the illegal economic activities under the Rhee government, about 60 thousand bureaucrats and businessmen being subject to punishment. In so doing, only 9 businessmen were to be subject to punishment under the new bill. Also, the businessmen reached an agreement with the Chang government that the businessmen would invest an equivalent fund to factory building rather than pay the fines in

cash (Jinhyun Kim 1964:169).

In sum, the Korean Economic Council exerted a great influence on the state policy during the first two months of its establishment. Considering the revolutionary demands from social groups, it was natural that the revised bill was severely opposed for the negligibly light punishment by several social groups, student organization, mass communication, and the academic world (Lee 1976). But after only one month, a military coup occurred and the Korean Economic Council was dissolved on May by a decree of the military coup.

**The military coup and a new charge of illicit capital accumulation:** The military junta came to power through a military coup on May 16, 1961, before the case of illicit capital accumulation was cleared under the legislation passed in the Senate. The military coup,<sup>6</sup> allegedly had taken place against the inefficiency and corruption of the Democratic Party government, and did not hesitate to utilize the grievances of the people in the case of illicit wealth accumulation for their legitimacy. Just on the day after the coup, the military junta arrested 15 leading capitalists on charges of illicit wealth accumulation again. The same people were charged three times in the same case under three consecutive regimes. Young military officers claimed that several major illicit accumulators should be shot to death. In this terror-stricken situation, 10 of the

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<sup>6</sup>For details of the military coup in 1961, see Se-jin Kim, 1971, *The Politics of Military Revolution in Korea*, The University of North Carolina Press, Chapel Hill, N.C.; and Walter Briggs, 1963, *The military revolution in Korea on its leader and achievements*, *Koreana Quarterly* 5, no.2.

13 arrestees in the jail announced that they would transfer all of their properties to the government. A new law was enacted on June 14, 1961 and 120 businessmen and bureaucrats were investigated and sentenced to fines under the law. With this measure to deal with the illicit wealth accumulators under the Park military junta, the big business groups faced a fatal crisis through which the total industrial assets might have been confiscated by the Park regime. The commercial banks owned by the leading capitalists were confiscated as an initial implementation by the military junta. All the banks thereby were owned and controlled by the Park regime for two decades until they were privatized by the Chun regime in the 1980s (Jinhyun Kim 1964).

However, a negotiation between the leader of the arrested big businessmen and the Park military junta followed the initial hard line. The negotiation was initiated by Park Chung Hee. According to a FKI document (1983), General Park visited Yi Byungchul, chairman of Samsung chaebol, a top industrial group in Korea, when he was under arrest on charges of illicit wealth accumulation. Park explained to him briefly why he led the revolution, frankly confessed that he had no idea how to manage the national economy, and asked Yi if he had any good ideas for economic development. At the unexpected question, Yi felt quite relieved to find that Park was not investigating him but was asking advice from him. Here is the important dialogue between them which shaped the economic development policies thereafter:

Yi: The reason why the society is unstable is basically due to poverty. The way to economic development is to take advantage of the leading businessmen rather than to punish them. You arrested 13 businessmen on charges of illicit wealth

accumulation. But I think they are arrested because they are able businessmen who worked hard, managed their businesses well, and succeeded in business. But those who failed to develop their businesses into larger ones were waived from charges with illicit wealth accumulation. If you want to reconstruct the national economy, you have to take advantage of the 'able' businessmen.

Park: Then, how shall I deal with the case of illicit wealth accumulation?

Yi: Release and take advantage of them. They are the able businessmen.

Park: Don't you think the masses oppose it?

Yi: It is the politics to persuade the people.

Park: I feel better to hear you. When I asked the economic scholars to submit a policy for economic reconstruction, they could not reach any conclusion, doing nothing but discussion all day long (FKI 1983: 395-6).

Through this meeting, the Park regime found a partner for its economic development policies in the big businesses. The big businessmen found a way to rescue from the fatal crisis. After this meeting, all the 13 arrested businessmen were immediately released from jail. Also, they were given a suggestion to reorganize themselves. A few days later, General Park suggested that Yi Byung Chul organize an association of big businessmen and make a contribution to the national economic reconstruction project of the new political regime.

#### **The Establishment of the Federation of Korean Industries (FKI):**

While the previous Korean Economic Council was organized independent of the the Democratic Party regime, the FKI was organized in close coalition with the Park regime. The 13 leading businessmen organized themselves as the Economic Reconstruction Promotion Association on July 17, 1961, immediately after they were released from arrest. The Economic Reconstruction Promotion Association was renamed as the Korean Businessmen Association as the chairmanship was shifted from

interim chairman Lee Chunggrim to Yi Bung Chul who was nominated by President Park Chung Hee. The Korean Businessmen Association was again renamed to its current title, Federation of Korean Industries (FKI) on March 28, 1968. Even though the name was changed, the constitution has been kept through all the different names of the same big business association: the Korean Economic Council, the Economic Reconstruction Promotion Association, the Korean Businessmen Association, and the Federation of Korean Industries. Also, the organizational constitution, personnel, and organizational resources were all the same as for the Korean Economic Council in 1961, as an organization of capitalists in Korea. While the official establishment date of the FKI is Aug. 16, 1961 when the Korean Businessmen Association was launched, the actual origins go back to Jan. 10, 1961 when the Korean Economic Council was established (FKIBH #17).

The first task of the FKI was to negotiate with the state on the payment of 8,312 million hwan fines imposed on the 23 leading businessmen by the Park regime. Yi Byungchul, chairman of the FKI, met again with General Park to convey the opinion of the FKI. He asked to change the payment in cash to payment in stocks after building new firms with cash equivalents of the fines imposed. Yi argued that the investment would activate the national economy, increase employment, and encourage businessmen, and that the government in return would own shares equivalent to the amount of the fines. General Park finally agreed with the demand of the FKI, and the 13 leading businessmen made a contract with the government on the

establishment of infrastructure industries. Each was allocated one basic industrial firm to build. Also, the amount of the fines was reduced to half of the initial amount. Thus, the Korean capitalist class could resolve the crisis of these confiscations under three consecutive regimes - Ruh, Chang, and Park. Moreover, the capitalists were given special priority for economic development.

From this moment, the Park regime and the capitalists were coalesced, especially since the export-oriented development strategy was adopted in 1964, the state being a senior partner during the Park government. The economic development thereafter was conducted under a 'big business oriented policy' during the whole period of the Park regime. (See Chapter IV for detailed documentation).

In order to get financial funds for construction of the factories allocated, the 13 members of the FKI, separated to two groups, went to Europe and the United States, with travel funds from the Park government. Upon returning from abroad, the FKI recommended that the government construct the Ulsan industrial port like those in advanced countries, a proposal that was immediately implemented by the Park government to make a symbolic project of the new regime's strong support for economic development. But it should be stressed that most of the 13 businessmen privatized the firms when completed, and paid the government in cash instead of in stocks (Kim 1964).

Here we need to draw a general conclusion. Even though the issue to punish the capitalists for their illicit capital accumulation was raised from the masses during the April Student Uprising, it was the political regime that implemented the punishment. The state managers

made a decision to punish the capitalists to enhance the legitimacy of the coup regime. What should be stressed here is that it was from the conflictual relations between the political regime and the capitalists that the capitalist class was organized as a social force. As will be clearer when we proceed, the organizational goal of the FKI is mainly oriented to influence the regime. The working class was not yet a challenging force until the late 1960s. Indeed, the conflict with the regime had generated the dynamics of the capitalist class activities. The next section will show how the organizational resources of the FKI are tailored.

#### **Organizational Resources of the FKI**

Table 3-2 shows the summarized features of the organizational resources of the Korean capitalist class over time. The members of the FKI were initially 13 in 1961, but rapidly increased to 125 in 1968, 341 in 1976, and 427 in 1985. Out of the 427 members in 1985, 70 are group members, 5 honorary members, and 353 regular members. Group members consist of chairmen of industrial organizations based on industry types. Regular members consist of chairmen of larger industrial groups. The members of the FKI are thus representative of all the larger industries, and the larger industrial groups. "Being a member of the FKI thus meant that the entrepreneur was highly recognized in his economic capacity and career from the Korean business world" (Namjun Cho 1985:406). FKI membership thus increased in proportion to the growth of the capitalist class.

The staff member of the FKI also substantially increased from an

initial 12 in 1961 to 132 in 1985. The 132 staff members as of 1985 are; 7 directors, 15 department managers, 12 section chiefs, 56 researchers, 24 clerical workers, and 18 other employees (FKI Annual Report 1985). The role of the staff is basically research and clerical work. The major functions of the FKI are carried out by the members of the FKI because most of the satellites and policy discussion groups are membership organizations.

The bureaucratic organizations of the FKI were differentiated and increased in number over time. The Executive Organizations were developed from 2 departments and 5 sections in 1961 to 8 departments and 21 sections in 1985. As Figure 3-1 shows, the Executive Organizations cover the bureaucratic affairs of membership service, economic policy affairs, and public relations of the capitalist class.

The Policy Discussion Committees were also increased to a substantial degree from 6 in 1961 to 51 committees in 1985. There are three different types of committees: Standing, Special, and Foreign Cooperation Committees. As Figure 3-1 shows, the Standing Committees discuss regular issues. Among the Standing Committees, the General Discussion Committee is the most authoritative one. The General Discussion Committee is composed of 40 top capitalists to discuss and make final decisions on major issues. For this reason, the General Discussion Committee is sometimes called the Veteran's Council or Jung jin hoeyi (Byunghyu Bae 1983:286). Each committee within the Standing Committee has 40-80 members.

The Special Committees were designed for special, current issues of social, economic, and political affairs. As the names of the

Special Committees indicate, unique issues between the state and the capitalist class were to be discussed in each committee. Each committee includes 25-82 members.

The Foreign Cooperation Committees were organized to discuss the issues of foreign economic relations, including trade, foreign loans, and technology. As of 1985, the Foreign Cooperation Committee have regular channels with 19 countries.

The Satellite Organizations were established as think tanks which operate in specialized areas or provide research information. Major organizations of them will be explored in detail.

**Organization of Think-tank:** It is within the policy process that various sectors of the business community transcend their interest-group consciousness and develop an overall state policy. Big business groups felt the necessity of establishing an organization to play such role. The Economy and Technology Research Center was established as a comprehensive think-tank of the FKI in January 1963. It was designed to deal with all the issues related to the capitalist class: policy formulation, research, education of the corporate managers, social affairs, etc. The ideas were sought from the 75 professional advisors from every sectors of the society such as corporate managers, scholars, journalists, and lawyers (FKIBH #48).

**Organization for Labor Affairs:** As rapid industrialization proceeded, the number of industrial workers rapidly increased. At the same time, the working class increased its class capacity and caused increasingly frequent labor disputes in the late 1960s (Kim 1984). In this context, the FKI organized the Korea Employers' Federation (KEF)

in 1970 as a special policy planning group on labor policy. Its organizational goal is to "promote industrial peace and to strengthen competitive capacity of Korean enterprises in the world market" (DongA Yearbook 1971:508). At the organizing convention, the KEF made the following resolution:

The Korean economy in the 1970s is facing a task to consolidate its rapid development and to challenge for its internationalization. — For this task, we, business managers, realize that the driving force of industrialization is the development of human capital. Hereby we move our resolution to improve industrial relations. 1) Consciousness of common goal: We declare that enterprise development and laborers' welfare are not in conflict. The prosperity of business leads to the prosperity of laborers. 2) Promotion of work conditions for productivity increase: We aim to improve the conditions of labor based on creativity and innovation and to realize the rationalization of management and job training. 3) Principle of distribution: We aim to realize a rational wage system based on productivity. And 4) Dialogue for mutual understanding: We aim to enlarge the channel of dialogue between managers and laborers to achieve industrial peace and to promote the industrialization of Korean economy (DongA Yearbook 1971:509).

In March 1971, the KEF made a "Policy Proposal for Labor Policy in Developing Era," and recommended it to the government, arguing that in order to keep its advantage edge in competition in the world market and enlarged reinvestment, wages should be stabilized at a certain level. In November, 1971, the KEF argued that Korean labor law is too advanced and thus irrelevant to real situations, and demanded that the law should be revised. In fact, in December 1971, a special legislation was enacted to forbid labor strikes, giving the government Office of Labor Affairs (OLA) the jurisdiction in all labor-management disputes. Collective contracts had to be approved by the OLA and the solution of all dispute issues became the prerogative of that agency (DongA Yearbook 1972:442). It is not intended here, however, to argue

that the legislation was totally the product of the KEF. What is meant here is that the KEF has been an important policy discussion group specializing in labor control since its birth to the interest of the capitalist class.

**Organization for Political Fund Raising and Political Channeling:**

Perhaps one of the most important power leverages of the capitalist class over the government is the contribution of political funds. However, a formal channel to raise political funds and to contribute them to politicians was not institutionalized mainly because the dominant party preferred the informal channel to block the equal distribution of political funds to opposition parties. Considering that the capitalists had hard times during the April Student Uprising in 1960 and the Military Coup in 1961 simply because the channel was not institutionalized and any kind of dealings between businessmen and politicians was regarded as illegal, the institutionalization was necessary to the capitalists.

In 1965, the Law of Political Funding was enacted to legalize and institutionalize the contribution of political funds by the capitalist class following the FKI's strenuous demand (FKIBH #35). After the law of 1965, the business world regularly contributed political funds in a open manner.

In 1968, members of the FKI demanded that one way contributions of political funds to the state managers should be developed into a forum for dialogue between the contributors and the receivers. Put differently, the capitalists demanded a channel through which they could convey their opinions to the state managers when they contribute

their money. This argument was accepted by the state managers and the Politico-Economic Conference was established for this purpose in July 23, 1968 with the attendance of the Prime Minister, the chairman of the National Assembly, leaders of both the dominant and the opposition parties, as well as 80 capitalists (FKIBH #36). The PEC was interrupted during the Yushin regime between 1972 and 1979, but continued in the new regime of the 1980s. In 1985, The PEC contributed 1.11 billion won of political funds to the state managers (FKI Annual Report 1985:356). Other information about the activities of the PEC are not available.

**Organizations for Foreign Relations Affairs:** In the developing societies, businessmen always suffer from lack of capital, technology, and management skills. In order to solve these difficulties, the Stanford Research Institute Korean Committee (SRIKI) was founded in 1969 by joining the SRI which provides research information and advice to domestic and foreign enterprises or governments on a contract basis. The SRI specializes in engineering research, management consulting, basic and applied sciences, and world business consulting. The SRIKC aims to increase cohesion with international businessmen, and exchange information on management, trade, technology, and capital. The SRIKC sponsored 1969, 1970, 1972, and 1979 meetings in Seoul and informed the foreign businessmen on investment climate, economic development plans and trade policies of Korea, thereby attempting to induce foreign loans, promote technology and increase trade (Trace of FKI Development 1985:40).

During 1985, the SRIKC operated two seminars inviting 60 foreign

businessmen, participated in the International Industrial Conference to hear research reports and discuss common problems, and mediated meetings between foreign and domestic businessmen for 10 cases (FKI Annual Report 1985:574-76).

There are many other organizations established to enhance economic relations with other countries. The Korea-Asean Business Council was organized in 1981 for economic relations between Korea and other Asian countries. Korea, Indonesia, Malaysia, Singapore, the Philippines, and Thailand are the member countries, and 150 enterprises are members of the KABC. The KABC also has regular relations with many business organizations of each of the member countries. It publishes two, bimonthly and quarterly, periodicals (Trace of FKI Development 1985:52).

The Pacific Basin Economic Council Korean Committee was founded as the FKI joined the PBEC in 1982. It has 70 members of capitalists. Other international organizations are the Korea-German Investment Promotion Center, the Korea-Japan International Management Cooperation Committee, and the East West Economic Research Institute.

#### **The Enlarged Organizational Resources of the FKI in the 1980s**

In the 1980s, the capitalist class faced challenges from both above and below. From above, the new military, Chun regime attempted to attack the capitalist class on charges of illicit wealth accumulation; From below, the mass and the press denounced the increasing business concentration and invoked the issue of wealth distribution.

As will be discussed in detail in Chapter IV, when the Chun military junta came to power through a military coup, it is reminiscent of General Park that General Chun attempted to exert control over the capitalists through charges of illicit wealth accumulation. Even though the Chun regime at last decided not to punish any businessman for corruption after a political negotiation with the FKI, the capitalist class experienced another turn of hard times with the military regime.

Another challenge to the capitalist class came from below. As the capitalist class consolidates its monopoly in capital accumulation during the developing era of the 1970s, the business concentration was increased to a "dangerous" degree. In the early 1980s, the leading daily newspapers, including the DongA Daily, the Hanguk Daily, and the JungAng Daily, altogether, reported serialized articles on chaebol and the business concentration, raising it as a hot social issue. At the same time, during the short period of liberalization mood between the demise of Park regime and the rise of Chun regime, labor dispute exploded asking for a price of economic development. The challenge to the capitalist class culminated in the incident on March 18, 1985 in which a group of students (16 students from 6 universities) occupied the FKI building and shouted for a punishment of "comprador monopoly capitalists" (DongA Daily 1985,3/19).

The challenge from the government and society functioned as a stimulus for internal solidarity of the capitalist class. The capitalist class made a resolution that a series of challenge from the government and the society is a challenge to the liberal economic

system and that they should be coped with by collective efforts of all businessmen. Thereafter, the FKI built up its organizational capacity by establishing the Korea Economic Institute to formulate private initiative economic policy. Also, some other important organizations were established to consolidate stronger organizational resources. They are the International Management Institute, the Businessmen's Club, Korea Economic Daily, Korea Information Industry Association, Korea Technology Development Company, etc. Each of these organization resources will be explored in detail.

**Organizations for Think-tank and Research:** The most important organization is the Korea Economic Institute (KEI). The KEI was initially established under the name of the Economy and Technology Research Center in 1964 and developed into its enlarged current form and name in 1981. The sources of ideas are from 111 advisory members from outside. They consist of 67 university professors, 12 directors of research institutes, 3 government officials, 7 corporate executives, 8 lawyers, 2 business organizations, and 2 writers. The KEI is the first and largest private research institute sponsored by the capitalists. The major task of the KEI is to develop policies for private initiative economic systems to cope with the interventionist state (Trace of FKI Development 1985). The KEI operates active programs of seminars, symposia, and conferences inviting government officials, scholars and business leaders. The most important aspect of the KEI is its discussion of specific topics in the areas of tax, government budget, finance, industries, and economic system. During 1985, the KEI conducted 25 research projects, 5 symposia or seminars

(FKI Annual Report 1985:465-487).

Other research organizations within the FKI include the Korean Information Industry Association, the Korean Genetic Technology research Association, and the Korean Technology Development Company. The Korean Information Industry Association (KIIA) was initially established in 1969 and enlarged in 1983 as a current organization to facilitate computer industries, information industries, and computer-based management systems. It has 107 members as of 1985. The specific functions are 1) research, 2) international exchange, 3) education and training of members, and 4) policy discussion, etc. During 1985, the KIIA developed 6 policies and recommended them to the government, conducted 9 technological or economic research projects, operated 5 exchange programs with other countries, operated group studies for 56 members, and sponsored 7 seminars on computer soft and hard ware. The KIIA also sponsored the development of 13 new computer systems or technology of personal computers for the 6 computer producing firms in Korea (FKI Annual Report 1985: 488-523).

The Korean Genetic Technology Research Association (KGTRA) was established in 1982 to facilitate the genetic technology industries. During 1985 it sponsored the development of 18 new materials, had 4 engineers trained in Japan and America, operated 16 group studies for 208 managers, sponsored 11 symposia, and recommended 3 policies to the government (FKI Annual report 1985:524-31).

The Korean Technology Development Company (KTDC) was founded in 1981 by the FKI to finance individual firms for their technology development projects. The fund of the KTDC was financed by FKI

members (73.6%), financial institutions (13.2%), and the government (13.2%). The specific functions of the KTDC are to provide loans for:

- 1) Individual firm's projects of technology development.
- 2) Initial commercialization of the technology developed under the project.
- 3) Import of technology.
- 4) Technology cost for building industrial facilities.
- 5) Enterprises' purchase of research facilities.
- 6) Training programs such as foreign expert invitation (FKI Annual Report 1981).

The FKI also developed an organization to re-train and create top corporate executives and educate new elites in special strategic industries in order to prepare for the internationalization of Korean enterprises, the International Management Institute (IMI) in 1980. The IMI has provided a two-month management education program, twice a year, with 30-40 business executives in each class. It produced a total of 12 classes and 509 students by 1985. The students of the IMI are all top corporate managers ranging from directors to chairmen of industrial groups (IMI Alumni Directory 1986). An interesting sociological concern is that each class is organized as an alumni association after a two-month interaction as class mates. Thus the IMI may have a latent function of uniting Korean corporate executives.

The teaching faculties consists of 23-26 members. As of 1985, the faculties included 12 university professors, 11 top business executives, 2 executives from major research institutes, and 2 government officials (FKI Annual Report 1985:537-8).

The IMI also operates active programs of seminars and group studies on various topics. During 1985, it provided 8 seminar or

conference programs and 12 group study programs on special topics. The group studies were attended by 264 business executives for 20-30 days for each group (FKI Annual Report 1985:532-551).

**Organizations for Capitalist Class Cohesiveness:** The FKI established the Businessmen's Club in 1980 as a Korean businessmen's social club to keep close social ties among members and to facilitate business activities. As of 1985, there are 158 corporate members, 35 individual members and 6 honorary members, the total being 199 members. The major functions of the BC are to

- 1) Sponsor meetings related to economic information and policy discussion.
- 2) Mediate meetings between domestic and foreign businessmen.
- 3) Run various facilities for social meetings such as restaurants, bars of various types.
- 4) Operate various social gatherings such as dinner parties, breakfast meetings, sports games, movie showings, exhibitions, etc. (Trace of FKI development 1985; FKI Annual Report 1985:401).

**Ideological Apparatuses:** The ideological hegemony of the capitalist class is probably an important mechanism by which the capitalist class dominates the state and capitalist society. By controlling the major means of mental production, the capitalist class normally is able to convince the masses to support the institutions that serve the capitalist class. The FKI owns and operates an important mass media, the Korean Economic Daily (Hanguk gyungje simun) since 1980. Initially the KED was owned by the National Agricultural Cooperative Federation (NACF) under the name of the Modern Economic Daily. The Modern Economic Daily had been quite critical of the big business oriented economic policies, while relatively neglecting the agricultural sector. The Chun military junta in 1980

confiscated the Modern Economic Daily in the process of reform. The FKI quickly took up the Modern Economic Daily for its official newspaper with the new name of the Korean Economic Daily. The 5 billion won paid for the newspaper company was spent for promoting new generations in the agricultural sector.

The FKI announced the purpose of purchasing the KED as follows:

- 1) The KED aims to provide useful information of industry, technology and business management more quickly, and thereby contribute to constructing world-level enterprises.
- 2) The KED aims to provide a real aspect of business world to society, create a fresh and progressive image of enterprises, and contribute to creating national solidarity and consensus:
- 3) The KED will be developed to an essential newspaper to the citizens by reporting trends of economy, politics, society, and culture more quickly (FKI Annual Report 1980:338).

This statement clearly shows that the FKI has a strong will to use the KED as an agency for opinion making in the interest of the capitalist class. Indeed, the newspaper is one of the most important organizational channels for the capitalist class interest articulation.

#### **The FKI's Influence Channels over the Government**

In the rest of this chapter, an effort will be made to explore the major influence channels through which the FKI presents its policies developed from various policy planning organizations within the FKI to the government. The channels include the Monthly Export Promotion Meeting at the Presidential House, conferences of invited government officials, official policy recommendations to the government, and other indirect channels. The Politico-Economic Conference and the

Korean Economic Daily may also function as influence channels. Each will be discussed in detail in turn.

**Monthly Export Promotion Meeting:** The most important channel of FKI's influence on the government is the MEPM at the Presidential House. The MEPM was initiated in 1965 and has continued up to now. As a forum for business and government, it is chaired by the President and attended by trade-related ministers, business association members including the FKI, heads of major financial institutions, and representatives of major export firms. Institutional arrangements, legal and procedural issues, and major policy matters for promoting exports are discussed, and fairly concrete policy recommendations and decisions are made on the spot at these meetings. After a meeting, a more select luncheon follows, also attended by the President (Lee-Jay Cho 1987: 92; Jones and SaKong 1980:71).

**Conferences of Invited Government Officials:** Another important and substantial channel of the FKI influence on the government is various types of irregular conferences or meetings between FKI chairgroups and government officials. During 1965, the chairman and vice-chairman of the FKI invited government officials of minister rank 26 times a year. Among these, the EPB minister was the most popular (8 times). The rest include the presidential top economic advisor (3 times), the Minister of Commerce and Industry (3 times), the Prime minister (2 times), the Minister of Labor, the Minister of Construction, and the Head of the Taxation Office. When governmental officials are invited to the FKI for a conference, it sometimes meant a summons for reprimand. For example, the economic policies by Chang Ki-young, minister of the

Economic Planning Board and vice prime minister, was not quite agreeable to the FKI, and he was invited for a conference in the FKI on October 12, 1967. In that conference, minister Chang Ki-young was severely criticized on his economic policies by the FKI members and was forced to resign from his job right next day (Monthly ShindongA 1983, April:313).

In addition, the chairman and vice chairman of the FKI meet with government officials in numerous other ways through formal and informal occasions. During 1985, the Chair and Vice Chair of the FKI attended a total 291 meetings outside the FKI on various occasions (FKI Annual Report 1985:75-82).

**Donation:** Since the big businesses are the main sources of wealth, they are the main sources of social and political donation, too. According to a survey by the Korea Economic Studies Institute of the FKI, the amounts of non-tax, society-related payments are more than tax amounts. Table 3-3 shows the distribution of society-related costs of big businesses. Among these, the donation amounts to 6.8% of total society-related costs, and is equivalent to 0.64% of total value-added. Also, costs of social affairs of the businesses amount to 3.53% of total value-added. The items of donation solicited by the government include: cost of the centennial ceremony on Korean-American relations, social welfare fund, scholarship for working students, Statue building for former national leaders, family reunion movements funds, building of Independence Memorial Hall, funds for foreign research institute, and many others. Most of the donations were non-voluntary donations. In this regard, the big business donation

are never for nothing. The business may get something back in return.

**Other Indirect Channels:** Taxation is another power leverage the capitalists can mobilize to influence government policy formation. The power was exercised in the August 3 Directives in 1972 to control over the private financial capital to the total interest of industrial capitalists. The FKI has other indirect channels to influence the government. Among others, the FKI makes official comments on major social, political, and economic issues. During 1985, it issued 16 comments, covering political, economic, cultural, and educational issues. But most of the content is simply to support government action. Table 3-4 shows the contents of the comments issued during 1985.

#### **Power Leverage of the FKI**

The most useful indicators to assess the power leverage of the FKI seems to be found in the analysis of FKI recommendation to the government. As Table 3-5 shows, the FKI has formed a variety of economic and other policies and recommended them to government policy making, based on its many research institutes and policy discussion groups. makes, on average, 30-40 formal policy recommendations every year to the government. According to my interview with a director in charge of General Planning in the FKI, these policy recommendations are tailored to the EPB, the Ministry of Commerce and Industry, the Ministry of Finance, Presidential Economic Advisor's Office, and other relevant ministries. Byung-hyu Bae(1983:294), a journalist assigned to the FKI, writes in his book that about 70% of the

recommended policies were accepted and implemented by the government. About 30% were implemented within a year, the other 40% in about three years.

As discussed above, the FKI was established, dissolved, and enlarged along the changes in the political regime. Also, as will be shown in Chapter IV, the political regime has been the most important independent factor in shaping the pattern of economic development. Thus we elaborated the frequencies in terms of changes in the political regime. Table 3-5 shows that the issue of business financing and the government budget and the issue of taxation have been the most frequent targets of the FKI policy recommendations consistently over time. The FKI also consistently referred often to foreign relations and trade issues. The recommendation of economic planning was decreased over time. This seems due to the fact that overall pattern of industrialization was established in the early 1960s, and the need to refer to it was decreased. The recommendation of foreign relations affairs was active in the 1970s but decreased in the 1980s. This also reflects the fact that the relations with trade partners were already established in the earlier period.

As to political affairs, the FKI made some input in the initial period of the Park regime, but suddenly stopped it in the Yushin authoritarian regime. This pattern reflects the fact that the Park regime could further consolidate its political power from the disorder after the military coup over the capitalist class. As to labor affairs, the FKI recommendations decreased while labor problems increased over time since the late 1950s. This seems simply due to

the fact that the Korea Employers' Federation was established in 1970 to deal with the labor issues.

However, it should be emphasized that the recommendations are confined to economy-related issues, even though there were some reference to politics in the 1960s. Other sectors of society such as political, ideological, cultural, educational policies are beyond the control of the FKI. Table 3-6 shows the detailed content of each recommendations made during 1985. This table further indicates that the FKI is confined itself to the economic issues. If the FKI is powerful enough, it should go beyond economic issues. Chapter IV will provide more detailed information on the activities of the FKI.

### **Conclusions**

In this chapter, we explored the socio-political context through which capitalist class consciousness was raised, the organizational resources, and influence channels on the government of the FKI. It was found that the FKI was initially organized as a political force in the turmoil of political challenge from the masses and the political regime against illicit wealth accumulation by the capitalists during the April Student Revolution in 1960 and the military coup in 1961. The capitalist class organized itself mainly to protect its interests from the state policy which was designed to confiscate private properties on charges of the illicitly accumulated wealth during the previous Rhee regime. The FKI, however, was dissolved by a decree of the 1961 military coup, and then reorganized by a suggestion from the Park regime.

Since its establishment, the FKI has developed extensive organizational resources for many aspects of class activity. Also the FKI has developed several official and regular channels through which it can influence government policy formation. The channels include connections with the President, ministers, party leaders and mass media. The FKI participates in top government policy formation processes, invites top government officials for policy discussions, sometimes with the purpose of reprimand, directly recommends policies to the top level of state apparatuses, influences opinion making process with its own mass media and other commercial networks, and negotiates using its power leverage of political fund contributions and taxation. In fact, no other social groups have so many resources to mobilize in realizing their interests.

Although the organizational resources were gradually developed in the 1960s and 1970s, we witnessed a further growth in the 1980s. As the regime was changed from the Park government to the Chun government in 1980, many new major organizations were established and some former ones were enlarged in the 1980s. The enlargement of the FKI in the 1980s are due to the emergence of new military regime of the Chun government and increasing criticism from the society. It may be argued that the well-organized capitalist class, its strong internal solidarity, and the organizational resources of the FKI are one of the important driving forces of the rapid economic development in Korea.

However, it should be emphasized that the activity of the FKI is largely confined to the economic sphere. Political affairs are beyond the scope of the FKI ability. The FKI cannot dare to mention the

issues of political power. The FKI was highly assertive in the democratic Chang government, but dwindled in its power as military regime came to power in 1961. The capitalist class organization can be either resolved or reorganized by a decree of the political regime. Furthermore, the FKI has not developed many organizational resources related to non-economic affairs. To be sure, the FKI is an economic policy organization rather than an dominant one in the society. It is a junior partner of the political regime unlike the Keidanren in Japan and the class organizations in the US. In the following chapters, we will show what role the FKI played in the processes of capitalist class formation.



Table 3-1 Amounts of Bank Loans and Political Funds By Contributors

	Firms	Capitalists	Loan (Mil. hwan)	Political Fund (Mil. whan)
1	Daehan Cement Co.	Lee Junglim	1000	1230
2	Samho Textile	Chung Jaeho	550	650
	Chosun Textile			
3	Taechang textile	Baek Namil	500	500
4	Daehan Textile Associatn	Choi Whal		500
5	Gukdong Sea Transportn	Nam Gungryun	450	450
6	Samsung Industries	Lee Byungchul		300
7	Daehan Textile	Sul Gyungdong	300	300
8	JungAng Industries	Cho Sungchul	230	263.75
9	DongYang Cement	Lee Yanggoo	60	240
10	Daehan Oil Assoctn.	Chung Daegap		210
11	Hanguk Woolen	Kim Chumgsik		190
12	Lucky Chemical	Koo Inhoe	130	130
13	Hanguk Glasses	Choi Taesup	106	106
	Hangul Leather			
14	Daehan JungAng Industry	Lee Hayoung		100
15	Haehan Fertilizer	Park Ungchul		100
16	Hanguk Nylon	Lee Manwon	80	80
17	Gukdong Fuel	Lee Youngbum		75
18	Hanguk Textbook	Lee Byungjoon	70	70
	Minjung Publisher			
19	Daehan Heavy Machine	Kim Yungyu	60	60
20	Gia Industry	Kim Chulho	50	50
21	Hangul Tire	Bae Donghang	50	50
22	Hanguk	Lee Kwangwoo		50
23	Pusan Daily	Kim Jitae		50
24	Yochan Trade			50
25	Sampung Paper	Lee Taeyoung	45	45
26	Dongshin Chemical	Hyun Sooduk	40	40
27	Kyungnam Woolen	Cho Bongkoo	40	40
28	Police Association			40
29	Daehan Grain Assoc.			40
30	Dongyang Beer	Park Doobyung	30	30
31	Daehan Fishery Cooperatv.	Kim Wangyu		30
32	Tabacco businessmen			27
33	Dongyang Textile	Suh JungIk	25	25
34	Koryo Woolen	Han Taeil	20	20
35	Hanguk Steel	Shin Youngsul	20	20
36	Daehan Ferment	Kim Youngbu	20	20
37		Kim Youngwhan		20
38		Kim Sngho	13	13
39	Daehan Communicatn. Mach.	Lee Dong mun		13
40	Other 13			63.9
	Total	52 businessmen		6291.65

Source: History of Korea Revolution Court 1962:141-3.

Table 3-2 Organizational Resources of the FKI

Year	Executive Org.					Discussion and Research Org.			
	member	staff	Office	Dept	Sect	Committees			Satellite
						Standing	Special	Foreign	
1961	13	12		2	5	5	1		2
1968	125(48)	51		3	8	5	1		2
1976	341(63)	62	1	4	12	12	6	13	2
1979	414(70)	139	2	10	16	12	5	19	18
1985	427(69)	132	2	8	21	15	17	19	17

Source: FKI 20 Years History, FKI Annual Report 1982-1985.

Note: The number in ( ) indicates the number of group members out of the total members.

Table 3-3 Percentage and Rates to Total Value-added of Big Businesses' Society-related Costs, 1983

Items	%	Rate to total value-added(%)
Tax	43	5.21
Public fee	21	2.5
Donation	6.8	0.84
Social affairs	29.2	3.53

Source: Korea Economic Studies Institute, Analysis of society-related costs of big businesses. FKI, 1984.

- Note: 1. Donation does not include political fund contribution.  
 2. Public fee includes share of job training cost, road repairment, medical insurance fund, fund for traffic security promotion, etc.  
 3. Social affairs include consumers' service, community service, employees' service.

Table 3-4 Contents of FKI Comments, 1985

#	Comments on
1	Presidential annual speech of 1985
2	Presidential trip to the USA
3	February 12 general election schedule
4	Results of the general election
5	Cabinet reshuffle
6	Student occupation of the American Cultural Institute
7	Government budget of 1985
8	General economic policy of the latter half of 1985
9	Result of police investigation on student demonstration
10	Three days in PyoungYang, North Korea
11	Increase of rice price
12	Reunion plan of separated families between South and North Korea
13	Revised Import Bill of the USA
14	The USA's survey of infringement of intellectual copyright
15	A reaction to dumping judgement of the USA on Korean albums
16	Proposal of economic policy of 1985

Source: FKI Annual Report 1985

Table 3-5 Percentage Distribution of FKI Policy Recommendation, 1961-1985

Items	Period				Total (N)
	61-63	64-72	73-79	80-85	
Economic planning	17	11	4	6	8 (62)
Foreign relations	-	16	15	2	12 (91)
Finance and Capital	11	21	19	25	21(162)
Taxation	11	21	20	23	21(162)
Trade and Tariff	11	9	12	13	11 (85)
Political affairs	11	2	-	-	1 (9)
Labor affairs	-	4	2	2	3 (22)
Price and market	6	3	3	5	4 (30)
Foreign loans	17	1	1	2	2 (16)
Resources and energy	-	2	4	-	2 (16)
Technology	6	1	5	3	3 (26)
Management	-	1	6	5	4 (29)
Others (Other industries and administration)	9	8	8	11	9 (69)
Total	100 (35)	100 (290)	100 (253)	100 (202)	100 (780)

Source: coded from FKI 20 Year History:592-609;  
and FKI Annual Report 1982-1985.

Table 3-6 Contents of Policy recommendations of the FKI to the Government, 1985

#	Contents
1	General opinion on the direction of economic policy in 1985.
2	Recommendation on loan policy and special loan control over 5 industrial groups.
3	Opinion on the amount of currency.
4	Recommendation for revision of corporate bond system.
5	Recommendation for revision of finance system for reducing finance costs.
6	Recommendation for expansion of business base of local bank.
7	Opinion on revision of competition condition between domestic and foreign banks.
8	Opinion on currency and finance policy of 1985.
9	Opinion on revision of each item of tax law.
10	Opinion on revision of withdrawal of taxation for fictitious purchase.
11	opinion on vitalization of foreign resource development.
12	Recommendation of tax waive in case of local supply of final commodities.
13	Recommendation of readjustment of custom rate.
14	Opinion of readjustment of custom rate for non-competitive raw resource import.
15	Opinion for rationalization of taxation principle on bonded goods.
16	opinion on custom law, item 5.
17	Opinion for compensation policy following import liberalization.
18	Opinion on trade promotion policies of 1985.
19	Review opinion on the revised principle of asset calculation law.
20	Recommendation for revision of business permission regulation.
21	Recommendation for rationalization of principle of land use in Seoul area.
22	Recommendation for addition of industrial disaster items for tax waiver.
23	Recommendation for revision of forced bond system.
24	Recommendation for promotion of fair deal in public sector.
25	Opinion on revised basic law of job training.
26	Opinion for revision of the Industrial Development Law.
27	Recommendation of legislation revision for investment vitalization.
28	Opinion on the plan of increase in public fare rate.
29	Opinion on the Law of Wage and Retirement Stipend.

Source: FKI Annual Report 1985.

## CHAPTER IV

### ECONOMIC CONSOLIDATION OF THE CAPITALIST CLASS

The purpose of this chapter is to analyze the processes of economic consolidation of the capitalist class. The analysis centers on sixteen major state policies (seven from the 1960s-1970s and nine from the 1980s), which served as turning points in terms of their impact on capitalist class formation. Through these state policies, it is possible to discern three major steps of class formation in the economic dimension since 1961 when rapid economic growth was launched. The three steps are an emergence step under an export-oriented industrialization strategy in the early Park regime, 1961-1972; a consolidation step under deepening of the export-oriented industrialization strategy in the late Park (or Yushin) regime, 1972-1979; and an economic hegemony step under the private initiative economy strategy in the Chun regime, 1980-1987.

It is important to emphasize that each of the three steps coincided with changes of two elements: the political regime and the development strategies. In the following analysis, the two elements will be given close attention. In addition, the role of the Federation of Korean Industries (hereafter called FKI) will be incorporated as an important actor of the capitalist class. The statist approach of the existing political economy literature treated the capitalist class as little more than the executing agency for the state policy of economic planning. The present study, however, provides substantial counter evidence. As discussed in the previous

chapter, the FKI was organized early before the developing era of the 1960s started, and played an increasingly important role as the Korean economy was being shaped into the chaebol-oriented system. Thus in this chapter, our analytical foci are based on the interacting role of the real actors, political regimes and the FKI, in the processes of state policy formulation. Individual chaebol will be examined when we estimate the impact of the state policies.

The 16 state policies are selected because they represent the "process" through which the capitalist class was developed. Thus they are not discrete cases randomly sampled from population. Rather, they constitute major turning points in which the capitalist class could gain an opportunity for rapid growth.

#### **1. EMERGENCE UNDER THE EXPORT-ORIENTED INDUSTRIALIZATION STRATEGY IN THE EARLY PARK REGIME, 1961-1972**

As we discussed in Chapter II, the roots of most of the current chaebol are found before the 1960s. But it is not until the 1960s that they emerged as chaebol with several large subsidiary firms. This emergence step was initiated by the rise of the Park regime. The Park regime came to power through a military coup in May 1961. The military coup leaders, however, faced fundamental challenges externally and internally. The major external challenge came from the United States. Providing more than 50% of the national budget, and 72.4% of the defense budget at that time, the United States held substantial power leverage over the Korean government. Also, the army has been under the U.S. command since Korean War up to now. The first

statement of the United States on the military coup was that the United States was still supporting the constitutional Chang government (US Department of State 1962:135). But, a military counterattack from the United States was averted because the coup leaders grasped firm control of the Korean military and pledged to President Kennedy to return the government to civilian hands as soon as the revolutionary tasks were completed (Joungwon Kim 1975).

Internally, since the military coup cut off the first really free democratic experience Korea had known since independence in 1948, it was faced with a widespread demand for a quick end to military rule and a restoration of some form of civilian, democratic government (Cole and Lyman 1971:56).

The Park regime saw in economic development one of the real forms of national independence, independence from United States political intervention. The regime also saw in economic development a source of political legitimation and popular consensus for the new regime. Since GNP per capita at that time was only about \$80, and starvation prevailed during Spring seasons, the emphasis of economic development was well accepted by most of the populace. "President Park enshrined economic development near the top of the regime's value hierarchy. For Park, the deferred objective of democracy was seen as being furthered by, rather than in conflict with, economic development" (Jones and Sakong 1980:43).

The Military Government, 1961-1963, planned a nationalistically oriented, state capitalism as a development strategy. In order to understand why the particular strategy was adopted, it may be useful

to draw a parallel, and make comparisons with the Japanese Meiji Restoration period which was in many respects imitated by President Park. Since Park Chung Hee's background included training by the Japanese in a military academy in Manchuria from 1940 to 1942 and in the Japanese Military Academy from 1942 to 1944 (57th class), and participation in the Japanese Kwangtung Army in Manchuria during 1944 through 1945, he was a typical Japanese military elite of the imperial Japanese period (Joungwon Kim 1975:230; Sangwoo Lee 1985:402). Considering his career background, it is not surprising at all for him to adopt a development model after the Japanese experience. President Park writes in his autobiography that the Meiji revolution produced a miracle in Japanese development and would be a good model for Korean revolution (Park 1962). Ten years later, in October 1972, he conducted the 'Yushin' coup-in-office for a firmer control of power, even calling his new political system 'October Yushin' named after the Meiji Ishin in Japan (Yushin is the Korean word of the same Chinese character as Ishin).

However, Park's initial attempt at state capitalism was forced to be revised by the pressure of the USA. The United States opposed the military rule in Korea partly because it was coupled with nationalistic state capitalism. When General Park announced the continuance of military rule for four more years from March 16, 1963, the United States immediately announced that a request for \$25 million in economic aid to assist the Five Year Economic Plan was being denied by the United States (UPI 1963,3/25). As many writers point out, the major purpose of foreign aid has been to block state-capitalist

tendencies and to encourage a form of integration into the capitalist world economy that prepares the way for penetration by international capital (Wood 1980:6; Baldwin 1965). With the success of the Five Year Economic Plan in jeopardy, Park yielded to American demands (Joungwon Kim 1975:249).

Although the nationalistic state-capitalism was weakened in degree, the basic model of the Japanese economic system was still retained in many respects. The most important aspect is the chaebol-oriented development strategy. "Given the attempts to compete with Western industry using dated technology in small-scale factories failed because of poor efficiency and the lack of capital reserves, the only possible answer for Japan was to have the enterprises built on a large scale which was equivalent to a quasi-monopoly position." Hence, "it can be argued that Japan had to start with a monopolistic stage" (Hirshmeier and Yui 1975:98; Trimberger 1977; Kaplan 1972; Moore 1969). In Korea, too, from the onset of the developing era, the thrust of economic development strategy was the promotion of chaebol. The term chaebol is the Korean version of Japanese Zaibatsu written with the same Chinese characters.

However, the imitation of the Japanese model is not the only explanation as to why the Park regime chose the chaebol-oriented strategy. In Chapter III, we discussed it in terms of coalition between political regimes and chaebol. However, the most important factor is the export-oriented industrialization strategy, which will be examined in the following section. In this section, three major state policies taken during the emergence step will be examined.

### **Export-oriented Industrialization (EOI) Strategy**

The most important event for the capitalist class in the 1960s was the adoption of the EOI strategy. The EOI strategy became a fundamental turning point toward big business oriented-policies. Based on this policy orientation, big businesses emerged as monopoly firms from the onset in the 1960s. The other state policies following the establishment of the EOI strategy were nothing more than supplementary or deepening measures of the EOI.

A research issue is why that particular strategy was adopted as a driving force of economic development and to whose interest. Most writers assume that the regime changes from Rhee to Park accompanied the transition from an import substitution industrialization to an export-oriented industrialization strategy. But as Youngil Lim (1981:7-24) argues, the shift toward EOI was not led by the state economic planners but by market forces to which entrepreneurs responded effectively. The first five year economic plan stressed deepening of import substitution industrialization to achieve an integrated industrial structure (Dukwoo Nam 1955). Although the first five year economic plan emphasized both export expansion and import reduction to achieve a trade balance, only agrarian-mineral exports were emphasized. In the first five year economic plan, "Sustained economic growth based on industrial export was not contemplated" (Cheng 1985:24). Rather, the agricultural sector was chosen as a strategic sector for the basis of Korean economy and was given higher attention in the beginning. This strategy was based on the advice of

the Nathan Plan<sup>1</sup> which emphasizes the principle of comparative advantages. According to the Plan, the Korean economy lacked comparative advantages in the manufacturing sector (Cole and Lyman 1971:209).

Several policy measures for the agrarian sector were taken right after the military coup. First, only ten days after the military coup, a policy measure was declared to annul farmers' debts, a chronic factor impeding agricultural development. More than 1.23 million farmers benefited from the policy measure (Choi 1976:104-7). Secondly, on June 27, a new law for stabilization of grain prices was enacted, and the government increased the price of rice by 46% (Chung 1983:66). Thirdly, on August 15, 1961, the government reorganized the agricultural financing and marketing institutions by combining the agricultural cooperatives and the agricultural banks into an entity known as the National Agricultural Cooperative Federation, which was responsible for providing credit for farmers, supplying them with agricultural inputs, and marketing their output, including purchasing grain by the government account to help stabilize grain prices to the interest of farmers (Cole and Park 1983:56).

However, the FKI strongly argued that the basic strategy of economic development should be industry-oriented rather than primary production-oriented (FKI 1983:172). Upon returning from a trip to Europe, Japan and the United States to seek foreign loans, the FKI recommended to the government the construction of the Ulsan Industrial

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<sup>1</sup>An UNKRA-sponsored economic advisory team from the Washington-based consulting firms of Robert R. Nathan (Mason et al 1980:178).

Estate. The construction of the Ulsan industrial estate was not contemplated nor included in the first five year economic plan (Chung Yi 1985:247). It was initiated by the FKI. The emphasis on agricultural development was soon pushed to the background after the export oriented development strategy was adopted in 1963. The law for the stabilization of grain prices fell as a legal base for low government prices (Chung 1984:60), and the National Agricultural Cooperative federation was transformed to a channel to monopolize the fertilizer supply to farmers (Wiserman 1973:291). Instead, the construction of the Ulsan industrial estate became a symbol of the regime's emphasis on industrial development. The Ulsan industrial estate was launched in Feb. 1962, and attracted a substantial portion of investment.

However, the Korean economy soon faced a crisis due to the lack of funds and technology. The massive investment since 1962 resulted in a shortage of foreign exchange and widened the balance of payment crisis (FKI 1983:205; Cheng 1986:25; Nam 1965:523). Many of the state-led policies proved to be failures. The monetary reform in 1962 totally disturbed the order of the economy. The United State's complained about the state-led or guided capitalism of the early military junta period(1961-1963) and curtailed economic aid.

An idea for a breakthrough of the crisis came from the Korean Japanese in Japan. There were many Korean businessmen in Japan at that time already successful in business, including top level enterprises such as the Sakamoto Textile, the Lotte, the Shin Nihon Seitetsu, the Nihon YukiKagaku, etc. The Japanese economy at that

time was seeking to relocate labor-intensive, light industries to its regional periphery in order to move up the production cycle. The Korean businessmen in Japan were also seeking new places to relocate their industries. "Because of labor shortages and rapidly increasing wages, we should make a decision within a couple of years to move to our homeland, Korea, for abundant and cheap labor or to shift to other industries" (FKI 1983:178). Earlier than this, on December 20, 1961, as many as 65 Korean-Japanese businessmen were invited by the FKI to Korea to explore the climate of investment. During this visit, an agreement was made between the FKI and the Korean Japanese businessmen:

- 1) A law needs to be enacted to facilitate the investment of Korean Japanese.
- 2) An industrial estate needs to be established near Seoul to accommodate export industries (FKIBH #28).

The strategy taken by the FKI and determined by the Japanese industrial restructuring was to replace the Japanese role in the world market as Japan shifted from light to heavy industry. In this context, the FKI took two prompt actions: 1) inducement of Korean-Japanese capital and technology and 2) the transfer of the Japanese declining export industries to Korea. As of 1960, Korean trade was characterized by excessive imports and minimal exports of only \$40 million. Furthermore, exports were composed of primary production such as minerals, fisheries, and agriculture. Manufacturing production was almost nil.

On January 8, 1963, the FKI invited President Park and some other government officials to the FKI conference. Lee Worman, chair of

Kolon group, explained that Japanese industries were in transition from labor-intensive to advanced industries, that Korean businessmen in Japan could become a bridge for transfer of Japanese industries to Korea, that Korea should use this opportunity to participate in the world market, and that Korea could increase exports from \$40 million to \$400 million within a few years. And then chair Lee recommended that an export-oriented strategy or export-first policy be adopted to get out of the primitive export industry and to improve the balance of payments. President Park was very impressed by the new strategy and promised to undertake policies for total promotion of exports (FKI 1983:178; FKIBH #29). The year 1963 was named the "Year of Export" (Park, 1963, Annual Speech), and all the mass media were mobilized to propagate the export-first policy. "Exportism" became a word of everyday life among the Korean populace thereafter.

On March 3, 1963, the Committee for Export Industry Promotion was established within the FKI with collaboration of the government. On March 15, four members of the FKI, led by Lee Worman, visited Japan, in the name of The Export Industry Survey Group, and collected about 300 items appropriate for Korean export industries. In April, the FKI again invited President Park, chairman and vice-chairman of the National Assembly, and some other government officials to meet. Lee Worman, chair of the EISG, discussed each item collected from Japan in terms of competitive advantage, production capacity of Korean enterprises, and eligibility for export. The meeting again impressed government officials as well as President Park (FKIBH #29-30). The FKI recommended the construction of a Korea Export Industrial Estate,

which was soon accepted by the government and an agreement was made on the basis that the FKI purchase the land and the government build other infrastructure facilities. The KEIS was established in Kuro-dong, a suburban area of Seoul, in August 1963.

Through this process, the export-oriented policy was shaped in Korea under the initiation of the FKI. Government policies for export promotion promptly followed. First, as summarized in Table 4-1, the year 1964 marked a sharp turning point with the launching of the export-oriented strategy and the intensification of export promotion measures. Tax and tariff burdens on export items were systematically offset. Particular emphasis was placed on the expansion of credit incentives. The government implemented an exchange rate reform in May 1964 to offset the adverse effect of the overvalued official exchange rate on exports. The reform decrees devalued the official exchange rate from 130 to 256 won per US dollar and changed the existing multiple exchange rate system to a unitary floating exchange rate system (Actual implementation was put into effect on March 22, 1965). Second, the government protected domestic capital by effectively excluding the MNCs with the policy of priority for foreign loans to MNC direct investment. Third, to further advance its export-oriented strategy, the government implemented import liberalization measures by revising a positive list system to a negative list system in 1967. It should be noted here that the measures of import liberalization were also influenced by the United States and Japan (Chung 1984:56). But, generally, the government listened to whatever requests from the exporters that were necessary to promote exports.

Fourth, in order to increase a competitive edge in the world export market, other social classes' interests were suppressed to the interest of the capitalist class. In so doing, the coalition between the government and the capitalist class was formed as a unified fraction of the society.

Finally and most importantly, within the business community, the big businesses were chosen as a leading group of the export-oriented strategy. "Government policy has tended to encourage the rise of large conglomerates, since access to foreign borrowing has been provided to those entrepreneurs who have shown the capacity to produce and to export" (Jones and SaKong 1980: xxxii). Furthermore, larger enterprises have a competitive advantage over small ones in the world market. Also, as mentioned above, the Japanese Zaibatsu was referred to as a model to follow. For this reason, Korean economic development is characterized as chaebol-oriented strategy, relatively neglecting small-medium sized firms. In fact, "the backbone of development strategy taken in the 1960s and 1970s was the promotion of chaebol. The promotion of chaebol led to an increase of productivity, an increase of competitiveness in the world market, and the promotion of exports" (Hakjoon Kim 1983:41-3).

The core legislation to promote big businesses was expressed in the high and strict barriers to entry into an industry which was designed to protect existing firms and to constrain new entry in an industry, and in so doing, to restrict competition among firms. There were 120 items of regulation to follow when establishing new firms until the laws were revised into the new Industrial Development Law in

1986 (DongA Daily 1985, 9/11).

**The impact of the EOI strategy on big businesses:** The EOI strategy and such government policies paved the road for a total monopoly of big businesses. Under this situation, there emerged many monopolistic firms. As Table 4-2 shows, about 40 firms monopolized all industries in the 1960s in Korea. They emerged as monopoly firms from the beginning. Since, except some industries started in the late 1950s, almost all industries in the early 1960s were untouched yet, anybody who started a new business was guaranteed a monopoly and rapid growth with full government support and funding from foreign loans and domestic banks which were under authority of the government. When Samsung established a sugar mill, a rumor spread that the sugar mill produced money rather than sugar. The monopoly itself guaranteed a monopoly profit and thus a rapid growth. The Lucky-Gold Star had a monopoly on cosmetic creme, and was based on the capital accumulated from the creme, continued to monopolize tooth paste and plastic. In so doing the Lucky-Gold Star quickly expanded into a large chaebol monopolizing or oligapopolizing several other industries. Other chaebol followed the same pattern.

As Panel B of Table 4-2 shows, by 1972 a late year of the emergence step, these monopoly firms emerged as the large 25 chaebol. By this time, Samsung, Lucky Gold Star, Ssangyong, DongA, Samho, and Sinjin even owned mass media. Samsung and Lucky-Gold Star became big business groups with many manufacturing industries, mass media, insurance companies, universities, etc. In sum, the EOI strategy paved the way for a big business monopoly-oriented industrialization

pattern and facilitated the emergence of a capitalist class. Also, the EOI strategy had an important implications for the relationship between the state and big business.

The policy transition to EOI strategy gave much more autonomy to the capitalist class. Initially, the military regime that took over the government was committed to a mixed economy in which the government and the public sector were to play a dominant role in economic development. The term 'guided capitalism' was officially used in the first five year economic plan. The regime pledged itself to powerful government programs aimed at overcoming the country's underdevelopment. The policy shift to the export-oriented policies led to a more open and liberal economy based on inducement of foreign loans and liberalized import and export policies. This policy shift was accompanied by the change from a military junta to a civilian administration chosen by a national election, in December 1963, whereby Park remained in the civilian government as a newly elected president. Since the change both in the regime and in the economic development strategy, the Korean economy was characterized as outward-oriented based on an open door system, whereby big business found a new opportunity to participate as a leading actor.

#### **Normalization of Korea-Japan Relations, 1965**

The EOI strategy was substantially launched through the normalization of Korea-Japan relations because Japan rose as an integral trade partner thereafter. After Korea was liberated from Japanese colonial rule in 1945, there was very little diplomatic

contact between Korea and Japan until the 1965 Normalization, although trade was reestablished on a minimal scale (FKIBH #32). Since the first five year economic plan was launched in 1962, Korea suffered a rapid decline of foreign exchange reserves. Thus the development of new sources of investment capital was more necessary than ever. Also, the export-oriented development strategy required broadening foreign markets through close economic cooperation. To Korean businessmen, Japan was seen as a very important partner, because it was near to Korea, and was advanced in industry and technology (FKIBH #32, 46). For the Japanese business community, too, the normalization of Korea-Japan relations was viewed as an integral part of the Japanese economy. Japanese organized business was quick to see the connection between reparations payments and the revival of the nation's economy. Japanese business circles realized that the postwar loss of Korea, Taiwan, Manchuria, and mainland China as lucrative markets had to be made up through the improvement of diplomatic and economic relations with Korea as well as other South East Asian countries (Yanaga 1968:202).

However, during the presidency of Syngman Rhee, anti-Japanese feelings were deliberately sustained as a main national ideology. Anti-Japanese national sentiment was fostered through text-books, speeches and declarations, and in extraordinary demands upon Japan as the price for restoring normal diplomatic relations (Cole and Lyman 1971:99; Chong-sik Lee 1965; Mobius 1966; Kwan-bong Kim 1971). After the Rhee regime's demise in 1960, the official ideology was eliminated by the new regime of the Chang government. Because of accumulated

anti-Japanese feelings, the talks between Korea and Japan were held intermittently and were broken off over various issues.

But the urgent needs of business communities in both countries accelerated the talks for normalization. In July 1962, Yi Byungchul, chair of FKI, visited the [Japanese] Federation of Economic Organization, or Keidanren, and initiated the issue of economic cooperation between two countries. On September 17, seven members of a Japanese economic mission group, led by Uemura, vice-chair of Keidanren, returned a visit to Korea to explore the possibility of economic and diplomatic relations with Korea. After the initial visit, 100 more Japanese businessmen visited Korea three times until April 1965, resulting in the establishment of the Korea-Japan Business Conference on April 21, 1965 (FKIBH #34).

The FKI, in collaboration with the Korea Chamber of Commerce, the Korea Traders' Association, and 90 industry associations, staged a movement in collaboration with all other business organizations to promote the diplomatic normalization with Japan. On August 1, 1963, the economic circles declared a statement to the populace regarding the urgent need for Korea-Japan economic cooperation and for the lessening of anti-Japanese feelings among populace. This movement continued until April 1965 to urge earlier settlement of normalization.

Meanwhile, the government was quick to respond to recommendations of business and urging of the United States. Kim Jong-pil, director of the Central Intelligence Agency and one of the key figures in the military government, met with Japanese Foreign Minister Ohira in the

fall of 1962, and reached basic agreement on the sums for property-claims settlement. The Normalization coincided with the interest of the Park regime which needed political funds for establishing the new political party of the regime. It was known that the Park regime received \$20 million from the Japanese as advance payment to finance party activities (Joungwon Kim 1975:242). After the formation of the civilian government under President Park, steps were taken to resolve the other issues such as 1) "basic relations" which included the very sensitive matter of South Korea's desire for Japanese recognition of the Republic of Korea as the only legitimate and sovereign government of all Korea, to the exclusion of the North Korea government; 2) fisheries zone; and 3) the legal status of Korean residents in Japan (Cole and Lyman 1971).

In spite of the nation wide opposition from the opposition party politicians, students, intellectuals and newspapers, on August 11, 1965, the ruling party suddenly managed to pass the treaty with Japan in a one-minute blitz which came to be known in Korea as the "snatch" (Joungwon Kim 1975:264; Cole and Lyman 1971:101; Changgyu Choi 1976: Chapter 3).

As a partial agreement on property claims<sup>2</sup> in the Normalization, a huge amount of capital (\$300 million in grants, \$200 million in loans, and \$300 million in commercial credits) were given to Korea. Also, the Normalization with Japan opened the way to further commercial

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<sup>2</sup>The property claim means the claim for properties which Japan robbed from Koreans during the colonial period in ways such as mineral exploitation, forced export of rice, confiscation of Korean industries, etc.

loans from that country (Kim 1975:264). After the Normalization, Japan became a major partner in Korea's economic relations. Table 4-3 shows Japan's share of Korea's export, import, and technology importation. Exports increased to 25.1% in 1965 and 28.1% in 1970, and somewhat decreased to 17.4% in 1980. Imports increased to 35.9% in 1965 to 40.8% in 1970. Technology imports from Japan constituted as high as 71% in number of items and 49% in payments as of 1970.

The normalization of Korea-Japan relations was a turning point in the Korean economy in terms of a new source of investment funds, foreign loans, technology import, and trade partner. The export-oriented industrialization strategy could be fully established with the normalization of relations with Japan.

#### **The August 3 Emergency Measure, 1972**

This measure was designed to overcome a serious side effect of the tight push of the EOI strategy and intensive investment of big businesses. The performance of the Korean economy, since 1962, especially since the EOI strategy was launched in 1964, had been spectacular. Over that period, the real GNP grew more than 10% a year on the average. By the late sixties and early seventies, however, the Korean economy was facing its first serious crisis. Cole and Park(1983) point out three points: in the first place, Korean business firms, especially larger ones, were suffering unstable and weak financial structures due to a high rate of investment with funds obtained from domestic financial institutions and foreign sources, supplemented by short-term funds from the unregulated financial

markets. The financial situation was aggravated because of a world economic depression in the early 1970s. In the second place, there was a rising cost of capital caused by aggravated terms of foreign loans and a rising exchange rate, i.e., 18% devaluation in 1971 designed mainly to stimulate exports in the rising world economic competition. In the third place, the extremely high interest rates of the unorganized financial sector further aggravated the interest burden of business firms. In this situational context, an increasing number of firms went bankrupt. The FKI thus attempted to attack the unregulated financial markets as a possible way of survival.<sup>3</sup>

Against this background, the FKI sought a drastic measure, inconceivable in a free-enterprise economy, and the biggest event which the FKI had ever staged as a capitalist class interest group (Myomin Yim 1983:314). Kim Yong-wan, chair of the FKI, met president Park to ask for a drastic measure to relieve large firms from

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<sup>3</sup>Here it is necessary to elaborate on the features of unregulated financial markets in Korea. Under the nationalized banking system, the government devised a discretionary and selective system to guide the allocation of resources in the desired directions mostly to support the export-oriented policy. With this financial structure, a new demand for credit from those excluded from the priority of bank loans made the unregulated financial markets prosper immediately as an alternative to the state-controlled financial system. Even those who received preferential loans demanded more and liberal credit free from government red tape bureaucratic processes, mainly for short-term operation funds. Furthermore, the tight monetary policy in the early 1960s promoted the development of unregulated financial market. There are five types of unregulated financial market: rudimentary private credit market, the kye market (a Korean traditional system of mutual savings among close networks), informal bill market, private financial companies, and curb markets (see Cole and Park 1983 for detail). In practice, one cannot easily draw a clear demarcation among these markets. They are linked to each other, and thus loanable funds flow among them, as they flow between the regulated and unregulated

(Footnote continued)

bankruptcy. Chair Kim explained the details of the economic crisis in terms of the high proportion of unregulated financial market loans and their extremely high interest rates, and high tax burden. Chair Kim then recommended the following three policy measures:

1. The unregulated financial market loans should be relieved in some way or other.
2. Corporation taxes should be substantially reduced.
3. Bank interest rates should be lowered.

The recommendations by Chair Kim, however, were rejected and the government did not respond at all. The FKI, in turn, reacted with a explosive declaration to the government. The FKI declared that the government budget should be reduced by half, which meant that the corporation tax would be reduced by half. The event was reported in the daily newspapers, and then the government immediately responded. In the Monthly Export Promotion Meeting (see chapter III), President Park told chair Kim that the reduction of the government budget by

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3(continued)

institutions. Even though the interest rate is quite high, mostly 48-60%, compared to 15-16% of bank loans per year, there are three reasons for businessmen to use it: lack of business funds, freedom from government bureaucratic procedures, and short-term and prompt supply (Sakurai 1984:118-120).

For these reasons, the unregulated financial capitalists prospered enough to exert considerable influence on their borrowers. According to Cole and Park(1983), as of 1972, there were at least a hundred large-scale informal credit brokers or houses clustered around the business center of Seoul. They are engaged in mobilizing funds from informal lenders and channeling them to large business firms. In addition to these professional brokers, a large number of real-estate dealers, jewelry shop owners, and foreign exchange dealers in the black market were heavily involved in informal lending as intermediaries. These brokers had an efficient system of credit evaluation of borrowers, lending policies and procedures, a network of agents, and even a collection agency (pp.117-8). In fact, they are formed as a curb market class in Korea. Reliable information on the

(Footnote continued)

half was not a reasonable idea and that the government was considering a measure to rescue the Korean economy. After the meeting, President Park and Chair Kim discussed the issue for an appropriate solution. After this process, the August 3 (1972) measure was declared (Myomin Yim 1983:314-6).<sup>4</sup> The main features of the measure are:

- 1) All the loan agreements between business firms and lenders in the unregulated financial markets as of August 2, 1972 were nullified and replaced by new ones. The borrowers would have to repay their informal loans over a five-year period after a three-year grace period, carrying a 1.35 percent monthly interest rate (original rate was 4-5 percent), or the lenders had the option to switch their loans into shares of the borrowing firms.
- 2) Some of the short-term high-interest-rate bank loans by business firms were replaced by long-term loans at 8% annual interest rate payable over a five-year period after a three-year grace period. The amount of the replacement was 200 million won.
- 3) Establishment of a credit guarantee fund for small and medium industries, and agriculture and fishing businesses, amounting to 2 billion won with government funds, would allow the banking system to make loans up to ten times the amount of the fund without collateral requirements.
- 4) Establishment of an industrial rationalization fund, to which the government supplied 50 billion won, and which was to be used for long-term, low-interest loans to the business firms that could meet the criteria of the rationalization standards.
- 5) An overall reduction in the interest rates of banking institutions lowered the time deposit rate from 17.4% to 12.6% and general loans up to one year from 19% to 15.5% (Cole and Park 1983: 162-3).

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<sup>3</sup>(continued)

size of the unregulated financial markets is the outcome of the August 3 Measures in 1972 in which all enterprises with a business license were required to report their informal debts to the government. The total of informal loans declared by business enterprises amounted to 345.6 billion won, equivalent to 80% of the then supply of money and 34% of then outstanding domestic credit of the banking sector (Cole and Park 1983:126-7).

<sup>4</sup>The story on the formation of the August 3 measure is not conveyed in the documents of the FKI available to me mainly because the FKI seems to hide the revolutionary action of the FKI.

The August 3rd Measure of course had the desired effects of relieving the debt burden of the larger businesses and of wiping out the assets of the unregulated financial markets (Mason et al 1980:338; Lee 1985). The unregulated financial markets were dealt a lethal blow even though they revived later on as was seen in the Jang Young-ja curb market scandal in 1982. The most benefited group from the measure was the capitalist class. About 64% of total unregulated financial market loans reported, based on the policy Measure, were held by the big businesses, and the rest, by the small-medium sized businesses. Furthermore, the industrial rationalization fund authorized by the Measure were given primarily to the big businesses. About 74% of the funds were allocated to infrastructure industries and export industries, which were businesses of the capitalists (Ministry of Finance 1975; Lee 1985). Also, the capitalists who were the highest debtors to banks benefited the most from the policy measure of the reduction of bank loan interest rate by 4%. Exports increased by 90% and the economy grew by 16.5% in 1973.

The measure was a revolutionary action of the state to rescue the capitalist class from the crisis caused by the intensive investment and the heavy drive toward export-oriented industrialization. The larger businesses could cope with the economic crisis and continue the rapid economic development until the oil crisis hit the economy in late 1973.

#### **Summary**

The period between 1961-1972 was marked as the step in which the

capitalist class emerged as a leading actor in the Korean economy. This was fundamentally guided and supported by the EOI strategy. The EOI strategy was fully facilitated by the normalization of Korea-Japan relations because Japan provided a good climate for Korean EOI strategy. In the EOI strategy, the pivotal principle perceived by the Park regime was to increase competitiveness in the world export market; and the larger business groups were perceived as better actors to gain the competitiveness. Under this policy guideline, big businesses were encouraged to develop monopoly firms, which became a fundamental basis for rapid capital accumulation of selected firms and for formation of big business groups.

## **2. CONSOLIDATION UNDER THE DEEPENING OF THE EXPORT-ORIENTED INDUSTRIALIZATION STRATEGY IN THE YUSHIN REGIME, 1972-1979**

During this step of consolidation, the capitalist class further developed its economic base after they emerged as chaebol since the mid-1960s. This consolidation was based on deepening the export-oriented industrialization (EOI) strategy. During the 1970s, the big business groups 1) reinforced their diversification strategy by rapidly increasing the number of subsidiary firms about 2-3 times, 2) upgraded their industrial structure from the labor-intensive light industries in the 1960s to the capital- and technology-intensive heavy and chemical industries in the 1970s, 3) established non-banking financial institutions which were privately owned and thus autonomous from the nationalized banks, and 4) further concentrated businesses and wealth into the big business groups.

This step was initiated by the Yushin political system which was established by President Park partly to prolong his power in office after his second term of presidency. The Yushin regime came into being in October 1972 under the label of national security crisis brought about by the turmoil of superpower's power game (Park referred to Taiwan's exclusion from the UN and replacement by China) and the perceived threat of a North Korean invasion. The Yushin system gave President Park sweeping powers to rule the state. It gave him the power to dissolve the National Assembly. It also declared that neither court actions nor any objection could be raised against the special declarations issued by the president (Mason et al. 1980).

To justify this coup-in-office, he pushed more strongly the EOI strategy for escalation of a economic development. He promised to realize the challenging goals of a \$10 billion exports and \$1,000 GNP per capita by 1981. In this context, several policies were taken: establishment of general trade companies, private financial institutions, big push for heavy and chemical industrialization.

#### **Establishment of General Trading Company System, 1975**

The General Trading Company System was one of the most salient symbols of the export-oriented development strategy in the 1970s in Korea. The establishment of the general trading company system was initiated by a policy recommendation of the FKI from May 15, 1968. The FKI pointed out four major purposes of the proposed general trading company system:

- 1) To promote a systematic development of new export markets through diversification of products and regions.

- 2) To enhance competitiveness in the world market by promoting economies of scale.
- 3) To create the window of small and medium-size export enterprises by establishing a division of labor between the export traders and producers.
- 4) To promote industrial and commercial sub-contracts of export industries between small-medium enterprises and larger ones (FKI Annual Report 1968: 148-9).

The FKI also specified basic requirements of the general trading companies and incentive measures for the government to take. In forming the policy proposal, the FKI referred heavily to the general trading company system of Japan and the China Trade and Development Corporation of Taiwan (p.150).

The policy recommendation by the FKI was not immediately responded to by the government. But in the early seventies, the establishment of the general trading company system was positively considered for the political reason mentioned above and for the economic reasons. Economically, the annual export goal could not be met in 1974, for the first time since the first five year economic plan of 1962, mainly due to oil shock-related stagflation of the fall of 1973.

In this context, major export enterprises such as Samsung and Daewoo strongly recommended the establishment of the efficient general trading company system, similar to Japan and Taiwan, to the Ministry of Commerce and Industry (Hanguk Daily 1983, 7/1, p.5). Ultimately, the government made a decision to establish general trading companies. The government designed general trading companies as Korea's representative corporations in the world market similar to the Japanese general trading companies. The formal requirements for qualification of the general trading companies were set by the

Ministry of Commerce and Industry as follows: For each company,

- 1) The minimum size of capital should be 1 billion won or more, and the minimum annual achievements of exports should be more than US \$50 million.
- 2) More than 7 items valued at more than \$ 500 thousand each should have been exported.
- 3) Annual exports must be more than \$1 million to each of ten or more countries.
- 4) Public opening of ownership is encouraged (Hanguk Daily 1983,7/1,p.5).

This set of requirements meant that existing trading enterprises would be designated as general trading companies by the government, and that only large corporations would be accepted as representatives of Korean companies in the world market. For this reason, the qualifications were suited only to large chaebol with multiple product lines. Thus 13 larger chaebol had one of their subsidiary companies obtain the general trading company status. Three companies were dropped later because of lack of qualifications and currently there are 10 such general trading companies in Korea (see Table 4-6). The general trading companies belong to 9 chaebol (Koryo is the only general trading company of non-chaebol origin established under government arrangement) and act as export windows for the chaebol's multiple manufacturing lines, even though the general trading companies were initially designed as windows for other small-medium producers. The general trading companies put top priority on exports of products from their own business groups, and thus other producers are of secondary importance to them.

The government provided lavish support and incentives to the general trading companies to maximize quantitative growth of exports.

The preferential incentives to the general trading companies are as follows:

- 1) The general trading companies are given the preferences of bank loans in proportion to export performance with reduced interest rates.
- 2) The general trading company can repeatedly use the letter of credit guaranteed by a home-country bank in obtaining loans from overseas bankers, which usually have lower interest rates than domestic ones.
- 3) The general trading companies were given preference in any international bidding.
- 4) The general trading companies were given preference in obtaining licenses for construction companies for the Middle East construction service (The Middle East construction service export was one of the major sources of capital accumulation in the late 1970s).
- 5) The general trading companies were given exemption of business tax up to 24%.
- 6) The general trading companies were given benefits in the form of interest savings from the deferred payments of business taxes that are authorized for reserve funds for market developments, reserve funds for export losses, and reserve funds for overseas direct investments (Hanguk Daily 1973, 7/1, p.5; Sungwhan Jo 1987:6-7).

Under the government export incentive system, all exporters including the general trading companies, are in competition for export incentive benefits and other benefits. Thus, in fact, the general trading companies are competitive rather than complementary with other exporters (Jo 1987:16). Under this incentive system, thus, it is taken for granted that the performance of the general trading companies in export was remarkably increased. Table 4-4 shows the shares of the general trading companies in exports. Exports increased from 13.3% in 1975 to 48.2% in 1982, which means that about half of the Korean exports are by the 10 general trading companies.

With the establishment of the general trading companies, the amount of Korean exports rapidly increased as shown in Table 4-5.

Although the rate of growth was quite unstable, the share of exports in GNP increased steadily and constituted about half of the GNP in 1981.

Under the export-oriented development strategy and the general trading company system, the amount of exports of each chaebol became the exact indicators of each chaebol's wealth. For this structural background, there was a fierce competition among chaebol to obtain the top position. Furthermore, the government promoted the competition by awarding an annual grand prize with honor to the chaebol with the top export performance. Samsung won the top place between 1975 and 1977, Daewoo, between 1978 and 1980, and Hyundai, since 1981. Other chaebol also competed for the fourth and fifth positions (Hanguk Daily 1983, 6/24, P.5).

Because of this competition system, the general trading companies merged as many firms as possible for three major specific purposes: 1) to increase the absolute amount of exports, 2) to diversify the items of export as a means of increasing the amount of exports, and 3) to obtain self-sufficiency of chaebol through diversification of industries. Table 4-6 shows the degree of business mergers. The total number of firms, that is, the number of subsidiary firms of 10 general trading company chaebol, rapidly increased from 109 in 1974 to 248 in 1978. Each chaebol, on the average, increased 2-3 times<sup>5</sup> over the four years. In addition, the chaebol with general trading

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<sup>5</sup>It should be noted that this rapid concentration is not due to general trading company only. As will be discussed, the Middle East Construction service exports, and the heavy-chemical industry strategy in the late 1970s played altogether.

companies made commercial and industrial subcontracts with other firms, mostly medium industries, owning more than 10% of shares and rights of management. As of 1981, the nine chaebol with general trading companies owned 481 such firms. Table 4-7 shows a comparison of growth rates among the general trading companies, the manufacturing large businesses without general trading company, and GNP. The growth rate of general trading companies is roughly two times that of other large businesses, and more than seven to ten times of GNP growth rate. The big business community was rearranged by the introduction of general trading company system. Those chaebol that obtained general trading company status grew rapidly and rose to leading groups and those chaebol without it were dropped out of the leading positions.

In sum, the formation and growth of the general trading companies have resulted in the formation and growth of the top 9 chaebol, with intensive business concentration. In advanced capitalist countries, except for Japan, the government enacts anti-monopoly laws and prevents such business concentration. In Korea, however, the government heavily encouraged the business concentration for the economies of scale and for promotion of Korea representation in the world export market (Hanguk Daily 1983,8/5,p.5). It is worth while to note the role of the FKI in formulating the chaebol-oriented general trade company system.

#### **Establishment of privatized financial institutions**

As shown above, big businesses in the 1970s rapidly expanded their size and number of subsidiary firms. What is apparent here is that

more capital was needed to finance the the intensive investment. Since the financial institutions were nationalized and controlled by the government, big businesses turned to new sources of financing, that is, private non-banking financial institutions. Although the establishment of the private financial institutions was launched in 1967 with the establishment of the Korea Development Finance Corporation, it was not until 1972 when three related laws authorizing Investment and Finance Companies that the private financial institutions were rapidly established.

Korea's organized financial market as of 1965 consisted mainly of five commercial banks (Hanil, Jeil, Commerce, Chohung, Seoul trust) and four special banks (the Korea Development Bank, the Medium Industry Bank, the National Agricultural Cooperative Federation, and the Citizen's National Bank). Since 1961 all of them were owned by the government. Each of the commercial banks maintained a large network of branches all over the country. However, as the size of the Korean economy expanded in the late 1960s, the demand for capital exploded and the government-controlled banks could not supply sufficient capital. Furthermore, credit was allocated based on a selective system of government control. The FKI sought to privatize the banks, but failed because of government opposition. The government opposed it because the nationalized banks were the major mechanism by which the government could control the activity of the capitalists. Thus the FKI turned to the establishment of new financial institutions to be free from government control and to expand financial channels. Indeed, "the main activities of the FKI in the late 1960s and the

1970s were characterized as efforts to expand financial channels, domestic and foreign, and to liberalize them" (FKIBH #70).

1) **Establishment of Korea Development Finance Corporation:** Since Korean industrialization was dependent for a large proportion of investment capital on foreign loans, easy channels of foreign loans were apparently sought by the businessmen. The problem was, however, that all the banks were under government control. The development finance institutions such as the Korea Development Bank, the Medium Industry Bank were also under government control. The FKI thus sought to establish a private development finance institution specializing in inducing foreign capital, free from changes in political power, political interests and other external forces (FKIBH #66).

The FKI recommended a policy proposal for the establishment of the Korea Development Finance Corporation to the government on September 1965 (FKIBH #66). One of the major roles to be taken by the Korea Development Finance Corporation was "to assist in development and creation of private enterprises by providing medium- and long-term industrial financing and equity participation" (Cole and Park 1983). The government responded positively to it, and requested participation from the International Finance Corporation of the United States. At that time, the International Bank of Reconstruction and Development (IBRD), the International Development Agency (IDA) and the International Finance Corporation were providing capital, management, and technology to about 60 finance corporations in the Third World countries. The FKI, at the same time, dispatched a 13 member mission group to the USA to discuss the issue with the IBRD, the IFC and the

IDA. A survey group on the American side, led by Gulhati of the IDA and Kaiper of the IFC returned visits to Korea on November 11, 1965 and September 8, 1966, respectively to explore the validity of the Korea Development Finance Corporation proposal. They concluded in the affirmative for three reasons: 1) Korean economic development was optimistic, 2) Political, social and economic orders were stable, and 3) Korean businessmen were well-organized and unified (FKIBH #66-68).

After these procedures, the Korea Development Finance Corporation was established on April 20, 1967 with finances of 60.74% domestic capital, and 39.26% of foreign capital. The foreign capital included 14.26% of the IFC and 25.0% of foreign financial institutions from five countries (FKIBH #69). The Korea Development Finance Corporation became the first private financial institution in Korea free from government control, and was a starting point for the subsequent establishment of further private financial institutions in the late 1960s and the 1970s.

2) **Establishment of local banks:** The FKI also initiated the establishment of private local banks through policy recommendations in 1967. Starting with the Pusan Bank and the Taegu Bank in October, 1967 to the Chungbook Bank in 1971, ten local banks were established (FKIBH #78). Each bank engaged in branch banking, with their head offices in the provincial capitals and branches in the same province (or "do"). These banks were privately owned and less regulated and controlled than the government-owned banks. While they have grown quite rapidly, their share of total bank deposits had reached only 10% of the national total by 1978. The remaining 90% of deposits, and an

even higher percentage of total loans, were still administered by government-owned or -controlled banks (Cole and Park 1983:66). But the establishment of local banks marked a turning point in the further development of private financial institutions. The local banks were useful because they were private institutions and thus less controlled by the state.

3) **Establishment of non-bank financial institutions:** The FKI sought to establish private, non-bank financial institution complementary to existing banking institutions. The policy recommendation made by the FKI included the following purposes. The NBFI aims:

- 1) To be complementary to the existing financial institutions as privatized and non-banking institutions.
- 2) To provide short-term operating capital for existing firms since capital shortage is expected as rapid economic growth continues.
- 3) To realize a normal financial system by inducing huge amounts of unregulated financial markets or curb markets to a regulated new financial institutions (FKIBH #78).

The FKI made the same policy recommendation more than five times from February 1967. To the strenuous demand from the FKI, the government responded by enacting three related laws authorizing the investment and finance companies on May, 1972, the mutual savings and finance companies, and the credit unions on August, 1972 (FKIBH #78,79; Sakurai 1984:80). The government's intention of these laws was to incorporate the unregulated curb market to the regulated institutions. Thus these three laws were called 'three related laws of curb market'. Based on these laws, many non-banking financial institutions were established by private businessmen, mostly taking up the short-term

financing activities of the unregulated financial institution.

The most important companies among the non-banking institutions are the Investment Finance Companies. Their main activity is dealing in commercial paper, primarily that which they issue themselves; but they also buy, sell, accept, and guarantee the paper of other business enterprises. In addition, they may act as investment bankers, issuing and placing securities for business enterprises (Cole and Park 1983:81). The amount of outstanding bills of the Investment Finance Companies has risen rapidly. As shown in Table 4-8, it amounted to 9.1% in 1977 and 12.3% in 1984 of total financial deposits. The most important feature of the IFC is that they are owned by capitalists and serve as a pipe line of capital of the big enterprises.

4) **Establishment of Merchant Banking Corporations:** Another important private financial institution, merchant banking corporations, was established by the initiative of the FKI. Merchant banking corporations were introduced in 1976 to diversify the channels of borrowing from abroad after a serious foreign exchange shortage caused by the oil shock during 1973-1974 (FKIBH #79; Cole and Park 1983:82). At the end of 1978, there were five such corporations, all joint ventures with foreign investors who held an equity share of 50%: Korea Merchant Banking Corporations (jointly with England), Korea Kuwait Banking Corporation, Saehan Merchant Banking Corporation (jointly with England, Japan, and France), the Korea French Banking Corporation, Asian Banking Corporation (jointly with Saudi Arabia). On the Korean side, the merchant banking corporations are owned by big businesses and commercial banks.

In addition, many other private non-banking financial institutions were established since the early 1970s. They are Mutual Savings and Finance Companies, Credit Unions, Securities Investment Trust Companies, insurance companies, National Investment Fund, etc. Shares of non-banking institutions in total deposits are shown in Table 4-8. The share of non-banking institutions sharply increased from 43% in 1977 to 61.6% in 1983 and 64.7% in 1984 (Gyu-uk Lee and Sunsgung Lee 1985; Dukhoon Lee 1985; Cole and Park 1983; Ministry of Finance 1979).

In sum, the FKI and the capitalist class could resolve the financial shortage by creating many non-banking, private, financial institutions. This was a reaction to three business needs. Firstly, the banking institutions were nationalized and totally controlled by the government. Secondly, the big businesses were short of both domestic and foreign capital in the process of intensive investment and rapid economic development in the 1970s. Thirdly, curb markets were pressing the big businesses with high interest rates (FKI 1983:247).

#### **Middle East Construction Service Exports, 1976-**

Another important turning point for the consolidation of the capitalist class was the boom of Middle East construction service exports in the sense that it played an integral role in overcoming an economic crisis due to the oil shock in 1973 and that it enabled the participants to make huge profits. The late 1970s witnessed the most prosperous economy in Korean history.

The oil shock in 1973, characterized by a sharp increase in oil

prices, transferred world capital to the OPEC countries, leaving other non-OPEC countries in economic crisis. In the case of Korea, the total cost of petroleum imports alone rose from \$313 million in 1973 to \$1,055 million in 1975. The related deep recession in the USA and Japan, Korea's major trade partners, caused a sharp decline in real export growth by 3.1% in 1974 compared to 55.4% increase in 1973. The foreign exchange reserve fell to \$1 billion in 1974 (FKI 1983; Doh 1984).

In this situation, Korean businessmen found a golden opportunity in the Middle East construction boom. The oil-producing Middle East countries, based on the huge increases in oil dollars, started their economic construction relying on foreign companies and workers to build their infrastructure capital.

By the early 1970s, the Korean construction industry was well ready to compete in the Middle East construction. According to Chung Hoon Lee(1987), Korean construction industry developed technology and management know-how on a par with international standards during participation in US Army projects in Korea and during post-war reconstruction processes. Since 1957, the US Army placed orders for large-scale construction projects to build harbor facilities, airfields, roads, bridges, barracks, warehouses, and fortifications. Doing business with the US Army meant that Korean construction companies had to draw blueprints, and write contracts in English in the manner acceptable to the US Army. Also, in so doing, the Korean construction companies acquired technology and management know-how. After this, Korean construction companies had experience in Vietnam in

the second half of the 1960s where some Korean companies undertook construction projects for both the US Army and the Korean Army (Lee 1987:4-5). Furthermore, in 1965, Hyundai had a contract to build a highway in Thailand.

With this competitiveness as well as economic pressure, Korean construction companies rushed for Middle East oil dollars. In 1973, Samwhan Construction Company obtained the first contract from Saudi Arabia to build a highway for \$24 million. The number of Korean construction companies working overseas increased to 73 in 1976, 121 in 1977, and 132 in 1979. During the year of 1977, 25 leading chaebol established or purchased 31 construction companies, and participated in the Middle East construction (Doh 1984:86). As Table 4-9 shows, most of the larger chaebol participated in the construction service exports. As of 1980, 25 of the top 30 chaebol had one or more overseas construction companies. Ownership of construction companies became a battle ground among chaebol during the late 1970s because it brought huge amounts of oil dollars from the Middle East.

As in other cases of business activities, the government took several policy measures to support the overseas construction service exports. The government enacted the Overseas Construction Promotion Act on December 31, 1975. The most important feature of the law is to provide a financial guarantee on behalf of the construction company. The law decrees that once an overseas construction company obtains a contract from foreign countries, a commercial bank is obliged to issue a financial guarantee against performance default to the foreign contractees.

The effect of the Middle East Construction services on the Korean economy is shown in Table 4-10. The ratio of overseas construction service exports (value of contracts) to merchandise exports increased rapidly from 5.9% in 1974 to 32.4% in 1977 and 64.1% in 1978, and 64.4% in 1981 when it reached its peak. For this profitable result, the Middle East construction was called a 'goose giving birth to golden eggs.' The oil crisis was overcome, and reversely exploited, by the Middle East construction service exports. The oil dollars obtained became an important financial source for rapid economic development, especially to finance the heavy and chemical industrialization in the late 1970s. The big business groups, the most active participants in the business, could rapidly expand their economic base.

Indeed, the participation of big business groups in the Middle East construction service exports became another turning point to consolidate the capitalist class and to rearrange the big business community in Korea. As Table 4-9 indicates, the Hyundai group which made the largest profit (28.2%) emerged as the largest chaebol in the late 1970s in Korea.

### **Big Push for the Heavy and Chemical Industries**

The Korean economy in the 1970s is best characterized as a big push toward heavy and chemical industries. Through this policy, big businesses could substantially upgrade their industrial structure from light industry to heavy and chemical industries. The heavy and chemical industrialization was not a new idea of the 1970s. From the

onset of the Ulsan Industrial Estate construction, continuous attempts were made but could not be implemented due to lack of funds and technology.

The development strategy before the heavy and chemical industrialization projects was based on exports of the labor-intensive, light industries. There were three major reasons for the policy shift to the heavy and chemical industrialization in the 1970s: economic, military, and political. Economically, in the early 1970s, the light-industry based export strategy reached the limit of development and was losing competitiveness in the world markets. Firstly, it was due to three dimensional pressures, ie, from below, the second tier NICs, from above, rising protectionism (such as the Nixon doctrine) in the advanced countries (Wallerstein 1979:32), and from inside, the shrinking labor pool and rising wage level (Cheng 1986:32; Haggard and Cheng 1983:63-4; Jinsook Lim 1986; Park 1980). Secondly, the export-oriented industrialization, based on the importation of machinery and material and on exports of complete commodities, caused a continuing deficit balance of payment, leaving the industrial structure weak and dependent (Park 1975:101). Thirdly, as an incentive to the heavy and chemical industrialization, the industrially advanced countries were gradually losing competitiveness in heavy and chemical industrializations because of labor shortages, increasing industrial pollution, etc, and were changing to more advanced industries such as the information industry and genetic engineering (Daegen Lee 1973; Koo and Lim 1986; Lim 1986; Cheng 1986; Ungsun Yoon 1973; Namwon Suh 1973).

On the military level, a new factor suddenly rose. The Nixon government in 1970 announced its intention to withdraw all US Ground Forces from Korea within five years, and on March 27, 1971, the first 20,000 troops were withdrawn (Further withdrawals stopped later) (SIOCIR 1978:67-69). At the same time, the United States permitted Korea to develop an arms industry as a means of achieving self-sufficiency of defense. Before that, Korea was forced to import its arms supply from the USA based on the Korea-American Mutual Defense Treaty (SIOCIR 1978:76). The development of the defense industry was reinforced by lessons from the downfall of Vietnam in April 1975. Because of the emphasis on the military industry, the big industrial estate in Changwon was named as Changwon Machinery "Base" by President Park, rather than as an Estate (Chung Yi 1985).

Politically, the heavy and chemical industrialization projects, like the establishment of the general trading company system, was intended as a strategy to justify the 1972 Yushin coup-in-office as mentioned above.

Because of this background and because of the important implications for military and political affairs, the heavy and chemical industrialization strategy, unlike other development policies, was strongly initiated by the government from the outset of the policy formation. President Park officially declared the development of heavy and chemical industrializations on January 12, 1972 at his annual address. The principles of the heavy and chemical industrialization projects announced by the Ministry of Commerce and

Industry were

- 1) To promote 6 strategic heavy and chemical industrializations: iron and steel, nonferrous metals, shipbuilding, industrial machinery, electronics, and petrochemicals.
- 2) To have private businesses lead the implementation.
- 3) The government provide estate and harbor facilities.
- 4) The participants should invest self capital of more than 30%.
- 5) To export all production except domestic consumption (Byungyoon Park 1980:196).

The government announced several subsequent measures for heavy and chemical industrialization promotion regarding other details. In December 1973, the Long-Term Prospectus for the Korean Economy (1973-1981) was announced setting up long-term target goals:

- 1) The share of heavy and chemical industrializations in national output be increased from 35.2% in 1971 to 51.0% in 1981.
- 2) The share of heavy and chemical industrialization products in exports be increased from 19.1% in 1971 to more than 65% in 1981.
- 3) Six more industrial estates to be established for each strategic heavy and chemical industrialization: Kumi for electronic, Changwon for machinery and defense, Pohang for iron and steel, Ulsan for shipbuilding and petrochemical, Yeochun for petrochemicals, and Onsan for nonferrous metals (Byungyoon Park 1980:197).

The heavy and chemical industrialization projects were designed for export-oriented production, shifting from labor-intensive to capital- and technology-intensive industries. Big businesses were given priority for participation because the heavy and chemical industrialization required huge amounts of capital and highly advanced technology, unlike the light industry based on labor-intensive production.

However, in spite of leading efforts by the government, the heavy and chemical industrialization strategy was not welcomed by the big

businesses, partly because of the oil shock of the Fall 1973, and partly because of the weak financial structure of big businesses at that time when an emergency measure like the August 3 decree was required (FKI 1983:270-71). The FKI opposed the project arguing that the heavy and chemical industrialization was premature in the Korean economy (Namjun Cho 1986:416). Only 14 firms had applied by 1974, and 38 by 1975. All of the 38 firms, however, were small-medium sized firms (Yi 1985).

In 1976, several new factors induced big businesses into the heavy and chemical industrialization projects. First, the Middle East construction service exports started to make huge profits and the big businesses could improve their financial structure. Secondly, the government announced the Fourth five year economic plan (1977-1981) emphasizing the promotion of heavy and chemical industrialization with 2 trillion and 892.5 million won of investment. The Ministry of Commerce and Industry announced a five year plan for the promotion of the of the machinery industry on June 3, 1976; At the same time, the EPB announced the policy for power-generating equipment industry promotion as the first project of heavy and chemical industrialization strategy (Park 1980:199). Based on this policy, the Korean Electric Company, a public enterprise, bid for the construction for the Asan Power Plants (No. 1 and 2) and Ulsan Power Plants (No.4,5,6) among domestic companies. In these inducement measures, the largest industrial groups, the Hyundai and the Daewoo, finally launched their participation in the heavy and chemical industrialization strategy by obtaining the bids for the of Asan plant (by Hyundai) and the Ulsan

plant (by Daewoo).

Upon Hyundai and Daewoo participation in the heavy and chemical industries other major chaebol entered into the heavy and chemical industries in order not to fall behind in transforming their industrial structure from light to heavy and chemical industries. Table 4-14 shows the detail for each chaebol. For example, Samsung, the number one chaebol, a typical industrial group based on light and consumption industries, entered into shipbuilding, machinery, electronic telephone switchboard systems, petrochemical, and airplane engines. Other groups engaged in the heavy and chemical industries from the initial stage include such leading chaebol as Hyosung, Lucky Gold Star, Sangyong, SunKyung, Gumho, Daehan Electric Wire, Kukje, etc. Ultimately, the heavy and chemical industrialization projects became a battle ground between big businesses (Park 1980; Yi 1985).

Meanwhile, the government made every effort to raise the planned funds of 2 trillion 892.5million won. The government founded a Central Committee for Saving Promotion and staged a nation wide savings movement, forcing even working class and primary school students to save money in banks (Cho 1984:71; Yim 1986:230). The government reinforced taxation creating several new items of tax and introducing a new tax system, Value-Added Tax in 1977. The government also planned a long-term National Welfare Pension System covering retirement, death, and accident, which was dropped due to opposition from below (Cho 1984:71).

The most important measure was the establishment of a new financing channel, the National Investment Fund in 1974. The major

sources of the NIF loanable funds consist of 1) the proceeds from the sales of NIF bonds, 2) contributions in the form of deposits made by the deposit money banks, the members of the National Saving Association, money in trust, insurance premiums of non-life insurance companies, and various public funds managed by the central and local government and other public entities, and 3) transfers (or deposits) from the various government budgetary accounts. The National Investment Fund made loans for both fixed investment and working capital to the heavy and chemical industrializations with low interest rates (Cole and Park 1983:77-8).

In addition to the non-banking National Investment Fund, domestic loans of deposit money banks and foreign loans were substantially channeled to the heavy and chemical industrialization projects. Table 4-11 shows the distribution of domestic loans of deposit money banks by industry over time. The share for the manufacturing sector increased from 39.9% in 1965 to 57.1% in 1975, and remained at the same level until 1982, while the share for the agriculture, forestry, and fisheries decreased from 27% in 1965 to 10.4% in 1975 and 7.6% in 1982, and other sectors such as mining, social overhead, and services remained constant at a lower level. Furthermore, within the manufacturing sector, the share for the heavy and chemical industrializations increased from 37.8% in 1965 to 41.0% in 1975 and 54.0% in 1982.

Table 4-12 shows the distribution of foreign loans by industries over time. It indicates that while the share for manufacturing sector has rapidly decreased since 1980, the absolute proportion of the

foreign loans were channeled to the heavy and chemical industrialization sector, increasing from 39.3% in 1965 to 77.9% in 1975 and 82.8% in 1982. At the same time, the share for the social overhead sector was substantially increased mainly to support the construction of 6 heavy and chemical industrial estates.

The government also gave the heavy and chemical industrialization special benefits through tax exemption or reduction and tariff reduction. Table 4-13 shows that, in 1978, the heavy and chemical industrialization sector received a reduction of 40.1% of corporation tax, while light industries, only 8% (Yim 1986:234; KDI 1982).

Because of the government incentives and the importance of the heavy and chemical industrialization in upgrading the industrial structure, there was a massive competition among leading chaebol. About 97% of total investments for the heavy and chemical industrialization projects were invested during the short period between 1977 and 1979. Furthermore, too much overlapping investment was made by competing firms, particularly in such areas as electric power plant equipment, automobile, electric switchboards, diesel engines, and heavy electric motors, and thus all of these industries suffered from the serious problems of capacity under-utilization and financial insolvency (Jo 1987:16; Lim 1986; Park 1980). These trends of over-investment and overlapping investment caused the temporary economic repression of the early 1980s.

The effects of the heavy and chemical industrialization promotion were crucial for both big businesses and the government. First of all, the big businesses could occupy the major overhead industry of

the country. Before the heavy and chemical industrialization strategy, the private businesses were engaged mainly in light industries while the state owned the major heavy and chemical industrialization industries such as fertilizer, iron and steel, electric power, petrochemical industry even though they were small in number. Through the heavy and chemical industrialization big push, the private sector outgrew the public sector in heavy and chemical industrializations while the state continued to own those existing public firms. All the heavy and chemical industrialization projects were implemented with private ownership, except for the existing Pohang Steel, and the Hanguk Heavy Industry Corporation. The latter was originally established as the largest heavy industry corporation in the world by Hyundai-Yanghang, but became insolvent, transferred to Hyundai, to Daewoo, and finally nationalized in 1980 because of huge debts and insolvency.

Secondly, As Table 4-14 shows, the private big businesses could advance their industrial structure, shifting from light industries to heavy and chemical industrializations. Samsung known as a consumption chaebol transformed itself to a capital- and technology-intensive chaebol. Daewoo, established in 1968 and known as a trade company of garment manufacturing, participated in automobiles, shipyards and electronics. Only after 10 years it rose as the third largest chaebol in Korea, exporting Le Mans automobiles and Leading Edge personal computers. Many other leading chaebol participated in the heavy and chemical industries and upgraded their industrial structure. At the same time, the industrial structure of the whole Korean economy was

shifted. Table 4-15 indicates the change in structure of export commodities. The share of heavy and chemical industrialization products in exports increased from 5.5% in 1962 to 25% in 1975 and 51.3% in 1983.

Thirdly, six large industrial estates emerged as a result of heavy and chemical industrialization projects. Table 4-16 summarizes them.

Finally, however, the big push of the heavy and chemical industrialization created a lethal pressure on the Park regime. Because of the forced capital formation for the heavy and chemical industrialization, the aggravated income inequality and the illegitimacy of the Yushin system, the Park regime faced increasing opposition from intellectuals and the working class in spite of the rapid economic development in the late 1970s, especially in 1978 the year of the highest boom in the history of Korean economy, and finally collapsed with the assassination of president Park in October 1979. The state intervention in the heavy and chemical industrialization strategy revealed the typical contradictions of interventionist states in the Third World countries. As Fitzgerald(1976) argues, the interventionist state which emerged to deal with economic crisis entails another seed of crisis because of contradictions between capital accumulation and distribution.

#### **Implications of Industry Diversification for Consolidation of Chaebol**

One of the major findings in this consolidation step is that big businesses rapidly increased in the number of subsidiary firms. As Table 4-17 shows, big businesses not only increased the number of

subsidiary firms but also diversified their industries. The diversification strategy means that capitalists do not concentrate their investments in a single industry. Industry diversification can be characterized as having diverse product lines ranging, for example, from consumer goods to durable capital, to trade, to financial industry, etc. (Leff 1978; Rhoades 1973; Williamson 1971:112). Table 4-17 shows the degree of diversification in terms of the Herfindahl index of diversification in 1977 and 1982 for Korea's top 30 industrial group (of manufacturing sector only). It indicates that Korea's big businesses are highly diversified. Sixty percent of the top 30 chaebol are above .6H. The degree of diversification largely increased between 1977 and 1982. As we have shown already, four major policies in the 1970s, that is, the General Trading Company, private financial institutions, Middle East construction service export, and the heavy and chemical industrialization strategy were stepping stones by which the big businesses could diversify their industries. The table also indicates that the higher ranked chaebol are more diversified than the lower ones.

What does the diversification imply for the consolidation of the capitalist class? Four reasons for adopting this strategy have been identified by previous studies. First, according to Leff(1978), the diversification strategy is readily understood as a response to well-known conditions of market imperfection in the less developed countries, due to the relatively small size of the domestic market for many manufactured products. Second, diversification has an obvious appeal in economies subject to the risks and uncertainties of

instability and rapid structural change as in Korea (Leff 1978:667). Third, vertical integration through diversification enables businesses to avoid being dependent on a monopolist or oligopolist for material inputs, or on an oligopolist for the group's output. In addition, vertical integration enables business to avoid the transactions (bargaining and enforcing) costs which intricate arm's-length negotiations could entail (Williamson 1971:112). Finally, diversification raises barriers to new entries into an industry from domestic or multinational outsiders. Rhoades study(1973) shows that diversification is viewed as a structural variable in raising barriers to new entry because of predatory pricing and insulation of profit information.

#### **Degree of Business Concentration**

To summarize the effect of state policies on consolidation of the capitalist class in the Korean economy, it is necessary to show the degree of business concentration or capital monopolization. Table 4-18 shows that the share of the top 5 chaebol in total output of the manufacturing sector gradually increased from 15.7% in 1977 to 22.3% in 1983. The share of the top 30 chaebol constituted 40% in 1983. It is interesting to note that the degree of employment concentration decreased over time mainly because the top chaebol moved from labor-intensive to capital- and technology-intensive industries.

Table 4-19 shows the share of the top 50 chaebol in the Korean economy. It indicates that the share of the 50 chaebol in GNP gradually increased over time, intensifying the degree of economic

power concentration. As of 1985, the top 50 chaebol constitute 22.5% of GNP in Korean economy.

Table 4-20 compares Korea with other countries in terms of the share of all-medium businesses, and reversely, the share of big businesses. In terms of the number of firms, employees, and value-added, Korea is more big-business oriented than both Japan and Taiwan, but less than the USA. In terms of value-added, however, Korea is more highly big-business oriented than any other country with big percentage differences. In Korea, only 36.2% of added-value is produced by the small-medium firms, in contrast to 56% in Japan and Taiwan, and 51.4% in America. In sum, businesses are more concentrated in Korea than in the USA, Japan and Taiwan.

#### **Summary**

This period between 1972-1979 was marked as the step in which the capitalist class consolidated its economic base. The consolidation process was guided by further EOI strategies in the 1970s. This reinforcement of the EOI was initiated by the Yushin political regime. Through this step, the capitalist class increased a diversification of industries, upgraded the industrial structure from light industry to heavy and chemical industries, and accelerated business concentration. This increasing trend of a chaebol-oriented economy in the 1970s was highly facilitated by the chaebol-oriented policies of the general trade company system and the heavy and chemical industrialization. In so doing, the capitalist class economic base was highly consolidated and became a foundation of economic hegemony in the 1980s.

### 3. ECONOMIC HEGEMONY UNDER THE PRIVATE INITIATIVE ECONOMY STRATEGY IN THE CHUN REGIME, 1980-1987

As President Park, the architect of state-led industrialization, was killed in 1979 and as the Chun Doo Hwan regime came to power, changes in state-capital relations also followed. The Chun regime officially declared a shift to the private initiative economy. Through this policy shift, the capitalist class gained much more autonomy from the state than in the previous period. Also, based on the economic power consolidated during the last two decades or so, the capitalist class now in the 1980s came to enjoy economic hegemony.

In this section we will discuss major factors which promoted the policy shift to a private initiative economy, some specific policy measures toward this policy transition, and will illustrate some episodes in which the capitalist class wielded its hegemonic power in the economic sphere.

Four major factors are identified in explaining the policy shift from state interventionism to a private initiative economy in the 1980s: 1) expansion of the private capitalist class, 2) contradictions of the state intervention, 3) international pressure, and 4) collective action of the FKI. Each will be investigated in turn.

**Expansion of Private Capitalist Class:** The Korean capitalist class grew rapidly in its economic base through the 1960s and the 1970s as was seen in previous chapter. The capitalist class upgraded its industrial structure shifting from light industry to heavy and chemical industry in the late 1970s and grasped the main industries of

the country outgrew the public enterprises. The capitalist class also weakened the state control over the financial institutions by creating new non-banking financial institutions. The absolute size of the economy grew rapidly. GNP grew from US\$ 2,103 million in 1961 to \$61,203 million in 1980 and \$94,300 million in 1986. GNP per capita expanded from \$82 in 1961 to \$1,605 in 1980 and \$2,274 in 1986, multiplying 27.7 times over 25 years.

According to Sainz(1980), state interventionism is viewed as a response to an economic crisis in peripheral societies. Sainz argues that in order for the state to play the key role in such a crisis, two other conditions are required. Firstly, a local bourgeoisie had to be absent or not strong enough to lead the process of capital accumulation. Secondly, working class must also be weak so they cannot take advantage of the situation and threaten capital domination (Sainz 1980:60).

The conditions for state interventionism seem to fit the Korean case in the 1960s. When the military government came to power in 1961, there was no local bourgeoisie strong enough to lead capital accumulation. Businesses lacked public confidence partly due to the issue of illicit capital accumulation. And entrepreneurial talent was deficient. Also, there was no challenging class, either. Under these conditions, the military government could easily intervene in the economy.

In the 1980s, however, the earlier major conditions for state interventionism disappeared. Rather, the government side, for example, the ministry of EPB, felt that the government no longer

could effectively manage the economy. It is because the Korean economy is now so big in absolute size and so complex in its operation that the bureaucracy can no longer manage it efficiently (Monthly FKI 1986, Feb:9-11).

**Contradictions of State Interventionism:** Many theoretical writers have discussed this issue (Offe 1975, 1976; Fitzgerald 1976; Petras 1977). The state interventionism, which emerged to manage the crisis entails the seed of another crisis. Existing theories emphasize that the interventionist state is deeply problematic in the dilemma between capital accumulation and legitimation. According to Offe(1976), there is an emergent crisis as the state intensifies interventionism. This emergent political crisis can reveal itself in three main areas: a fiscal crisis of the state, a crisis of administrative rationality, and a crisis of mass loyalty.

The intensive state interventionism in the heavy and chemical industrialization strategy in Korea revealed even more serious economic contradictions to say nothing of the political crises listed above. Since the heavy and chemical industrialization was initiated by the government mainly due to political reasons (see previous section), it totally lacked economic rationality. Firstly, when the world economy was under deep recession due to the oil shock since 1973 and thus most countries undertook policies of reduced investment, only the Korean government took an increased investment policy inducing huge amounts of foreign loans toward the heavy and chemical industrialization. Secondly, when oil prices skyrocketed, the Korean government started to develop petro-chemical industries and oil

consuming heavy industries (Ahn 1986:817). According to Chung Joo Young, chair of the FKI, it was due to the fact that the government believed its government administration and over-mobilized it, which is external to economic principles. During 1976-1979, more than 77% of all manufacturing equipment investment was undertaken in the heavy and chemical industrialization, partly by direct investment channeling of the government, and partly by government incentives to lure private capital. As a result, the heavy and chemical industrialization project became a major cause of economic recession and political turmoil in the late 1970s and the early 1980s. Looking at the economy at that time in more detail, with a disproportionate share of scarce capital being diverted to investment projects that normally require a long gestation period, other sectors of industry were squeezed. The squeezed sectors included agriculture, small and medium-size firms, and the commodity distribution system, sectors that together ensure the smooth supply of daily necessities and other essential commodities. Low productivity in these sectors and the resulting supply shortage were major sources of inflation and threatened to disrupt the stability of the economy. Also, money supply was excessively expanded, at an average annual rate of 32.1% during the 1976-1978 period, which aggravated inflation (Sangwoo Nam 1984:4-5). On the other hand, on the heavy and chemical industrialization sector, too many overlapping investments were made by numerous competing firms, mostly lured by the government incentives, particularly in such areas as electric power plants, automobiles, electronic switchboards, diesel engines, and heavy electric motors. All of these industries

suffered from the serious problems of capacity under-utilization and financial difficulties in the early 1980s (Sung-hwan Jo 1986:16).

The big push of the heavy and chemical industrialization by the interventionist state caused a deep recession in the Korean economy and many small-medium firms went bankrupt or became ineffective firms in the early 1980s. The growth rate which had been constantly high since 1962, hit the lowest rate, -5.7% in 1980. The contradiction of state interventionism was recognized by both the government and business. The government confessed that the intensive state interventionism failed to administrate an effective allocation of limited resources and damaged creativities of private business. Businessmen complained about the inefficient results of state interventionism. Chung Joo Young, for example, complained that whenever the government intervenes in an industry, the industry loses competitiveness in the world market. He compared an automobile industry and a shipbuilding industry which showed the contrast. The government intervened in the former industry and did not intervene in the latter. But, the latter was more competitive than the former in the world market (Monthly Chosun 1985, 1:310-11).

**World System Pressure:** During the 1960s and 1970s, Korea pursued a policy of extensive state interventionism with respect to foreign direct investment and imports, too. Foreign direct investment in Korea were very small during the 1960s, and had remained at modest levels throughout most of the 1970s. The foreign direct investment in Korea is the lowest among the four East Asian NICs including Taiwan, Hong Kong and Singapore. In spite of the cheap labor in Korea, the reasons

for the lower share of foreign direct investment in the Korean economy (see Table 4-21), is due to the role of the interventionist state. According to a survey of investment legislations in selected less developed countries by the UN Center on Transnational Corporation (1978),

- Out of 37 countries considered, only Korea and 10 others explicitly emphasized balance of payments considerations among their screening criteria;
- Out of 36 countries, only Korea and 8 others explicitly granted preferential consideration to joint ventures;
- Out of 27 countries, only Korea and 2 others considered all investment areas closed unless otherwise specified. Indeed, 11 countries did not explicitly specify any restricted areas (as cited in Luedde-Neurath 1984:21).

Government intervention was not confined to the FDI. Foreign commodities also were subject to strict trade regulation. As Table 4-22 indicates, until 1980, the degree of import liberalization was distinctly lower compared to Taiwan and Japan. The closed-door policy with respect to imports was intended to provide domestic manufacturers with protection and to improve competitiveness before they are eaten up by advanced foreign commodities.

It is not true that before 1980 there was no external pressure for open door policies. But the degree of intensity was weak and the Park regime could effectively manage the demand. In the late 1970s and early 1980s, however, situations changed. The rigid government policies with respect to the foreign investment ended. At the same time, as the second oil shock hit the world economy, the advanced countries, particularly the USA, internally promoted protectionism and externally demanded an open door policy. Also, as Korean exports rapidly increased from 0.1% in 1965 to 1% in 1980 of total world

export amounts, the advanced countries began imposing restrictions on Korean commodities. The rate of export restriction on Korean commodities was raised to 32.2% in 1980 and 42.9% in 1982 (Myungsoo Cha 1986). Now Korea faced the situation of open door policy for further exports.

**The FKI and Collective Action Toward Private Initiative Economy:**

One of the most important driving forces for the private initiative economy was the incessant movement made by the capitalist class. An interesting pattern is found of capitalist class movements to the private initiative economy which coincided with changes of the political regime. The first systematic movements took place on December 1963 when the military junta changed to the civilian government; the second movement, during the presidential election of April 1971; and the third, in 1980 when the Park regime was changed to the Chun government. Each phase needs to be investigated in turn.

1) FKI Movements during Transition from Military Junta to Civilian Government in 1963: As mentioned earlier, Park's military regime designed the first Five Year Economic Plan with the catch phrase of 'guided capitalism'. The regime attempted a wide range of direct state interventions in all the main industries (FKI 1983:204). This initial plan, however, could not last long. The USA pushed the Park military regime toward a civilian, democratic government. In this context, the military regime was transformed to a civilian government, and Park Chung Hee was elected as president.

As the political regime changed to a more democratic one, the FKI argued that when social order is reorganized under a new political

system, the economic system also should be reorganized toward new, liberal economic principles. The FKI recommended the following five principles of private initiative economy:

1. State-led economy during the last two and half years has tended to impede the creativity and vitality of private sector. The road to Korean economic development lies in the open liberalism and should be transformed likewise.
2. Government-led fiscal investment should be transformed to liberal investment.
3. Capital formation based on forced savings such as high interest rate should be transformed to liberal way of capital formation.
4. Government-led financial policy should be transformed to private financial system.
5. Economic growth in Korea can be possible only through an integration with world economy, and thus the emphasis should be shifted from foreign loan- to MNC investment-orientation (FKIBH #49).

In fact, in the Third Republic government, the role of the private sector was substantially enlarged. Especially since the Normalization of Korea-Japan Relations in 1965, the nature of the economic system in Korea was crucially changed toward an open and private economy. In terms of Offe (1975)'s two modes of state intervention, allocative and productive, the productive intervention was substantially reduced, while the allocative intervention continued in the Third Republic government. The share of public enterprises to non-agricultural GDP remained 12.7-13.1% between 1963 and 1972 (Jones 1976:73-4). These ratios are lower than 16.25% in Brazil in 1975, and 15.5% in India in 1972. It is important to note that this transformation is not the product of the FKI movement only. Rather, it should be understood in terms of interaction effect of external influence from the USA and Japanese world economic imperatives, and internal dynamics of the private sector.

FKI Movement During Presidential Election of 1971: While the movement of the private initiative economy continued sporadically during the sixties, the most systematic movements took place around the presidential election campaign, an election held on April 27, 1971. Starting in March 1970, the FKI reinforced the movements for a private initiative economy. Through its official periodical, Monthly FKI, the FKI conveyed its strong arguments. The FKI also held conferences on the topic of private initiative economy. Through these published articles and conferences, the FKI criticized the contradictions which the state-led or state-interventionism caused in the economy, and demanded a policy shift. The specific arguments made by the FKI are as follows:

Contradictions and problems of state-interventionism:

1. Direct government intervention substitutes the role of private sectors, and thus impedes the creativity and vitality of private enterprises.
2. Sectoral imbalance is being deepened due to rigid state intervention.
3. Rapid growth of exports is forced to pay the price by liberalization of imports (Monthly FKI 1970, 3:1).
4. Operation of fiscal investment is too rigid.
5. Public enterprises are no longer efficient, lacks entrepreneurship, and suffers deficit balance due to mal-management.
6. Government officials are more interested in administrative achievements rather than real economic growth.
7. Task goal oriented planned economy impedes healthy economy of private sectors (Monthly FKI 1970, 3 and 4).

Alternative policy directions

1. Promotion of liberal competitive principle.
2. Liberalization and privatization of financial institutions.
3. Liberalization of imports.
4. Normalization of price mechanism.
5. No more involvement of politics in banks (Monthly FKI 1970, 3 and 4).

There is no information available on what the FKI did behind the

scene to influence the government. The outcome of the movements, however, reflects the strength of the FKI's effects. During the election campaign, Park Chung Hee, presidential candidate of the ruling party, adopted the policy of a shift to a private initiative economy as one of the election pledges (Monthly FKI 1971, 6:11). Unfortunately, however, the election pledge was not implemented as the new regime was soon transformed to an authoritarian Yushin regime in 1972. To the contrary, state-interventionism was reinforced to push the heavy and chemical industrialization launched in 1973 (FKI 1983:239, 254).

The regime change to the Chun government and FKI movements: When the Park Regime was over in 1979, the FKI, this time effectively, resumed the movements. It was not only the FKI but also every other group of society that launched movements for liberalization (Chosun Daily 1980, 3/22). On December 1979, the FKI advocated a private economy as the only alternative to rescue the Korean economy from contradiction and continued the movements throughout the 1980s while the policy was gradually in transition toward a private initiative economy.

These four determinants became more active in the period of political transition. It is not appropriate to ask which factor is the most important in shaping the policy of the private initiative economy. Instead it should be understood in terms of the interaction effect of the four factors. The military junta council, or the Special Committee for National Security Measures (Kukpowi) made a

decision for the policy shift toward a private initiative economy. Kim Jaeik, chair of Economic Division of the Kukpowi was a leading figure in this decision making (Keik Lee 1984; Hyunbok Lee 1985). In the following civilian government, Kim Jaeik continued his role as presidential top advisor of economic affairs. The policy shift was not implemented in a radical way. After the basic principle of private initiative was formulated, specific policy measures for implementation were adopted step by step. A crucial turning point was made in late 1983, when the Fifth Five Year Economic and Social Development Plan was revised based on the principle of the private initiative economy (GRP 1983).

In every corner of this plan, efforts will be found which try to make a major shift in the style of economic management toward relying more on competition and market mechanism (P.iii).—Government-intiated investment activities, protective measures such as import restrictions, and support for certain strategic industries were all necessary in order to obtain rapid economic growth in a short period of time during the early stages of Korea's economic development. As the economy grew in size, however, such active government intervention hampers the efficiency of resource allocation and impedes private initiative and creativity, thereby weakening economic flexibility.—Government intervention will be reduced to emphasize private initiative and creativity. The scope of private initiative will be expanded by transferring a variety of tasks and functions from the public to the private sector (GRP 1983:11-12).

#### **Policy Cases Promoting Private Initiative Economy**

**Monopoly Control and Fair Trade Act:** As will be discussed later, this act was initially designed to control big businesses, but was transformed to prepare for a private initiative economy in the 1980s. This law, enacted on Dec.12, 1980 and put into effect on April 1, 1981, was aimed at improving economic efficiency through 1) the

promotion of fair and free competition and 2) more importantly, a shift in price policy (EPB 1984). This law replaced the previous law based on government directive price management for individual items of commodities. The new Monopoly Control and Fair Trade Act was designed as an economic constitution in the new economic order which emphasizes private initiative and competition based on market mechanisms (EPB 1984:62; GRK 1983:41). The Monopoly Control and Fair Trade Act also intended to prevent monopolistic and oligopolistic business practices as a main prerequisite to the efficient functioning of the market mechanism. To this end, the law decrees that collusive practices will be put under more stringent surveillance in an attempt to prevent anticompetitive conduct, and that efforts will be exerted to establish a fair market order by requiring honest advertising and by promoting competition in all marketing channels (GRK 1983:29).

Based on the Monopoly Control and Fair Trade Act, in 1981, the government abolished government directive price management system and had private firms decide prices for the 97 monopolistic and oligopolistic items which were under government management (Pilwoo Lee 1986:986). It is important to emphasize that, after implementation of the Monopoly Control and Fair Trade Act, market dominating items increased from 42 in 1981 to 48 in 1982 to 58 in 1983 and 71 in 1984. Put differently, the number of items under monopolistic or oligopolistic domination increased. This is partly due to the creation of new items based on technology innovation and partly due to monopolization of big businesses (Pilwoo Lee 1986:989).

The liberalization of prices, however, are not applied to all

industries. The industries under government monopoly and some strategic industries are still under government control. These industries include railroads, telephone, water, electric power (these four items are under public fee regulations), coal, cigarettes, some oil related items (Dong Kyu Choi 1987).

**Industrial Development Law:** This law was enacted to lay the foundation of private initiative industrial development, coming into effect on July 1985 after long policy debates since 1983. The previous laws replaced by the new Industrial Development Law consisted of 7 independent laws dealing with government promotion of 7 strategic industries: Machinery Industry Promotion Law, Shipbuilding Industry Promotion Law, Electronic Industry Promotion Law, Steel Industry Promotion Law, Non-ferrous Industry Promotion Law, Petro-chemical Industry Promotion Law, and Textile Industry Promotion Law. The basic principles of these previous laws were that the government intervened in each industry in terms of 1) the restriction of new entry or management of entrance barrier (There were about 120 items of regulations aimed at restricting competitive establishment of new businesses), 2) price management, and 3) management of financial and fiscal allocations. Since government intervention was geared to each industry through each law for individual industries, the government had direct interaction with each individual firm in the industry (Dong Kyu Choi 1987; DongA Daily 1985,9/11).

The new Industrial Development Law, however, abolished all of the seven laws, shifting to principles of market mechanism and eliminating the regulations of competition restriction (except 10 items out of the

120). In so doing, establishment of new enterprises (or decision of investment) and other business activities are transferred to the disposal of private entrepreneurs. The new law decrees an establishment of the Private Consultative Meeting for Industrial Development within the Ministry of Commerce and Industry, which is composed of private entrepreneurs, researchers, and other private professionals. The Meeting is designed as a guaranteeing mechanism for participation of the private sector in policy formation. The law also decrees that the role of government shall be shifted from deep involvement in each industry to the support of rationalization of particular, declining industries when asked for from the private sector (GRK 1983; Chungsoo Kim 1986; Taeil Kim 1986; DongA Daily 1985, 9/11). At the same time, much of the government protection was withdrawn. The policy financing (or government allocation of financing with special interest rates) was a major source of capital formation of the private enterprises in the 1960s and the 1970s. But in the the 1980s, with the enactment of the Industrial Development Law, the policy financing was officially abandoned, even though some of them still remained under the name of industrial rationalization (Dong Kyu Choi 1987).

Also, another organization, the Private Sector Council for Industrial Development was established within the EPB with a similar purpose of the Private Consultative Meeting for Industrial Development within the Ministry of Commerce and Industry, in July 1985. The Council consists of 21 representatives of the industrial community, consumer organizations, the academic community, the press,

banking community, and research institutes. The Council seeks out private sector opinions on industrial, fiscal, and financial policies and recommends them to the EPB (GRK 1983:44; Maeil Economic Daily 1985,8/1).

But it is necessary to note here that the implementation of the Industrial Development Law faced strong barriers. The state intervention was so pervasive and longstanding that the consumers and the press were not ready to adjust to the new system. In their views, liberalization means the tyranny of monopoly capital because liberalization means an increasing autonomy of chaebol groups. Thus whenever a new item is added to the liberalized items, there is strong opposition from the consumers and the press, thereby from the National Assembly. According to ex-minister Choi, this is the main reason that the oil refining industry was not yet liberalized, and that other items or industries are slow in liberalization. Even among monopoly businessmen, there is disagreement on the liberalization of the industries. Among five oil refining companies in Korea, only one company agrees, and the other 4 disagree with the liberalization, demanding more government protection for their monopoly (Choi 1987).

**External Liberalization:** Two types of liberalization are identified with respect to the world economy in the 1980s: import liberalization and capital movement liberalization. Table 4-22 shows the degree of import liberalization in the 1980s. It radically increased from 68.6% in 1980 to 93.6% by June 1987. Of course, "the target items for priority liberalization are those industries that have enjoyed a long period of government protection and those that

have been engaged mainly in the export business as they are presumably better prepared for international competition" (T. Lee 1987:70). This policy shift met with a strong opposition staged by the small-medium firms, non-export industries and the press. The big businesses, mostly engaged in export industries, however, had nothing to lose because they were already in competition with advanced countries in the world market. Since the import liberalization in Korea entails a further increase of the export market in negotiated countries, the policy benefited the big businesses.

The capital movement liberalization adopted in the 1980s aimed to expand the liberalization of inflow movement of foreign capital, equity investment (or foreign direct investment) and portfolio investment (or stock investment). Liberalization of foreign direct investment was accelerated since July 1984 when the Foreign Capital Inducement Law was revised from a positive list to a negative list system. Following this change, on October 12, 1985, by opening 102 more industries, the rate of foreign direct investment liberalization was enlarged from 66.1% to 76.3% of all industries, and 92.5% of the manufacturing sector (DongA Daily 1985, 10/12).

Portfolio investment was also liberalized even though through an indirect way based on a domestic investment trust system. As Table 4-23 shows, six international trust funds were established between 1981 and 1985: Korea International Trust, Korea Trust, Korea Fund, Korea Growth Trust, Seoul Trust, and Seoul International Trust. These companies are nothing but an extension of business of the domestic securities companies to foreign capital, and foreign capital receives

the beneficiary interest from their representative companies. These foreign securities companies have been allowed to own up to 10% of the paid-in capital of Korean securities companies. In this regard, these foreign securities companies are characterized as earlier forms of complete liberalization of portfolio investment.

The effect of external liberalization on the Korean capitalist class is on the following: 1) Both the foreign direct investment and the international trust funds serve as another source of foreign capital for big businesses. This is extremely important because in the 1980s the terms of foreign loans were being aggravated due to to increasing interest rate and the instability of the international financial market (KCRI 1985:105), and because Korean foreign debt was already burdensome to manage. 2) The international trust fund serves as a channel through which Korean firms are advertized in foreign securities markets. 3) The joint-venture system with the MNCs serves as a channel to import advanced technology and management techniques from foreign partner companies. 4) The joint venture system with foreign direct investment reduces the degree of state interventionism in domestic enterprises. For example, when the government attempted to adjust the automobile industry by merging Daewoo with Hyundai, the General Motors, joint-venture with Daewoo, strongly opposed the Korean government, which finally gave up the industrial adjustment measure.

#### **Privatization of Banks and Liberalization of Financial Industries:**

Perhaps the most important event in the transition to a private initiative economy is the privatization of banks. The reform for financial liberalization focuses on the following six policy measures.

First, the government privatized all of the five commercial banks, starting with the Hanil Bank in June 1981, by 1983, 20 years after they were nationalized in 1961. Second, the government also allowed the establishment of new joint-venture commercial banks with foreign partners in order to promote competition in the banking industry. Based on this measure, the Shinhan Bank (joint-venture with Korean entrepreneurs in Japan) and the Hanmi or KorAm Bank (joint-venture with the Bank of America) were established in 1982 and 1983, respectively. Third, the government relaxed considerably the requirements for establishing non-banking financial intermediaries, in particular the short-term finance companies and the mutual savings and finance companies. Fifth, the de-nationalization of nation-wide commercial banks was followed by the abolishment of various government directives regulating personnel management, budgetary and other operational matters of commercial banks (Youngchul Park 1985:95; Far Eastern Economic Review 1983,5/5:73). However, the fifth measure was not well implemented until late 1987. Privatized banks still do not lead private lives (FEER 1985,8/21:66). Sixth, according to a government announcement, three out of four special (or non-commercial) banks will be privatized between late 1987 and 1989 (DongA Daily 1987,6/16).

Through these policy measures, the ownership of banks was turned over mostly to chaebol because there was no other stronger power to take them in competitive bidding. Table 4-24 shows the distribution of ownership of financial institutions by chaebol. It indicated that ownership of financial institutions, including commercial banks, local

commercial banks, non-banking financial institutions, stock companies, and insurance companies, are concentrated in the larger chaebol. The privatization of financial institutions signifies a crucial turning point in the power relations between the state and capital.

**Privatization of Public Enterprises:** Another important trend toward the private initiative economy in the 1980s is the privatization of public enterprises. There are four types of public enterprises in Korea: 1) Part of government bureaucracy: Ministry of Postal Services, Office of Cigarettes, Office of Railways, and Office of Supplies. 2) Government-invested enterprises: These are typical public corporations, with the government owning more than half of the shares, though the average share holding is 97%. Top managers are appointed by the government. Table 4-25 shows the list of this type, 25 such public corporations. 3) Other government enterprises in which the government has a minority holding. There are 6 such enterprises (see Table 4-25). And 4) Subsidiaries of government-invested enterprises. There are 72 such enterprises.

As of 1987, the total number of public enterprises is 100. Many of them are businesses in which the private sector is reluctant to invest because of lower rates of interest and pressure of competition. The public enterprises were continually created and sold off to the private sector since 1961. But it is not until 1987 that the principle of privatization was decided to a large extent. The government organized the Privatization of Public Enterprises Promotion Committee on April 2, 1987 and decided to privatize 31 major public enterprises in a gradual way, including Korea Electric Power

Corporation, Pohang Iron and Steel Corporation, Korea Telecommunication Authority, etc (DongA Daily 1987, 4/4, 6/18; FEER 1985 7/25; Sangchul Yoon 1985:157).

### Illustrations of Capitalist Class Politics

It is ironical for the Chun regime to attempt to impose several regulations on the big businesses while it declares a policy shift to the private initiative economy (first by the Kukbawi or Chun military junta and secondly in his inaugural address on September 1, 1980) to give more autonomy to the private big businesses. But, considering that previous over-protection of the big businesses was a major object of social criticism, the alleged policies to regulate big businesses can be understood in terms of legitimizing strategy of the political regime. However, for most of the policies to regulate big businesses, the capitalist class either effectively controlled the policy formulation processes or made those policies impotent. In this section, we briefly discuss the nature of the Chun regime and illustrate the determining power of capitalist class politics.

The Chun Doo Hwan government, which came to power through military coups in 1979 and 1980, created a new political slogan as a regime ideology, "just society, welfare society, and democratic society." This political slogan seems to have been created as an antithesis of the absolute "developmentalism" of the Park regime. Chun's criticism of the previous Park period and the rationale of the new political symbol are succinctly expressed in his inaugural address:

The Park regime achieved a remarkable degree of economic development through the 1960s and the 1970s. But during the

period of the rapid industrialization, numerous irregularities crept into our society due to the rapidity of change, such as the accumulation of illicit wealth through the abuse of official post, the unequal distribution of wealth, the excessive worship of money, degenerated morality, etc. — Therefore, in the 1980s, we ought to shake off the residual ills of the past and construct a genuinely democratic, welfare, and just society (DongA Daily 1980, Sep. 1).

For Chun, the democratic society means "a peaceful transfer of power through due constitutional processes." In fact, this is an important political slogan in Korea because there has been no experience of peaceful transfer of power in Korean history since WWII. The Chun regime actually implemented the promise by electing a new president in December 1987.

By welfare society, he means, first of all, "to push sustained economic development because social welfare obviously presupposes economic development" (DongA Daily 1980, 9/1). Perhaps, the welfare society is just a different term for the same content as the developmentalism of the Park regime. Since the role of the state is both capital accumulation and legitimation (O'Connor 1973; Offe 1975), there is no legitimation without a sustained capital accumulation. By welfare society, he also means "policy priority to the increase of job opportunities, improvements in working conditions, closing the wage gap between social strata, etc." (DongA Daily 1980, 9/1). By just society, Chun means eradication of irregularity and corruption by conducting a wide range of social reforms so that justice and ethical action are respected. For the Chun regime, a realization of just society seems to be the most important, considering a series of social reforms it took and the name of the new political party organized for

the new military regime, "the Democratic Justice Party."

In the rest of this chapter, we will see how the Chun regime with that ideological direction influenced the capitalist class in the 1980s. As soon as the Chun military junta came to power, it conducted a nation wide purification campaign in the name of social justice.<sup>6</sup>The purification campaign was applied to the big business community, too. After the Chun regime grasped the military, which constituted a substantial power at that situation, through the first military coup on December 12, 1979, the first manifestation of the attempt was announced by General Chun's handpicked Army Chief of the Staff and Martial Law Commander, Lee Hee Sung. On Dec.18, General Lee briefly mentioned that the government would rectify those businessmen who violated business ethics and public interests (DongA Daily 1979, 12/18). That statement was immediately reported in several foreign newspapers including the Washington Post with more detailed

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<sup>6</sup>The Chun military junta arrested 26 top power figures including Kim Dae Jung, Kim Jong Pil and put Kim Young Sam under house arrest on a charge of illicit wealth accumulation on May 17, 1980 (See DongA Daily 1980, 5/19; Lee 1980, 1981). The three Kims were preparing for the presidential election to come soon. But their arrest meant a rise of the Chun group to the surface. Between June 4 and July 31, 1980, about 5,490 government officials were fired on corruption charges including 11 from the Legislative, 61 from Judiciary, 5,418 from the Executive and 300 from the KCIA. Among these, 243 higher ranked government officials (1 minister, 37 vice-ministers, 35 first class and 170 second class civil servants) were included. Also, 3,111 public employees of state-invested enterprises and banks were dismissed. Furthermore, 172 periodicals that allegedly caused social decay and juvenile delinquency were abolished, among them some of the finest intellectual magazines of liberal inclination and prestigious journals for general audiences, resulting in the dismissal of some 10,000 journalists and workers. The daily newspapers not affected by the purge were also directed to weed out "corrupting" - that is liberal - writers, so that by August 10 well over 200 journalists were

(Footnote continued)

information that the Korean government was making a list of businessmen who illicitly accumulated wealth during the Park regime and that the government would enact a retrospective law to punish them strictly (DongA Daily 1979, 12/28; Hanguk Daily 1979, 12/29). The reports by the foreign news agents had an immediate impact on both domestic and foreign capital. The MNCs were considering withdrawal of investments and the domestic capital was shocked (Hanguk Daily 1979,12/29, P.1). Upon this quick negative impact on the economy, the Deputy Prime Minister and the Minister of the EPB, Lee Han Bin, asserted on Dec.27 that the retrospective law would not be enacted. On the following day, the minister of Culture and Information made it clear that the retrospective law would never be enacted, but it was emphasized that current laws could be applied to punish those businessmen who illicitly accumulated wealth (Hanguk Daily 1979,12/29; DongA Daily 1979,12/29).

Upon this apparent attempt of the government to attack the capitalist class, the FKI made immediate responses in both formal and informal ways. Formally, the FKI announced its opinion on the Annual Press Conference on Jan.5,1980 that it is not desirable to raise the issue of illicit wealth accumulation in every political transition, that the preferential credit allocation by the former government is

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<sup>6</sup>(continued)

out of work. The purification campaign was also extended to the bottom of society. About 46,117 persons were arrested on charges of delinquency and some were convicted, others put to correctional training in military institutions. The Kukbwi also banned 567 politicians and intellectuals from political activity. They included virtually every politician of note and most of President Park's former aides (Hyunbok Lee 1985; Chongsik Lee 1981).

not illicit, and that the preferential loan was due to the fact that banks are owned by the government (DongA Daily 1980,1/5). Informally, the FKI employed its secret arms, lobbying activity. Chongrim Choi writes that the justification and negotiation leverage the FKI employed are: 1) The chaebol is the subject of employment, production and export thus serves the function to maintain the state; 2) Without economic stability without regime stability; 3) The chaebol will collaborate with the new regime (Choi 1986).

On June 18, 1980, the Chun junta council officially announced that no private businessmen would be charged with corruption so as not to jeopardize the economy, even if a relation with corrupted government officials were found (DongA Daily 1980,6/18). But the Chun regime did not give up its initial attempt. It just switched from a hard to a soft line later on.

After he inaugurate his presidency, the Chun government took a series of policy measures to control chaebol. The government took six major policy measures to check the expansion and irregularities of chaebol. As many writers agree, however, these measures could not come to fruition. The capitalist class based on its economic power and the chaebol-centered economic structure effectively responded to the challenge and in turn developed its own policy agenda, effectively pushing the government to adopt it. (Chungrim Choi 1986; Namjun Cho 1986; Jongchul Lim 1983). Some measures ended with a complete failure; other measures ended in smoke or only partial effects.

**The September 27 Measure:** This first measure taken by the Chun regime was also called 'A Measure for Realignment of Subsidiary Firms'

or 'A Measure to Strengthen Enterprise Financial Structure'. It was a drastic policy aimed as, the government announced, "groundwork to achieve social justice through the fair distribution of wealth" (Korea Times 1980, Sep.28). Major points of the measure are:

1. To dispose of land unused for business, and to prohibit enterprises from possessing such land unused for business;
2. To regulate the excessive mergers of big business groups and to realign industrial firms in the same line of business among those business groups;
3. To ban relief funds to insolvent enterprises in principle and to regulate enterprises attempting to abuse the Company Liquidation Law for running their firms insolvent;
4. To strengthen control over credit to enterprises in order to enhance efficiency in the operation of bank loans; and
5. To adopt a supervising system with the assignment of loan officers to check how bank loans are used by borrowers (Korea Times 1980, Sep.28).

The subsequent direction of the Measure specifically decreed the 26 leading chaebol 1) to reduce the number of subsidiary firms by selling off 166 out of total 631 firms, and 2) to sell off the 4.129 million pyong (one pyong is 3.3 square meters) of unused land.

It seemed that the chaebol groups complied with the government measure when they dealt with 190 firms through sales or mergers. But the chaebol increased by 120 more firms by newly establishing or purchasing within three years. The chaebol groups did away with ineffective or minor firms and purchased or established larger and more effective firms (Choi 1986). In so doing, the business concentration was never reduced, but became more concentrated. Also, the 26 chaebol sold off 459 items of unused land following the September 27 measure. Within three years, however, they purchased 20 times more land than that sold in terms of land price (Lee 1985:146).

**Monopoly Control and Fair Trade Act:** This act was designed by the

Chun military junta mainly to control the big businesses when it was initially proposed on September 16, 1980. The minister of the EPB said that under this new bill, a strict control would be imposed on any undue manipulation in price, production, sales and shipment by businesses enjoying monopolies or oligopolies of market shares. He also said that the new bill was designed to act against any enterprise cartel or union restricting fair competition by means of merging firms, acquiring large portions of shares, etc (Korea Times 1980, Sept.20).

But during the process of discussion and debate of the proposed bill in the public hearing and the National Assembly, the focus of the bill was switched to the emphasis on a private initiative economy based on market mechanism. According to a EPB document (EPB 1984:58-59) and FKI (1983:315), the FKI posed a strong disagreement on the bill. Other businessmen and business organizations argued that since diversification of firms is essential to the Korean economy to avoid crisis due to changes in the world market, the prohibition of firm mergers should be excluded from the bill (EPB 1984:60). At last, as discussed in detail in the previous section, the Monopoly Control and Fair Trade Act ended up with an act for transition toward private initiative economic system.

**Silmyungje:** The third policy measure is the bill known as "Real Name" reforms or Silmyungje, announced in July 3, 1982. It decreed that beginning July 1983 all deposits and securities transactions must be made in investor's real names. The existing system was based on the Law of Guaranteeing the Secrecy of Deposited Savings which was

enacted in 1961 to promote domestic savings (Monthly FKI 1982, 12:21). This existing law enabled investors to use fictional names for illegal purposes such as tax evasion of the deposited savings, secret accounts, and curb money market. Against this background, the real name reform was designed:

- To prevent illegal wealth accumulation through the hidden financial transaction.
- To prevent the common problem that "the businessmen could thrive even if the enterprises went bankrupt."
- To strengthen financial structure of enterprises by pulling back the hidden properties from the entrepreneurs.
- To achieve equity of taxation by imposing tax on hidden property.
- To curb the curb market (Journal of Finance 1982:16-17).

This bill was proposed by the government with a strong will to establish a socio-economic "justice", which is the alleged task goal of the ruling Democratic Justice Party. The bill, however, was finally abolished while it was being discussed in the National Assembly (DongA Daily 1982, 11/1, 10/27). Even though primary information is not available, there are a couple of indirect pieces of information indicating that the FKI played a major role to curb the bill (Namjun Cho 1986:418; Chunggrim Choi 1986:222). In this way, the strong will of the government to control the chaebol could not be realized.

**Curbing Bank Loan:** This policy was taken in July 1984 to curb credit of the 30 largest chaebol groups to the levels of outstanding loans at the end of 1983. According to government data, the share of the largest 30 chaebol in bank loans amounted to 48% of total bank loans as of March 1984. The government believed that the concentration of bank loans on the leading chaebol is the main cause

of chaebol expansion and announced the credit curbs measure (DongA Daily 1984, 8/22; Monthly FKI 1984, Oct.:6). This policy measure, however, did not last long. Pressed by the FKI and the negative impact on the economy, the government was forced to lift it gradually since April 1985, nine months after its inception (Maeil Economic Daily 1985, 7/22; Hanguk Daily 1985, 8/17; FEER 1985, 5/16:91).

**Curbing Mutual Equity:** The fifth measure to fight chaebol expansion is to curb mutual holding of equity shares. According to a survey report by the EPB, as of the end of 1983, the 30 largest chaebol or their 354 subsidiary firms held 46.5% of total paid-in capital as mutual equity shares (DongA Daily 1986, 5/28). For example, an A firm invests a certain amount of capital in a B firm, and the B firm reinvests it in the A firm. In so doing the two firms are merged as a chaebol group and protect each other under interlocking management. The EPB points out that this practice is one of the major mechanisms through which business concentration is expanded. Against this pattern, the government revised the Commercial Code on March 17, 1984 to outlaw any more takeovers through this method. As of September 1986, however, the measure proved to be not effective. According to a EPB survey, the largest 30 chaebol still hold 40% of total paid in capital as mutual equity shares (DongA Daily 1986,12/16).

The government now resorted to a stricter measure, which was announced in September 1986. The government revised the Monopoly Control and Fair Trade Act by installing new items outlawing the mutual holding of equity shares among subsidiary firms and decreed to

sell off the mutually held equity within 5 years (DongA Daily 1986,12/16; Namjun Cho 1986:417). The result is to be seen. But a journalist report shows that the government does not have any strong will to implement the measure. The EPB refused to release the result of the latest survey on the mutual holdings. The minister of EPB stated that the secret of private individual firms is not supposed to be released (DongA Daily 1987, 6/19). Even though there is information available on the activities of the FKI on this matter, we can safely assume that the FKI effectively influenced the government against this measure.

**Policy Cases Promoting Further Business Concentration of the Big Capitalist class:** While the government took several policy measures to check business concentration as discussed above, the government, on the other hand, in late 1985, took two important policy measures which are exclusively favorable to the capitalist class and facilitated business concentration. The two policy cases are the Revision of Tax Reduction Law, and the Special Loan of the Bank of Korea. These two policy measures were geared to rationalization of inefficient firms.

Due to the overlapping and excessive investment in heavy and chemical industrialization in late 1970s, world wide economic recession since the second oil shock, and the declining types of industries such as shipping and overseas construction service export, many firms, mostly small-medium firms with some larger ones such as Gukje group, became inefficient firms and were about to go bankrupt. In advanced countries, the government usually does not intervene in the matter of bankruptcy and let them go bankrupt. During the world

wide economic recession in the early 1980s, 17 thousand enterprises went bankrupt in the USA, 13.7 thousand in England, and 17.6 thousand in Japan (Heejung Kim 1984). The case is different in Korea. Since the government has long intervened in the economy, the government is not uninterested in the problem of inefficient enterprises. In order for the inefficient firms or failed firms to revive, the management as well as ownership should be turned over to efficient and able enterprises. But no enterprises want to take the risk of managing the dying firms.

Under this background, both sides of enterprises, efficient and inefficient, demanded a special measure in rationalizing those declining industries and dying enterprises.

The two policy measures were taken as a result of negotiation between the government and entrepreneurs. In short, the Revised Law of Tax Reduction decrees that when inefficient firms are taken over by others, tax will be waived for both sides, seller and buyer, in any kind of transaction, and that new owners will not have imposed on them taxes which former owners owe (Jongsil Kim 1986). The Special Loan By the Bank of Korea decrees that the central Bank of Korea shall give special loans with special interest rates to commercial banks so that the commercial banks can give loans for the rationalization of inefficient firms. These two measures were adopted amidst strong opposition in the National Assembly and the press. They opposed the decrees because the two measures entail exclusive favor to the capitalist class and facilitate wealth concentration; also, because the Revised Law of Tax Reduction was passed in an irregular way known

as "snatch" (Hanguk Daily 1985, 8/22).

Based on these two policy guidelines, industrial rationalization was undertaken with 50 inefficient firms. It is important to emphasize that 25 out of the 50 firms were taken over by the leading chaebol ranked within the 30 largest chaebol. Each chaebol involved in the rationalization measure was given special loans with extremely favorable terms from the government and banks. For example, Daewoo group, which took over Kyungnam Construction Corporation, was given a special loan of 200 million won payable over 10 years after a 10 year grace period with a lower interest rate of 10% per year based on the agreement that Daewoo is to pay the existing debt by Kyungnam corporation over 15 years after a 15 year grace period with zero interest rate. In short Daewoo obtained one more subsidiary firm with 200 million won credit even though it has to pay the existing debt (Sangmin Shin 1986; DongA Daily 1986, 9/24; Yangmin Song 1986).

### Summary

This period between 1980-1987 was marked as the step in which the capitalist class rose toward economic hegemony. During this period, the increasing power of the capitalist class was initiated by the policy shift toward a private initiative economic system. This policy shift coincided with the rise of the Chun regime.

The economic hegemony of the capitalist class was demonstrated in the processes of state policy formulations. Several state policies were turned down or constrained by the opposition of the capitalist class. Since the Korean economy was promoted as big business

oriented-structure, the hegemonic power of the capitalist class seems mainly due to the structural imperatives of the capitalist relations of production in Korea.

It should be emphasized that the shift to a private initiative economy was not fully successful. The state interventionism in the 1960s and 1970s was so entrenched and wide-spread that it seems to take more than one regime change for substantial privatization. It was not only the state which constrained the movement to the liberalization of economy, the consumer and the press also demanded continued government intervention because for them the liberalization of the economy means total monopoly by chaebol. Indeed, the whole society is not yet accustomed to the liberal market economy after the long state interventionism.

In spite of the limitations in liberalizing the economy, the privatization of the banks is remarkable. Even though the authority of management and personnel appointment of the banks is still under government control, the ownership is entirely turned over to the private sector. Perhaps, the privatization of the commercial banks is the highlight of the liberalization policies of the Chun regime when it comes to state-capital relations.

#### CONCLUSIONS

In this chapter, we analyzed 16 state policies taken between 1961-1987 in terms of their formulation processes and their impact on the big capitalist class formation. Three major steps of class

formation were identified: emergence, consolidation, and economic hegemony. These three steps of capitalist class formation coincided with changes of political regimes and changes of their development strategies. The emergence step was launched with the rise of the Park regime (1961-1972) and the adoption of export-oriented industrialization strategy. The consolidation step was introduced by the rise of the Yushin regime (1972-1979) and the deepening of the export-oriented industrialization strategy. The hegemony step was ushered in with the rise of the Chun regime (1980-1987) and the private initiative economy strategy.

During the emergence step, the capitalist class emerged as monopoly capital from the beginning because the large sized and monopoly firms were encouraged to gain competitiveness in the world export market. Based on the monopoly profit in the domestic market, each big business group rapidly grew and expanded into larger chaebol.

During the consolidation step, big businesses deepened diversification of industries, upgraded industrial structure toward capital and technology-intensive industries, and concentrated businesses into a few hands of big business enough to control the Korean economy.

During the economic hegemony step, a private initiative economy was declared after a long rule of the state-led economic system since 1961. The capitalist class, based on its firm economic base and the big business-centered economic structure, could wield a determining power in state policy formulation processes. During the Park regime, the state strongly supported big businesses, but now became

increasingly structurally constrained by capitalist relations of production.

As far as the economic sphere is concerned, the capitalist class has obtained hegemony. But it does not mean that the same is true of other dimensions of class activity. In Chapter III, we already argued that the FKI has been active in the economic sphere, but not in other spheres. Following chapters will discuss ideological and social network dimensions.

Table 4-1 Types of Major Export Incentives

Description	Dates Applicable
Export credits	1950-
Bank of Korea discount of export bills	1950-
Registration as importer conditional on export performance	1957-
Tariff exemptions on imports of raw materials & spare parts	1959-
Credit subsidies on production loans	1959-
Domestic indirect direct tax exemption	1961-
Export targets by industry	1962-
Import entitlement linked to exports	1963-
Credit subsidies in import credit	1964-
Credit subsidies in offshore procurement loans	1964-
Credit subsidies in capital loans by medium industry bank	1964-
Korean Trade Promotion Corporation	1964-
Credit subsidies in overseas marketing activities	1964-
Accelerated depreciation	1966-
Tariff & tax exemptions to domestic suppliers of exporters	1965-
Wastage allowance subsidies	1965-
Reduced rates on public utilities	1967-
Monopoly rights granted in new export markets	1967-71
Credit subsidies in foreign exchange loans	1971-

Source: Frank, Kim, and Westphal 1975:40

Table 4-2 Chaebol's Monopoly item, number of Subsidiary Firms, 1972

Chaebol	monopoly items, mid-1960s	# subsidiary firms, 1972	rank 1985
Samsung	sugar, textile, electronic	16	1
Lucky-Gold Star	creme, tooth paste, plastic	18	3
Hanjin	transportation	8	8
Hyundai	construction	6	2
Hanguk Explosive	explosive	5	7
Ssangyong	cement	6	6
Doosan	beer	9	13
Samho	cotton textile	10	-
Sinjin	automobile	8	-
Dongguk Steel	steel	12	20
DongA	construction	5	11
ShindongA	flour	6	19
Dongmyung Timber	-	3	-
Daenong	import of grain	8	45
Daehan Electric	electric wire	5	36
Lotte	-	5	14
Samyangsa	sugar	2	37
Samyang Food	-	3	41
Junbang	cotton textile	6	79
Kolong	nylon	10	18
SunKyung	polyester	4	5
Hanguk silk	-	4	-
Hanil	acril	3	24
Hwasin	-	7	-
Byuksan	slate	6	46
Daelim	construction	-	10
Gia	automobile	-	16
Taegwang	acril	-	22
Gumho	transportation	-	23
Miwon	season	-	28
Kangwon	coal	-	32
Dongyang Cement	cement	-	43
Hanguk Glass	glass	-	54
Youngpung	zinc	-	67
Bangrim Textile	PC clothe	-	81
Daehan Textile	Flour	-	89
Saehan Automobile	automobile	-	-
Gaepung	cement	-	-
Dongyang Nylon	nylon	-	-
Yonhap Steel	steel	-	-
Hanguki	steel pipe	-	-
Ilsin	steel pipe	-	-
Panbon	textile	-	-
Honam	oil refinery	-	-

Source: Adapted from Hapdong yearbook, 1973, and Byungyoon Park 1980.

Table 4-3 Korea's Economic Relations with Major Trade Partners, 1965-80

		1965	1970	1976	1980
Export	USA	35.2	47.3	32.2	26.4
	Japan	25.1	28.1	23.4	17.4
	Other Asia	23.3	8.8	8.6	
	Europe	12.2	9.1	17.5	
	Others	4.2	6.7	18.2	
	Total	100	100	100	
Import	USA	39.3	29.5	22.4	21.9
	Japan	35.9	40.8	35.3	26.3
		1972-1974			
Technology	USA			Item 21%	Payment 37%
	Japan			Item 71%	Payment 49%
	Others			Item 8%	
	Payment			Payment 14%	

Source: Bank of Korea, Economic Statistics Yearbook, various issues.

Table 4-4 Percentages of Exports By Type of Firms, 1975-1982

Year	general trading companies	Large firms	Small-Medium firms
Total			
1975	13.3		
1976	17.2		
1977	21.7		
1978	27.0	36.6	100
1979	33.9	37.4	100
1980	41.0	33.4	100
1981	42.9		
1982	48.2	29.5	100

Source: Korea Traders' Association; Korea Association of Small-Medium Industries, as cited in Sunghwan Jo 1987:22.

Table 4-5 Growth of Export: Amount, Growth Rate and Share in GNP

Year	Amount (Current, \$ Mil)	Growth Rate (Real, %)	Growth Rate of GNP (Real, %)	Export/GNP I (%)
1965	175.1	35.9	5.8	5.7
1966	250.3	42.4	12.7	7.2
1967	320.2	32.7	6.6	9.0
1968	455.4	39.5	11.3	11.2
1969	622.5	36.1	13.8	13.4
1970	835.2	19.6	7.6	14.9
1971	1067.6	20.4	9.4	16.4
1972	1624.1	36.9	5.8	21.3
1973	3225.0	55.4	14.9	28.7
1974	4460.4	-3.1	8.0	25.8
1975	5081.0	16.6	7.1	28.1
1976	7715.3	43.0	15.1	34.9
1977	10,046.5	25.7	10.3	39.8
1978	12,710.6	27.5	11.6	41.8
1979	15,055.5	-3.6	6.4	37.9
1980	17,504.9	9.9	-6.2	44.4
1981	21,253.8	17.0	7.1	48.7
1982	21,853.4			
1983	24,445.1			
1984	29,244.9			

Source: Bank of Korea, Economic Statistics Yearbook.

Note: Actually the ratio of export to GNP is meaningless because export is based on output and GNP is based on added value.

Table 4-6 Number of Subsidiaries and Subcontracting Firms of Ten General Trading Companies, 1972-1985

GTC	Subsidiaries					Subcontracting
	1972	1974	1978	1981	1985	1981
Hyundai	6	9	31	26	32	70
Samsung	16	24	33	21	25	45
LuckyKunsung	18	17	43	24	26	56
Daewoo		10	35	30	25	61
Hyosung		8	24	19	19	104
SunKyung	4	8	23	16	14	21
Gukje		7	22	18	0	61
SSangyong	6	17	20	8	13	24
Gumho		9	17	10	6	39
Koryo						
Total		109	248	172	160	481

Source: Hanguk Daily 1983, 8/5, p.5

Table 4-7 Growth Rates of General Trading Companies Compared to Types of Firms and GNP

Growth rate	1976	1977	1978	1979	1980	1981
GTCs (Amounts of sales)	100.7	69.5	65.7	60.1	86.7	41.6
Manufacturing large firms (Amounts of sales)	38.8	31.5	36.5	31.0	41.3	33.9
GNP	14.1	12.7	9.7	6.5	-5.2	6.2

Source: Dongsung Cho, 1983:298.

Table 4-8 Capital Mobilization of Banking and Non-banking Financial Institutions By Year (%)

	1977	1983	1984
Banking Institutions	56.9	38.4	35.3
Non-Banking Institutions	43.0	61.6	64.7
Investment and Finance Co.	9.1	11.9	12.3
Merchant Banking Co.	0.8	3.0	2.9
Stock company	6.7	8.6	8.5
Investment Trust Co.	1.7	7.1	7.0
Others	24.7	31.0	33.9
Total	100	100	100

Source: Dukhoon Lee, 1985:48

Table 4-9 Chaebol's Construction Service Exports (%), 1966-1980

Rank 1980	Chaebol	Construction firm	%
1	Hyundai	Hyundai Cons., Hanla Cons.	28.2
2	Lucky	Lucky Development	0.9
3	Samsung	Samsung General	1.5
4	SunKyung	Sungkyung General	0.2
5	Daewoo	Daewoo Development	
		Kyungnam Enterprise	5.7
6	Ssangyong	Ssangyong General	0.9
7	Hyosung	-	
8	Gukje	Gukje General	1.5
9	Hanjin	Hanil Enterprise	2.6
10	Daelim	Daelim Industry	10.5
11	Hanguk Explosive	Taepyongyang Cons.	1.0
12	DongA Cons.	DongA Cons.	8.7
13	Lotte	Lotte Pyunghwa	0.5
14	Kolong	Kolong General	0.6
15	Gumho	Gumho Cons.	0.6
16	Daehan Electric	-	
17	Sammi	-	
18	Doosan	Dongsan Civil Engineering	1.0
19	Dongguk Steel	Dongguk Cons.	0.4
20	Hanil Synthetic	-	
21	Gia	-	
22	Hanyang	Hanyang Housing	4.6
23	Miwon	-	
24	Haetae	-	
25	Dongyang Cement	-	
26	Daenong	Daenong Cons.	0.2
28	Samhwan	Samhwan Enterprise	3.7
30	Dongbu	Mirung Cons.	2.6
35	Taehwa	Taehwa General	0.5
38	Byuksan	Hanguk Cons.	0.9
<b>B. Non-chaebol Construction Company</b>			
		Gukdong Cons.	2.2
		Namgwang Civil Engineering	2.2
		Jinhung Enterprise	2.1
		Samho Civil Engineering	1.9
		Gongyong Civil Engineering	1.9
		Yocwon Cons.	1.5
		Sambu Civil Engineering	1.2
		Hansin Gongyoung	1.0
		Koryo Development	0.9
		Samik Cons.	0.9
		Sinsng Enterprise	0.8
		Jungwoo Development	0.8

Source: Adapted from Doh 1984 and Lee 1985:110,143.

Table 4-10 Ratios of Overseas Construction Service Exports to Merchandize Exports, 1974-1984 (Current, \$ million)

Year	Merchandise	Construction 1			Cons/Merch (%)
		Middle East	Other	Total	
1965-73		24	399	423	
1974	4,460.4	89	182	261	5.9
1975	5,081.0	751	64	81	16.0
1976	7,715.3	2,429	73	2,502	32.5
1977	10,046.5	3,387	129	3,516	35.0
1978	12,710.6	7,982	163	8,145	64.1
1979	15,055.5	5,958	393	6,351	42.2
1980	17,504.9	7,831	428	8,259	47.2
1981	21,253.8	12,674	1,007	13,681	64.4
1982	21,853.4	11,392	1,971	13,383	61.2
1983	24,445.1	8,700	1,420	10,120	41.4
1984	29,244.0	5,910	592	6,502	22.2

Source: Adapted from Overseas Construction Association, and Bank of Korea, Economic Statistics Yearbooks

Note 1: in terms of the value of contracts.

Table 4-11 Percentages of Domestic Loans and Discounts of Deposit Money Banks By Industry, 1965-1982

Industry	1965	75	76	77	78	79	80	81	82
Manufacturing	39.9	57.1	57.3	56.6	54.4	54.3	54.1	53.9	47.0
heavy/chemical	37.8	41.0	44.4	46.0	48.9	50.9	52.4	52.8	54.0
Light	62.5	59.0	55.6	54.0	51.1	49.1	47.6	47.2	46.0
Primary 1	27.0	10.4	10.3	10.8	10.0	9.1	8.5	8.4	7.6
Mining/Quarrying	1.5	1.2	1.4	1.1	1.2	1.4	1.1	0.8	0.9
Social overhead	3.5	12.7	12.6	12.5	13.2	15.2	15.5	12.9	13.3
Services	19.1	11.3	11.0	11.2	13.0	11.4	11.3	13.0	16.0
Others	8.7	7.2	7.4	7.8	8.3	8.6	6.2	11.0	14.7
Total	72	2906	3725	4709	6609	8978	12204	15955	20225

Source: Bank of Korea, Economic Statistics Yearbooks.

Note: 1. Primary includes agriculture, forestry, and fisheries.

Table 4-12 Percentages of Foreign Loans By Industry, 1965-1984

Year	Manufacturing			Social overhead capital	Service	Primary industry &	Mining & quarrying	Other
	heavy- chemical	Light	Total					
1965	39.3	60.7	41.5	22.0	2.4			
1975	77.9	22.1	44.9	31.6	18.9			
1976	64.7	35.3	41.5	22.8	27.6	7.7		
1977	80.0	20.0	49.3	28.6	11.8	10.2	0.1	
1978	81.1	18.9	49.0	32.0	12.6	6.2	0.1	
1979	74.8	25.2	39.8	38.8	3.9	5.3	0.1	1.0
1980	89.3	10.7	22.7	60.1	10.8	5.8	0.1	0.4
1981	85.0	15.0	17.3	54.8	12.7	14.2	0.1	0.9
1982	82.8	17.2	13.1	56.3	6.2	4.0	0.4	10.0

Source: Yungchul Park 1984.

Table 4-13 Exemptions and Reductions of Corporation Tax by Manufacturing Sector, 1978, (Million won, %)

Industry	Standard taxable amount	Tax amount collected	Exemption & reduction	Ratio of E & R to taxable amount
HCI	2,254.8(74.4)	1,350.5(65.5)	904.3(93.6)	(40.1)
Light	774.1(25.6)	711.8(34.5)	62.3(6.4)	(8.0)
Total	3,028.9	2,062.5	966.6	31.9

Source: KDI, Research report 82-09, 1982.

Table 4-14 Chaebol's Upgrading of Industrial structure, 1960s-1970s

Chaebol	Previous major industry 1960s	Heavy and chemical industries participated in the 1970s
Samsung	textile, garment, sugar, insurance, electronic	shipbuilding, machinery, petrochemical, electronic aircraft part
Daewoo	garment	automobile, shipbuilding machinery, computer
Hyundai	construction, heavy industry	automobile, machinery shipbuilding, steel, heavy electric machine, oil refinery
Gukje	shoes	steel, machinery
Gumho	transportation	steel, petrochemical
Saangyong	cement	heavy electric machinery
Hyosung		heavy electric machinery, auto part, petro-chemical
SunKyung	garment	chemical, oil refinery, machinery
Lucky-G.S.	heavy and chemical	deepened existing industries
Kolong	nylon	heavy electric machinery, petro-chemical
Miwon	seasons	petro-chemical, machinery
Kangwon	coal	cast-iron ware
Hanguk	Explosive	precision machinery, precision chemical
Daehan	electric wire	electronic, petro-chemical
Taehwa		machinery
Dongmyung	timber	machinery
Hanil	garment	petro-chemical
Taegwang	garment	electronic
Samhwa	raw silk	machinery, electronic
Chungnam	textile	machinery
Samhwan	construction	machinery
Daelim	construction	metal, petro-chemical
Samrip	food	machine tool
Doosan	beer	machinery

Source: Adopted from Byungyoon Park, 1980:266-7

Table 4-15 Percentage distribution of Exports by Industry, 1962-1984

Year	Primary product industrialization product	Light industry	heavy and chemical
1962	79.3	15.2	5.5
1966	38.2	54.4	7.4
1971	13.7	72.1	14.2
1973	12.9	63.4	23.7
1974	13.9	54.1	32.4
1975	17.6	57.4	25.0
1976	11.8	58.8	29.1
1977	14.2	53.6	32.3
1978	10.9	54.5	34.6
1979	11.0	50.3	38.7
1980	10.1	48.4	41.6
1981	9.7	47.6	42.7
1982	8.9	43.4	47.7
1983	9.2	39.5	51.3
1984	8.8	38.0	53.2

Source: Office of Tariff.

Table 4-16 The Six Industrial Estate of Heavy and Chemical Industrialization, 1984

Industrial Estate	Specializing Industry	# Firms	# Employees
Kumi	Electronic	101	51,116
	[Textile	111]	
Changwon	Machinery	130	46,000
Pohang	Iron and steel	64	29,000
Ulsan	Shipbuilding, automobile petrochemical		93,000
Yeochun	Petrochemical	22	
Onsan	Nonferrous	11	

Source: Chung Yi, 1985

Table 4-17 Top 30 Chaebol's Diversification in Manufacturing Output  
By Herfindahl index and Subsidiaries, 1977 and 1982

Chaebol 1	Herfindahl Index 2		Subsidiaries, 1982		
	1977	1982	Manufacturing	Other	Total
LuckyGumsung	0.644	0.688	23	3	26
SunKyung	0.633	0.464	11	5	16
Hyundai	0.545	0.847	19	8	27
Samsung	0.780	0.940	18	7	25
Daewoo	0.771	0.866	16	11	27
SSangyong	0.198	0.667	9	12	21
Hanguk Explosives	0.324	0.771	13	7	20
Hyosung	0.576	0.844	14	14	28
Gukje	0.772	0.777	11	7	18
Lotte	0.504	0.860	13	10	23
Hanil Synthetic Fiber	0.279	0.243	4	3	7
Kia	0.079	0.539	8	3	11
Daehan Electric Wire	0.591	0.757	10		
Kumho	0.695	0.634	7	5	12
DongKuk Steel	0.135	0.313	5	8	13
Doosan	0.665	0.825	13	1	14
Miwon	0.585	0.823	8	6	14
Daerim		0.214	5	6	11
Tae-gwang		0.414	5	2	7
Haitai	0.210	0.836	5	4	9
Sammi	0.500	0.305	4	8	12
Kangwon Industrial		0.801	3	0	3
Dongyang Cement	0.403	0.605	3	1	4
Chosun Shipbuilding		0.137	5		
Samyang-sa	0.528	0.711	2	3	5
Chungnam Textile		0.613	5	5	10
Koryo Synthetic Fiber		0.413	3	2	5
Kolong	0.430	0.465	10	5	15
Taepyungyang	0.292	0.571	9	2	11
Samyang Food		0.490	3	8	11

Source: Kyueok Lee and Sunung Lee, 1985:103,201,223; Sejin Chang 1985; and Maeil Economic Daily 1983.

Note: 1. Top 30 chaebol, in terms of manufacturing production, excluding other sectors' production, are ranked from top to bottom. Other chaebol specializing in non-manufacturing are excluded here even though they are ranked within top 30 in terms of total sales.

2. Herfindahl index is calculated based on following formula,  
 $H = 1 - \sum P_i^2$ , where P is the ratio of the firms output in the i-th industry to the firm's total output in total industries. This index of industry diversification takes the value 0 when a firms is active in a single industry (See Berry 1971:373).

Table 4-18 Percentages of Chaebol's Shipment and Employment in Manufacturing Sector, 1977-1983

Year	Amounts of Shipment				Employees			
	top 5	top 10	top 20	top 30	top 5	top 10	top 20	top 30
1977	15.7	21.2	29.3	34.1	9.1	12.5	17.4	20.5
1978	15.9	22.0	29.4	34.1	9.5	13.9	18.2	22.2
1979	16.3	22.7	30.3	35.2	10.5	13.5	20.0	24.5
1980	16.9	23.8	31.4	36.0	9.1	12.8	17.9	22.4
1981	21.4	28.4	35.3	39.7	8.9	12.8	17.0	20.8
1982	22.6	30.2	36.6	40.7	8.4	12.2	16.0	18.6
1983	22.3	29.3	36.0	39.9	8.5	11.9	15.3	17.9

Source: Kyueok Lee and Sunsgung Lee, 1985:97.

Table 4-19 Ratios of Top 50 Chaebol's Value-added to GNP in Total Sectors, 1980-1985 (billion won)

Year	Value added	GNP	ValueAdded/GNP (%)
1980	59,000	372,053	15.8
1983	116,432	584,294	20.0
1984	136,000	653,797	20.8
1985	163,230	723,170	22.5

Source: Hanguk Daily, Korea's Fifty Major Chaebol, MERI, Seoul, 1986.

Table 4-20 Share of Small-Medium Businesses in Number of Firms, Employees, and Value-added By Country, 1982 (%)

Country	# Firm	# Employees	Value added	Definition of SMB
USA	95.9	43.4	51.4	1-249 employed firms
Japan	99.5	73.4	56.9	1-299
Taiwan	99.0	74.0	56.0	
Korea	97.3	53.8	36.2	5-299

Source: Economic Planning Board, Small-Medium Firms Whitebook, 1982.

Table 4-21 The Percentages of Foreign Invested Firms in the Korea Economy, 1974 and 1978

Weight of foreign firms in	1974	1978
Export Value	23.0	22.8
GNP (Total)	2.9	5.6
(Manufacturing)	9.9	18.9
Gross Domestic Capital Formation	2.9	0.7
Employment (Total)	1.4	2.3
(Manufacturing)	7.6	9.5

Source: B.J.Koo 1981:38-43

Note: The above figures overstate the role of foreign firms in the sense that the definition employed considers all firms with any foreign equity, whereas arguably only those where management control is effectively in foreign hands should be counted (Luedde-Neurath 1984:19).

Table 4-22 Rates of Import Liberalization by Country, 1960-1987 (%)

Year	Japan	Taiwan	Korea
1960	41		
1968	93		
1970		57.1	
1975			48.4
1978		97.6	61.5
1979			67.6
1980			68.6
1981			69.4
1982			76.6
1983			80.4
1984			84.9
1985			91.6
1986			87.7
1987			93.6

Source: Taehee Lee 1987:70  
Youngchul Park 1985

Table 4-23 International Investment Trust Companies

	Date established	Asset (\$ Mil)	Place	Major Owner
Korea Int'l Trust	Nov.1981	40	Korea Int'l Trust	England
Korea Trust	Nov.1981	25	Daehan Int'l Trust	England
Korea Fund	Aug 1984	60	USA	First Boston
Korea Growth Trust	Mar.1985	30	Kukmin Int'l Trust	England
Seoul Trust	Apr.1985	30	Daehan Int'l Trust	England
Seoul Int'l Trust	Apr.1985	30	Hanguk Int'l Trust	England

Source: Mael Economic Daily 1985,4/3.

Table 4 24 Ownership of Financial Institutions By Chaebol, April, 1983

Rank	Chaebol	Commercial bank	Local bank	IFC	MBC	MSFC	STOCK	Insurance
1	Hyundai	Seoul Trust 12 Hanil 11.7 Jeil 10.3 Chchung 2.4 Commerce 16.6 Hami 7.0 Chchung 10.3 Jeil 6.5	Kangwon 32.7	Ulsan 0.9	Korea 8 Korea-Kweit 32.4 Korea-French 6		Gukil 33.9	Gukje 10.5 Dongbang Fire-Sea 10
2	Samsung	Hami 7.0 Chchung 10.3 Jeil 6.5	Taegu 14.7	Hanguk 3.9				Dongbang life 100 Anguk fire 19.2
3	Lucky Rumsung	Jeil 8.5 Hanil 7.4 Chchung 1.7		kumsung 14.8 Pusan 25.2 Dongyang 4.2 Inchon 13	Korea-French 1		Lucky 91	
4	SunKyung		Kyungki 11	Dongyang 17.8				
5	Daewoo	Jeil 14.4 Hami 9.0	Chungbuk 41.5 Kwangjoo 5.8		Korea 8		Daewoo 35.3	Kyobo 24
6	SSangyong	Chchung 6		Korea 2.1 Donghae 4.9				Koryo 20.5
7	Kukje		Kyungnam 13.2 Pusan 3.9			Hanil 53.9	Dongso 12.5	Kukje fire
8	Korea Explosv	Hanil 4.3	Chungchung 27.2	Samhi 50 kyungsoo 5 Chungnam 4.9			Jeil 39.7	Jeil fire 15.3
9	Hanjin	Hanil 9.9	Kyungki 23	JungAng 8.4	Korea-French 32		Hanjin	Dongyang 24.3
10	Hyosung		Kyungnam 21.5	Daejun 4.8 Kyungnam 9.9			Hyosung 99.5	
11	Daerim	Hanil 12.4						
12	Doosan		Taegu 11.8	Haryang 14			Daehan 42.5	Seoul 79.2 Dongnam
13	Lotte		Pusan 31	Jeil 3.2				
14	Kolon		Taegu 7.7	Haryang 11 Taegu 5.8 Seoul 21.5				
15	Haryang			Kwangju 22.9				
16	Runho		Kwangju 24.4	Kyungnam 9 Seoul 12.1				
17	Sarmi			Gukmin 18.5			Dongbu 44.8	Chabo 50 Daehan life 100 Shindong-A 33.8
18	Dongbu			Inchon 4				
20	Shindong-A	Seoul Trust 9.9 Chchung 4.0 Jeil 6	Kyungki 17.6					
21	Dong-A	Seoul Trust 10		Koryo 84.5				
22	Samwhan			Samsam 22.5			Shirmin 56.5 Koryo 57	
23	Taegwang	Chchung 11.4 Seoul Trust 4.6						Hanguk 100
24	Dongkuk Steel	Seoul Trust 3.9	Pusan 17.4	JungAng 18.8				
25	Miwon		Junbuk 8.9	Daehan 19.6			Daeshin	
27	Hanil S.F.	Hanil 4.4						
32	Daehan E.W.	Hami 7						
34	Sanyang-ea		Junbuk 23.5					
31	Daehan Sunju	Seoul Trust 5.7						
75	Sambu Togun			Samsam 27.5				
	Haitai			Daehan 9.3			ShinjungAng	Daesin 8.3
	Dongkuk Trade			JungAng			Koryo	

Source: JungAng Daily 1983, 8/3 and 9/7.

Note: IFC refers to the Investment and Finance Companies; MBC refers to Merchant Banking Companies; and MSFC refers to the Mutual Savings and Finance Companies.

Table 4-25 Percentages of Government Shares in Government-Invested Enterprises

Enterprises	% of Gov't shares
Korea Debevelopment Bank	100
Bank of Medium Industries	99.9
Citizen's National Bank	72.6
Korea Housing Bank	96.4
Korea Stock Exchange	65.2
Korea Security Minting Corporation	100
Korea Electric Power Corp.	100
Daehan Coal Corp.	95
Korea Mining Promotion Corp.	97
Korea Petroleum Development Corp.	100
Korea General Chemical Corp.	14.3
Korea Trade Promotion Corp.	100
Korea Highway Corp.	95.7
Korea National Housing Corp.	95.6
Industrl Sites & Water Resource Development Corp	97.3
Korea Land Development Corp.	92.2
Agriculture and Fishery Development Corp.	100
Agricultural Development Corp.	100
Korea Telecommunication Authority	91.6
Korea National Tourism Corp.	91.6
Korea Broadcasting System Corp.	100
National Textbook LTD.	92.3
Korea Overseas Development	100
Korea Labor Welfare Development Corp.	100
Korea Gas Safety Corp.	63.4
Average	97.7%
<b>Government Invested Enterprises with Minority Holdings</b>	
Korea Foreign Exchange Bank	2.5
Korea Export Import Bank	37.8
Korea Appraisal Board	49.4
Korea Tungsten Mining Co. LTD	7.0
Pohang Iron and Steel LTD	32.7
Korea Engineering Consultants LTD	31.2
Average	24.9%

Source: DongA Daily 1987,5/15; Maeil Economic Daily Co, 1986, Corporation Yearbook, Seoul.

## CHAPTER V

### THE SOCIAL NETWORK CONSOLIDATION OF THE CAPITALIST CLASS

Creating social networks is another important activity of the capitalists to enhance their individual or class interests. Resource mobilization theory and social network theory, if combined, may suggest that social network is a type of social resources to be mobilized for goal-oriented actions. The concept of social resources encompasses two components: social relations and the resources embedded in positions reached through relations (Lin, Ensel and Vaughn 1981:395). Social resources are not goods possessed by the individual. Rather, they are resources accessible through one's direct and indirect ties. The success of individual or group action is associated positively with the social resources provided by the contact. As one reaches up to a contact with better resources, the chances increase that the contact's resources and command of social resources will help in achieving the goal of the group or individual action (Lin 1982:132-33).

The blossoming of current literature on the capitalist class networks, mostly in the United States, is centered on two focal points: 1) interlocking directorates within the corporate sector, and 2) outreach of the corporate elites into the non-profit organizations and the government sector (Useem 1984, 1983, 1980, 1979, 1978; Useem and McCormack 1981; Salzman and Domhoff 1980; Freitag 1975; Mintz 1975). The purpose of this chapter is to point out the underlying patterns found in those two directions of research on American

corporate networks, and then to juxtapose the patterns with the Korean case.

### **Interlocking Directorate Research**

Interlocking directorates have long been used in many contexts as useful diagnostic tools to evaluate corporate interaction patterns since the research by the Pujo Committee in 1913 (Mintz and Schwartz 1981). Most of the studies agree that there exists a high degree of interlocking directorates in the American corporate community. For example, Allen(1974) studied 250 top corporations in 1970 and found that these corporations have an average of 10.41 interlocking directorates each. And among these corporations, financial corporations (primarily banks) had the highest number, with an average of 16.92 interlocking directorates. In a similar study of 250 top corporations in 1965, Dooley(1969) found a similar pattern, but with a further interesting dimension. Dooley found that the number of interlocking directorates increases with the size of the corporation. Thus, the bigger the corporation, the more ties to or interlocking directorates with other corporations it has. Mizruchi's(1982) longitudinal study on 167 large American corporations between 1904 and 1974 confirms this pattern as generally stable over time since 1935.

As to the nature of the interlocking directorates, new findings were developed recently. As Mintz and Schwartz (1981) point out, many previous researchers of interlocking directorates have assumed that the large American corporation is an autonomous unit, and that most interlocks represent dyadic relations being aware of their

interdependency relationship and of the collective advantage of pursuing a qualified joint profit maximizing strategy (Williamson 1965; Aldrich 1979; Aldrich and Pfeffer 1976; Pfeffer and Salancik 1978; Kerbo 1983).

This assumption, however, has been challenged by recent research at the aggregate level (Mintz and Schwartz 1981; Mizruchi 1982). Mintz and Schwartz found that the large American corporation is not an autonomous unit. The interlocking network is dominated by a handful of major New York banks and insurance companies. The shape of the network suggests a corporate structure loosely organized around the needs of financial institutions - major New York money market firms, in particular - which are themselves intertied and increasingly interrelated. Mizruchi's (1982) longitudinal study found between 1904 and 1974 a similar pattern. It found that commercial bank centrality declined from 1912 to 1919, but increased in 1935 and remained high through 1974. Furthermore, relative to other sectors, there was a remarkable continuity of the most central commercial banks over time. Other studies also confirm that financial organizations constitute the center of an integrated national network of directorates in the United States (Domhoff 1970, 1978; Useem 1978, 1979; Whitt 1982).

The structure of intercorporate interaction in Korea is necessarily different because commercial banks were nationalized and personnel was appointed by the government until recently. The nature of corporate interlocks in Korea is therefore an important research issue.

### Corporate Outreach Network Research

Another major literature on corporate networks is focused on translation of economic hegemony into political domination. The research concerned with this issue is based on the assumption that the capitalist class is a ruling group. Michael Useem coined the term, inner circle, to represent the higher circles of business elites who are composed chiefly of primary owners or corporate executives of large firms (Useem 1978, 1984). Though defined by their corporate positions, the members of the inner circles constitute distinct, semi-autonomous networks, that transcend company, regional, sectoral, and other politically divisive fault lines within the corporate community. According to Useem (1983: 3-4), with a power supported by so many reinforcing strands of corporate, social, associational, and class connections, the inner circles are at the forefront of business political outreach to government, non-profit organizations, and the public.

Salzman and Domhoff's work (1980) shows a further evidence for business outreach networks in America. Samples include 201 giant corporations, 12 prestigious private universities, 12 largest foundations, 20 largest New York city law firms, the governing bodies of 6 recognized policy organizations and 6 civic groups (p.123).

The study shows that 150 of the 201 corporations studied have at least one interlock with one or more institutions in the civic sector, and many are linked with several civic organizations. All of the 12 universities have at least one trustee who is a corporate director from one of these 150 corporations, as do 13 policy and cultural

organizations. Ten of the 12 foundations have interlocks with at least one corporation, and 12 of the 20 New York city law firms have at least one senior partner who sits on a board of directors in the sample. Moreover, 57% of the organizations in the civic sector have interlocks with 4 or more corporations.

Salzman and Domhoff (1980) also studied the involvement of the corporate community in the executive branch of the federal government. Their subjects include the occupational careers of 121 secretaries, under-secretaries, and assistant secretaries for 1970 from 12 cabinet-level departments and the departments of Army, Navy, and Air force. The result shows that 35% of appointees to the 15 departments came from large organizations of the corporate community. These findings suggest the extensive involvement of the corporate community in the executive branch of the federal government of the United States in 1970.

Other studies show a similar pattern, though numerically different because of different methods employed. Mintz (1975)'s work shows that over two thirds of the cabinet members in America between 1897 and 1973 could be classified as members of the [upper class] before obtaining their cabinet position. She also reports that 76% of the cabinet members were associated with big corporations before or after their cabinet positions, and 90% either came from the [upper class] or were associated with big corporations. Freitag (1975) shows that these patterns have not changed much over the years, and vary only slightly by particular cabinet positions. In sum, these findings reveal that American society is ruled by the 'dominant' capitalist

class.

As Salzman and Domhoff (1980:134) point out, the degree of business political outreach should be seen as a dependent variable which may vary from epoch to epoch, and society to society in relationship to a variety of possible factors. In this regard, a study of the Korean case would be significant for a comparative understanding of the capitalist class. The nature and degree of business political outreach is another major issue to be explored in this chapter.

#### **Determinants of Corporate Networks in Korea**

The preceding sections found two main characteristics of American capitalists. First, the corporate interlock network is dominated by a handful of major New York banks and insurance companies. And secondly, the capitalist class constitutes the dominant segment of the ruling class of the society.

In Korean society, however, there are at least five major factors which deviate from the pattern of American corporate networks. First, the commercial banks were nationalized and under tight government control until the early 1980s. Thus in the Korean corporate community there is no viable entity of the financial sector similar to that which is a central sector in the American corporate community. Secondly, the Korean government is far more authoritarian than that of the USA. There are two overly developed power groups other than the capitalist class: the military group which came to power in a coercive way through military coups (both the Park regime and the Chun regime);

and the government bureaucrats in the overly developed state sector since Japanese colonial rule. Also, Korean society is characterized by strong state intervention in the economy. Thus Korean state officials are expected to play a different role from that of their American counterparts in government-business relations. Thirdly, at the same time, the authoritarian political regimes developed strong opposition groups in Korea. The political regimes, which came to power through military coups and sustain power based on coercive military power, are generally weak in their political legitimacy and thus are subject to political resistance from below. The opposition groups characterized by critical historical consciousness attack not only the political regimes, but they also attack other anti-social groups including unethical businessmen. Fourthly, Korean industrialization is a historically recent phenomena developed since the early 1960s. That is, Korean big businessmen have a short history to build themselves into a closed social group.

And finally, traditional patterns, mostly embedded in Confucianism, should be considered. Perhaps the most important traditional pattern is familism. Familism usually means loyalty to one's family and other close relatives. Familism, however, is not confined to loyalty to the immediate family or kinsmen, but is extended to loyalty to the geographical origin of his or her birth and rearing, and school ties. In a broad sense, regionalism or school ties are not different from familism in the sense that both emphasize the particularistic, ascriptive and other primary organizational factors rather than those factors based on merit and professional

association (Paik 1982:68-69; Rhee 1985). We are interested in how these factors shape the pattern of social networks of the Korean corporate community.

#### **Social Networks Within the Corporate Community in Korea: Chaebol System and Prominant Family Ties**

As Table 5-1 shows, the Korean corporate community is best characterized by the chaebol system, where 579 larger firms are grouped into 50 family-based conglomerates, or if enlarging the scope, 823 larger firms are grouped into 100 chaebol. As discussed in Chapter IV, the system of chaebol was developed partly by encouragement of state policies in an effort to create large corporations which have the advantage of economy of size in the world competition. Secondly, the chaebol system is also a product of the diversification strategy of each entrepreneur to overcome the conditions of narrow markets in the developing countries and to effectively adjust in the rapid structural change in the domestic and world markets (Leff 1978). Finally, patrimonial tradition is another explanation. The strong family tie constitutes a central unit of social organization and social order in Korea. In this regard, a family based-chaebol system is in a sense an enlarged form of a household (Kim 1985).

Each chaebol is fundamentally controlled by a single founder and his family. Korean firms are not controlled through a network of commercial banks unlike the research findings for America. Commercial banks in Korea were privatized only recently in the early 1980s and are now owned by several businessmen (see Chapter IV). Each chaebol

is totally autonomous from other chaebols and thus atomized into a self-sufficient system unlike in America where the corporate community is dominated by a handful of financial groups. The owner of the chaebol, who is also usually the founder, is central in the chaebol system. Even though there are family ties between chaebols as will be documented in a later section, there are no 'interlocking' directorates between chaebols unlike in American corporate communities. But there is a close relationship between firms within chaebol, just like brothers and sisters under the same parents. An ideal example would be a chaebol in which a father is the founder of the chaebol, the first son is the president of firm A, the second son is the president of firm B, and a son-in-law is the president of firm C within the same chaebol. Thus a blood tie is a central source of the corporate network structure in Korea.

Our data are adopted from Kwang Chung Kim's study (1985). His data come from a economic newspaper, The Seoul Economic Daily News (Seoul Kyung Je Sirmoon). The newspaper serialized a list of the executives of the 100 major Korean chaebol from January 15 to May 8, 1978. Data for three of the chaebol are missing, and 97 chaebol are under study. All the executives from the 97 chaebol are reported, the total number being 2,683. In the data, the executives are identified as those who currently hold at least one of the following eight top managerial positions: chairman (Hoe jang or head of chaebol), vice chairman (Bu hoe jang), president (Sa jang or head of firm), vice president (Bu sajang), executive managing director (Jeon mu), managing director (Sang mu), director (Yi sa), and auditor (Kam sa). For each

of these executives, the newspaper reports the following six items of information: name, age, current position, final education, birth place, and types of entry into the chaebol or kinship tie.

Table 5-2 shows the distribution of family and non-family executive positions within chaebol. Seventy seven percent of the top officer positions (chairman and vice chairman) are occupied by family members. In some chaebol there are several honorary chairmen who are mostly former top government officials and are given the highest, but in fact nominal, positions as incentives for employment. Even though their titles are chairmen, their authority is confined to a subsidiary firm. The real chairman is the head and owner of the chaebol, who has total power. The real chairmen are almost totally occupied by family members. About 40% of the presidents and vice presidents are family members. But only 13% of directors are family members. This finding reveals two facts: the first is a high proportion of family members in executive positions; the second is that higher executive positions are more likely to be occupied by family members.

Although family participation is high, there are also many non-family executives. This is probably due to the limited number of family members available to fill such positions, since the average number of executive positions per chaebol is 33. There are two pieces of evidence for this. Looking at the degree of interlock, the leading role of family members is more prominent. A founder has on the average 2.5 executive positions within the chaebol, a son has 1.9, a founder's brother has 1.7 positions, but, a non-family executive has 1.1 positions.

A second kind of evidence comes from a study of occupational careers of all 105 sons of 35 large chaebol families. These all 35 chaebol under study are ranked within the top 50 chaebol by amount of 1985 sales. Data on other chaebol are not available. The information is obtained from the Monthly Chosun (1980, September). Table 5-3 shows the result. About 78% of sons are engaged in their father's chaebol, and 12% are still students, who probably will be employed there later on after they graduate. Only 6% are engaged in other sectors or independent businesses. In short, as many sons as possible are employed as executive members of the family business. As far as sons are concerned, Table 5-2 and Table 5-3 show that non-family executives or professional managers do not replace family members. They are filling the positions where there is no family member.

The non-family executives, however, are not randomly recruited. Other ascriptive social ties which can complement the family tie are identified in our study. Table 5-4 shows the grouping pattern in terms of regional ties of non-family executives. South Korea is divided into six regional areas: Honam (Southern West), Youngnam (Southern East), Choong-chung (Middle West), Kang-won (Middle East), Kyung-gi (North Middle), and Seoul (Capital city). Each region is distinguished by a geographical boundary (mostly mountains), and thus by subcultural and dialect distinctions. Besides the subculture and dialect, because of this geographical separation regional prejudices and stereotypes of the people from various regions have developed, and even promote social conflict. The conflict between Youngnam and Honam regions is more apparent than between other regions. These regional

differences were utilized by the Park and Chun regimes to obtain political support from particular regions. These regional differences became a leading political issue in the 1987 presidential election campaign. The Youngnam region has benefited more than the Honam region in terms of the degree of industrialization, the number of power elites in the government sector, and number of generals in the military. This is allegedly due to the fact that both President Park and President Chun are from the Youngnam region. The Honam region allegedly has been discriminated against since the 1971 presidential election, because it is the hometown of the opposition leader, Kim Dae Jung.

As Column B of Table 5-4 shows, the Honam region is highly under-represented in the total number of executives, while other regions are not. Seoul is over represented in comparison with the total Korean population (see Column C). It is interesting that executives from Honam region are more highly concentrated in chaebol with founders from Honam region (see Column F and G). To a less degree, executives from other regions, except for Seoul, also tend to be grouped around founders with the same regional origins. These patterns indicate that Korean chaebol tend to develop a regional tie among executive members complementary to family ties.

Why do Korean corporate groups tend to develop ascriptive social ties such as family and regional ties? If the goal of the corporation is to maximize profit by rational management, why are family and other ascriptive ties more important than managerial competence? This is an important question to be addressed to understand the underlying

pattern of Korean corporate networks.

Among the structural determinants discussed in the early part of this chapter, two factors suggest the answer. They are the traditional pattern remaining in Korean society and the nature of state policy in the industrialization process. Perhaps, they are intermingled each other to shape the pattern found above. The banks were nationalized and put under tight state control in management and personnel. The state also played a major role in allocating foreign loans which were a major source of capital formation of private corporations for the last two or three decades. Also, the state intervened greatly in the economic administration through taxation and macro economic plans. Under these circumstances, "it is small wonder that the entrepreneurial group turned toward the government in search of the right connections and special favors" (Kim 1976:474). However, such political connections between business and power elites often means that

Korean entrepreneurs are engaged in some illegal or immoral activities. Such business practices in turn have a persuasive impact on the various internal activities of the major enterprises such as the pattern of expenditures, bookkeeping or other record keeping practices, tax reports, etc. For effective and safe handling of these types of activities, Korean enterprises need those business confidants who are personally reliable. Thus, loyalty and personal trust of the top managers become crucial assets which are no less important than managerial competence (Kim 1985: 29).

In this regard, family members are the best choice for the positions of top executives who are supposed to share the top secrets of corporation management. A recent episode involving the Bumyang Commercial Shipping Group well illustrates this point. The Bumyang

Group is the 27th largest chaebol in terms of 1985 sales, with 7 subsidiary firms and 2 million 6 thousand ship tonnage. Chairman Park Kunsuk has a young son who is still a student. Thus professional managers were employed for the top positions from the earlier period of the corporation. Chairman Park, however, committed suicide recently. It happened on the day when chairman Park was supposed to appear at the Taxation Office for an investigation of charges of tax avoidance and other illegal business activities. The government investigation was scheduled because Han Sang-yon, a non-family president under him in one of the firms in the Bumyang group reported the irregularities of the corporation to the Taxation Office for the purpose of ousting chairman Park from the corporation (DongA Daily 1987, 4/21). Although the increasing management difficulty due to world economic decline in the shipping industry is a structural cause of the company's problems, the suicide letter revealed a direct cause of his suicide.

I am caught in the trap which Han Sang-yon set for me. For the last 2-3 years I have known that Han is a cunning and cruel man.— Finally, he drove me into this situation with the [Taxation Office] investigation. He appropriated big wealth from the company for himself and keeps it by a subtle trick. (DongA Daily 1987, 4/20).

The Government investigation after Park's suicide revealed that both chairman Park and president Han were engaged in many types of irregularities together. The Bumyang Group may be an extreme example, but, generally, "entrepreneurial security" (Easterbrook 1949) and personal loyalty are no less important than managerial competence in Korean society.

### **Outreach Network of the Capitalists in Korea**

The preceding section discussed a structure of corporate networks within chaebols and within the capitalist class. The present section is concerned with how the capitalist class extends its network to other sectors of the society, including the government. The ultimate goal of this section is to estimate to what extent the Korean capitalist class has translated its economic power into political power. This section analyzes three data sets: 1) interlocking positions of top 100 chaebol owners, 2) occupational career of 290 government officials in the 1980s, and 275 current national assemblymen to see the degree of contribution from the business community, and 3) kinship and marriage ties to the government sector of 15 large chaebol.

**Interlocking Positions in the Non-profit Organizations and Government Sector:** If the Korean capitalist class is a ruling class as in the case of the United States and other advanced capitalist countries, capitalist class members should hold executive positions outside the corporate sector and exert influence on the society. The disproportionate influence should be manifest in terms of more frequent membership on public and private decision-making bodies aside from their own corporations (Useem 1978:235).

In order to analyze the degree to which the economic hegemony of the capitalist class is translated into social domination, we analyze the interlocking positions of 100 largest capitalists (or chaebol owners). The largest 100 capitalists in terms of 1985 sales were

identified from the annual report by the Korea Productivity Center. The annual Korean Business Directory and Korean Biographical Directories provided the necessary information on all the current positions held by the top 100 capitalists. Their positions other than in their businesses were categorized into governmental and civic sector, and the two sectors are again divided into more detailed categories as presented in Table 5-5.

As expected, larger capitalists frequently hold more positions both in the government and civic sectors. But capitalists are more highly active in the civic sector than in the government sector. The governmental sector includes only two positions, the Peace Unification Advisory Committee and the Korean Olympic Committee. The position as member of the Korean Olympic Committee was given to those who made contributions to funding for the Seoul Olympics. The Peace Unification Advisory Committee has only a limited function in the government bureaucracy. There are 17% of the 100 capitalists appointed as members of Peace Unification Advisory Committee, and 21% as members of the Korean Olympic Committee. Even though we did not estimate the weight of these numbers out of the total positions in the government sector including other government advisory groups and public boards, we can not claim it as large contribution.

Capitalists are most actively involved in the executive positions of social organizations, and more than half of the organizations are sports-related social organizations, including Korea Sports Association, and nation-wide associations of individual kinds of sports. Korean capitalists are also associated with 14 socio-cultural

foundations, and 32 higher education foundations. Although the Table shows that Korean capitalists are highly active in the business associations and policy groups within businessmen organizations (mostly the FKI), and business foreign relation organizations, they in fact belong to the business community rather than reaching out to other sectors of the society.

In sum, the Korean capitalist class developed a considerable degree of social and political domination in the civic sector, although not comparable to the counterpart in America. But we should reserve the argument that the capitalist class is a ruling class in Korea because the degree of contribution to the government sector is negligible as the following section will show in more detail.

**Career Mobility Between Business Community and the Government:** A considerable amount of empirical evidence has been developed by American sociologists on the large number of corporate leaders who go into major positions in the United States federal government as was discussed in the earlier part of this chapter.

In order to determine the involvement of the Korean corporate community in the executive and legislative branch of the government in a systematic way, the occupational careers of all of the 139 cabinet ministers, 151 vice ministers and vice minister level of government officials who were appointed between 1960 and 1986 under the Chun government, and 275 current national assemblymen who were elected in the February 1985 election are examined. Biographical information on all of these people is found in the annual Korean Biographical Directories for 1982-1987 (Yonhap News Agency 1982-1987). This data

source provides detailed information on the subjects' biographical data. Each person in the government and legislative samples was classified on the basis of his or her predominant occupational involvement prior to incorporation into the top government officialdom and the national assembly.

Categorization of these people was relatively unambiguous because these power elites had usually clear cut occupational backgrounds in the sense that only those who successfully survived in their occupations tended to be incorporated into the power elites. Several of the categories used in this study were derived from our interest in whether or not the person had been involved with the major institutions of the business sector prior to government service, following Salzman and Domhoff (1980). The "big businessmen" category is defined as chairman or president of a corporation listed as among the largest 100 chaebol in terms of 1980-1985 sales. The "corporate elites" category is defined as executive members of these "big business". The remaining categories are derived from a careful reading of the career information on each person. Those categories which need definitions are as follows. Bureaucrats includes people who started their occupational careers in a government position at any level of the government bureaucracy. Most people in this category start their careers by passing the High Examination for Government Official Recruitment. The Military category includes people who started their occupational careers in the military as military officers. Politicians are defined as people who started their occupational careers in a political party bureaucracy, and applies

mostly to elected officials. Since the objective is to search for any linkage between businessmen and other sectors, any short period of experience in the corporate community was coded as "short term corporate elites" in addition to the major career background in the bureaucracy, the military, or politics.

Table 5-6 shows the result of analysis. No big businessman was appointed as a minister or a vice minister, and only one was elected as national assemblyman. Only one member of the corporate elite was appointed as a minister, and 6 were elected as national assemblymen (2%), while 21 government officials (7%) had a short term career as corporate elites. It is interesting that 36 small businessmen (13%) were elected as national assemblymen, compared to only one big businessmen elected. These small businessmen were, to be sure, elected as national assemblymen based on their financial capacity considering that, once elected, they were appointed as members or chairmen of the Financial Committee in the political party in which they are involved. It should be noted that some of those small businessmen elected as national assemblymen had high interest in a political career while they accumulated wealth, as small businessmen.

In terms of personnel composition, the capitalist class in Korea is not a dominant segment of the ruling group unlike in the United States. Instead, the bureaucrats and the military constitute an absolute proportion, 81%, of the top government officials. Unlike in the United States, the business community in Korea is not a channel to power elites. Rather, government bureaucracy and the military are the major channel leading to top power elites. This pattern reflects the

power of the overly developed state sector and the military. Even though the military constitutes a smaller proportion than the bureaucrats in the number of power elites, military men occupy more powerful positions such as president, head of the intelligence agency, and head of the Taxation Office. In short, Korean power elites consist of military and state bureaucrats, but the capitalist class is excluded from it.

We still need to explain why there are more small businessmen elected as national assemblymen while there is only one big businessman. Two pieces of evidence address the question. First, the FKI made a policy decision in 1963, before the general election was to be held under the new constitution of the Park military regime, not to send its formal representatives to the National Assembly (FKIBH #39-40). The issue arose and precipitated two days of debate among members of the FKI. In the process of debate, the "illicit wealth accumulation" episode following the 1960 Student Revolution, which concerned the illegal conspiracy between the Rhee regime and businessmen, was a determining factor leading to the decision. Also, the policy of Keidanren (Japanese Big Business Association) was considered as a model in which business representatives are not sent to the National Assembly in Japan. Secondly, Goo Jakyung, current chairman of the FKI, remarked in his interview with *Monthly Shindonga* that the big businessmen will not be directly involved in politics because of social criticism in terms of politics-economy coalition (see Chapter VI) (Kim 1987:326).

While the mobility from big business to the government is

negligible, the reverse is not true. Table 5-7 shows the subsequent careers of 290 ministers and vice minister level government officials. Eleven percent of the 139 ministers and 8 % of the 151 vice ministers took jobs as executives, advisors, lobbyists in private corporations after they finished their service in the government. Two thirds were re-appointed or elected in various types of top power elites such as government officials (31%), government advisory positions (7%), government public board (13%), and national assemblymen (13%). There is some mobility trend from top government officials to the private business community, but the proportion is not so large. This pattern is quite similar to the case of Japan (see Vogel 1975:44-5); but quite different from the close relationship in terms of career mobility between big business and top government officials in the United States, as was reviewed earlier (see also Salzman and Domhoff 1980:133).

Other information sources, however, show that the business community has a closer relationship with 'middle level' government officials from economy-related ministries. While only 27 top government officials moved to the business community (see Table 5-7), a much large number of lower government officials moved to the private business community, as shown in Table 5-8.

The patterns found in Table 5-7 and Table 5-8 can be interpreted in two different ways. The first interpretation is that the top government officials tend to develop a social closure among themselves by exchanging positions, but excluding new entry from other groups. In this interpretation, the top government officials do not prefer

corporate executive positions as their subsequent jobs because of the lower prestige and power of corporate executives than government positions.

The second interpretation is that the business community prefers the middle level government officials because they are practical experts with professional skills and knowledge in economic administration, and with a wide network in the government bureaucracy. There is no concrete evidence to decide which interpretation is more relevant. But it seems that in the view of top government officials, the first interpretation is more relevant; in view of the business community, the second is more relevant.

#### **Indirect and Informal Network**

In the preceding sections, we were concerned with the direct and formal networks in the sense that we focused on the positions that capitalists themselves hold. But when it comes to the relationship between the government sector and business community, it was found that the 100 capitalists hold only 38 memberships in the only two organizations, the Peace Unification Advisory Committee and the Korean Olympic Committee. Given the fact that a close relationship is needed in the pattern of business-government relations in Korea as discussed above, there should develop a closer tie with government officials. But as FKI documents and the chairman of the FKI remarked, the social criticism against a politics-economy coalition makes it difficult.

The alternative is the formation of an indirect and informal network. By indirect ties we mean social ties through family members.

The indirect ties include those made through marriages of sons, daughters or other close relatives such as siblings, nephews and nieces. These ties are indirect because they are made through a third person other than through the businessmen's official positions. By informal ties we mean personal relations such as friendships and social clubs. They are informal because the relationships are personal and hidden from the public.

Unfortunately, it is difficult to collect data on informal and indirect relations. We do not have data on informal ties, but we have pretty good information on marriage and relatives for a small sample of chaebol families. Two articles (Seo 1986, Sept. and Oct.) from The Monthly Jungkyung Munwha (Political Economy and Culture) report detailed information of all marriage couples in the families which own 15 relatively large chaebol. The 15 chaebol were not selected very systematically. They seem to have been selected because they have higher frequencies of indirect ties than other chaebol. Eight of the top ten chaebol are included, and five more fell into the top 25.<sup>1</sup> The primary data taken from the journalistic reports were coded by type of network and type of occupation. The "type of network" category includes relatives of founders, direct marriage ties, and indirect marriage ties. A direct marriage tie exists between A and B when chaebol owner A and person B have marriage ties. By indirect marriage

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<sup>1</sup>The chaebol's name and rank in terms of amount of sale as of 1985 are as follows: Samsung(1), Hyundai(2), Lucky Gumsung(3), Kukje(4), SSangyong(6), Hanguk Explosive(7), Hanjin(8), Hyosung(9), Doosan(13), Joyang Commercial Shipping(17), Kolong(18), Gumho(23), Hanil(24), Byuksan(46), Jumbang(79).

ties, we mean the ties between chaebol A and person C when chaebol A has a marriage tie with person B, and person B has a marriage tie with person C. Most of the marriage ties are made through marriages of children or siblings of A, B, and C. In Korean society, a marriage means making a close social relationship between two families. Hence, the indirect marriage tie is also an important social resource even though it may be a weak tie (Granovetter 1973).

"Type of occupation" category includes two subcategories: chaebol or corporation owners, and power elites. The power elites are again divided into 5 subcategories as used in Table 5-9. The occupational positions refer both to former and current ones. When there is more than one power elite among families of marriage partners, for example, father-in-law is a minister and brother-in-law is a national assemblyman, both were counted.

Table 5-9 shows the result of the analysis. Each chaebol under study has, on the average, marriage connections with 2.7 chaebols (1.9 direct marriage and 0.7 indirect marriage ties). Each chaebol has marriage ties with 2.3 ministers or vice minister level power elites and 4.0 total power elites. It is expected that those chaebol tied through marriage with each other are coopted in their business management. Eight of the government officials linked with chaebol through their children's marriages became involved in the chaebol as top executives after their retirement from government positions.

In sum, these larger chaebol have developed a high degree of marriage ties both with other chaebols and with top government officials. If we include weaker ties through other indirect marriage

ties and other relatives, the degree of social ties with other chaebols and power elites in the government sector will be considerably.

Byungyoon Park suggests that those chaebol who have no marriage or relative connections with government officials have developed strong personal ties such as regional and school ties with magnates of the government (1975:96). Unfortunately, we do not have any data source for a systematic analysis even though such connections surely exist.

### **Conclusions**

In this chapter, we explored various social ties the capitalists developed. Within the corporate community, there are no interlocking directorates between corporations unlike in the United States. Instead, there are blood and marriage ties between chaebol. Within chaebol, family ties and local tie constitute a core of corporate executive networks. These two patterns are the basic nature of the chaebol system in its corporate interaction pattern in Korea.

Secondly, in terms of outreach positions in non-profit organizations, Korean capitalists developed a considerable degree of networks in social organizations such as sports-related organizations and in social, cultural and educational foundations. But in the government sector, except in the two positions of the Peace Unification Advisory Committee and the Korean Olympic Committee, the big businessmen are totally excluded. There are absolutely no positions at the minister and vice minister level of government officials. Only one big businessman has been elected as a national

assemblymen during the Chun regime. There is no career mobility from the business to the government sector while there is some mobility from top government officials and many middle level government officials into chaebol. In general, Korean big businessmen did not develop many social networks through positions in the government sector.

But, indirect and informal relationships are highly developed, at least with the 15 larger chaebol for which data are available. Each chaebol has, on the average, 4 social ties with top and middle government officials or national assemblymen. Marriage is the main mechanism for creating social ties between business and the government. Personal ties such as regional and school ties are also important channels through which businessmen and government officials are connected to each other.

Why is this kind of social network (more indirect and informal ties than direct and formal ties with the government sector) developed in Korea? This chapter is not designed to provide explanations of this question. But we can suggest possible interpretations based on factors identified in our study. Several factors hinder 'visible ties' between businessmen and government officials. They may be classified as factors from below, above, and inside of businesses, plus the general political conditions. In the first place, there is strong social resistance from below against politics-economy coalition. Mistrust against the big businessmen is prevalent in Korean society since the "illicit wealth accumulation" episode in the April Student Revolution in 1960. The industrialization policy itself

is already subject to criticism as a product of conspiracy between politicians and the businessmen because the export-oriented, rapid growth policy led to a close coalition between the state and the capitalist class. For these reasons, businessmen have avoided developing visible ties with government officials. As the chairman of the FKI remarked, the business community avoids even sending their formal representatives to the National Assembly, just to avoid the criticism of a politics-economy coalition. Instead, indirect and informal ties have become the preferred alternative.

In the second place, there is a constraining factor from above. The military group which came to power in a coercive way through military coups monopolizes the state power, in collaboration with state bureaucrats. The military, to be sure, is the senior partner. The capitalist class is not allowed to share official positions in the state bureaucracy. This factor, however, does not exclude indirect and informal ties through marriage or personal relationships.

Internally, the patrimonial system of the chaebol constitutes a factor hindering big businessmen from taking government positions. Since a chaebol is substantially owned and managed by its founder, the absence of the founder is detrimental to the development of the chaebol. Also, because of the absolute authority of the owner manager, there is not much room for professional managers to develop their authority and social prestige. Thus both owner capitalists and professional managers make negligible contributions to government positions. This pattern is strongly contrasted with the case of the United States in which professional managers are much more autonomous

in business management and also make greater contributions to power positions.

Finally, the frequent political upheavals in Korea constitute another important factor which prevents businessmen from participating in politics. Since liberation in 1945, Korea experienced several revolutions and military coups. Since participation in the government and politics means joining a certain political faction, it can be hazardous to the fate of enterprises when that faction faces political failure due to a political upheaval.

In sum, the predominance of political regimes over the capitalist class seems to be an underlying force of the particular pattern of capitalist class networks.

Table 5-1 Largest 100 Chaebol and Number of their Subsidiary Firms

Rank	Name	# of Firms	Rank	Name	# of Firms
1	Samsung	37	51	Bongmyung	10
2	Hyundai	33	52	Hansin	3
3	Lucky Gumsung	26	53	Yuwon Construction	3
4	Daewoo	25	54	Hanguk Glass	4
5	Sunkyung	14	55	Gabul	12
6	SSangyong	13	56	Pusan Pipe	7
7	Hanguk Explosives	20	57	Samchunli	8
8	Hanjin	12	58	Tong-il	10
9	Hyosung	19	59	Samik	5
10	Daelim	12	60	Tongyang Chemical	8
11	DongA	18	61	Jinyang	4
12	Daehan Edu. Insurance	2	62	Samrib Food	6
13	Doosan	16	63	Woosung	3
14	Lotte	22	64	Gukdong Constructn	5
15	Donbu	11	65	Jinro	9
16	Gia	9	66	Anam Industry	4
17	Joyang	10	67	Youngpung	5
18	Kolong	14	68	Jungwoo Development	3
19	ShindongA	10	69	Hanil Cement	5
20	Dong-guk Steel	14	70	Sungchang	4
21	Hanyang	6	71	Jindo	3
22	Taegwang	6	72	Hala	4
23	Gumho	6	73	Yuhan Yanghang	8
24	Hanil Synthetic Fiber	6	74	Jinhung Giup	4
25	Sammi	4	75	Sambu Togun	6
26	Hwasung	6	76	Koryo	6
27	Bumyang Shipping	7	77	Dongil Bangjik	7
28	Miwon	16	78	Ssangbangwool	7
29	Haetae	11	79	Junbang	4
30	Samhwan Giup	11	80	Taehwa	2
31	Daehan Shipping	6	81	Bangrim Bangjuk	2
32	Kangwon Sanup	4	82	Sinsung	3
33	Dongguk Trade	14	83	Chosun Beer	3
34	Chosun Gongsa	15	84	Gunsul Chemical	10
35	Taepyungyang	12	85	Hyupjin Yanghaeng	8
36	Daehan Electric Wire	6	86	Daedong	4
37	Samyangsa	4	87	Samdo	5
38	P'ngsan Metal	3	88	Dongwon Sanup	6
39	Koryo Synthetic Fiber	9	89	Daehan Bangjik	6
40	Hanbo	13	90	Honam Jebun	7
41	Samyang Food	13	91	Kyungbang	5
42	Nongsim	4	92	Jonggundang	6
43	Dongyang Cement	5	93	Ilsin Banjuk	4
44	Daesung Sanup	8	94	Aegyung Yuji	6
45	Daedong	6	95	Sila Gyoyuk	4
46	Byuksan	8	96	Hanchang	5
47	Chungnam Banjuk	9	97	Hanguk Jeji	5
48	Samho	3	98	Daehan Ink	4
49	DongA Medicine	11	99	Dong-o	4
50	Life	8	100	Daewon Gangup	5

Source: Korea Productivity Center, 1986 Korea Business Directory.

Table 5-2 Percentage of Executive Position and Rate of Interlock  
By Family Relations

	Chair & Vice	President & Vice	Director	Total		Interlocks	
				Positions %	N	within chaebol #person	Rate
Father	56	11	1	6	188	76	2.5
Sons	13	11	4	6	191	99	1.9
Brothers	4	6	2	3	89	51	1.7
Relatives	4	12	6	8	243	195	1.2
Subtotal	77	39	13	22	711	421	1.7
Non-Family	23	61	87	78	2452	2262	1.1
Total	100 (N=143)	100 (N=847)	100 (N=2,173)	100	3163	2683	1.2

Source: Adopted from Kwang Chung Kim 1985.

Table 5-3 Occupations of 105 Sons of 38 Chaebol

Occupations	%
Employed within Chaebol	78
Independent Business	3
Students	12
Other occupation (Professor, MD, Bureaucrat)	3
DK	4
Total	100

Source: Adopted from Yong Jung Park 1980.

Table 5-4 Ratios of Regional Tie of Non-family Executives with Founder

A	B	C	D	E	F	G
Birth region	Executive with regional tie 2	Executive without regional tie	Total		% of National Population	Grouping ratio 1 (B/D)
			N	%		
Youngnam	383	290	673	29.9	32.5	.57
Honam	105	68	173	7.8	23.2	.61
Choongchung	67	162	229	10.3	16.2	.29
Kang-won	17	46	63	2.9	6.1	.27
Kyung-gi	75	128	203	9.0	10.4	.36
Seoul	185	460	645	28.7	10.4	.29
North Korea	99	158	257	11.4	-	.39
Total	931	1,312	2,243	100	100	.42

Source: Adopted from Kwang Jung Kim 1985.

Note 1: The grouping ratio varies from 0 to 1.

Note 2: Executive with regional tie means those executives who are from the same regional origin from the founder of the chaebol.

Table 5-5 Frequencies of Interlocking Positions of capitalists in the Government and Civic Sector

	First 50 chaebol	Second 50 chaebol	Total
Government Advisory	11	6	17
Government public board	17	4	21
National Assemblymen	0	1	1
Social organization			
Sports	27	5	32
Others	20	10	30
Socio-cultural Foundations	7	7	14
Education Foundations	24	8	32
Mass media	3	0	3
Business associations and policy groups	93	46	139
Business foreign relations organization	37	9	46

Note: Frequencies refer to number of positions rather than persons.

Table 5-6 Distribution of Career Backgrounds of Top Government Officials and National Assemblymen

	Government Officials			National Assemblymen		
	Minister	Vice M.	Total % (N)	Ruling Pty.	Oppostn Pty.	Total % (N)
Bureaucrat	50	69	60 (174)	30	12	21 (59)
Military	23	19	21 (61)	20	2	12 (32)
Politician	2	0	1 (3)	7	46	25 (70)
Big businessmen	0	0	0	1	0	- (1)
Small businessmen	0	0	0	6	20	13 (36)
Corporate elite	1	0	- (1)	3	1	2 (6)
Professor	20	6	12 (35)	13	4	9 (24)
Journalist	4	4	12 (12)	14	7	11 (30)
Medical doctor		1	(1)	1	0	1 (2)
Teacher				1	6	4 (10)
Union leader				1		(1)
TV talent				1	1	1 (2)
Religious leader					1	(1)
Civil right leader					1	(1)
Lawyer *					1	(1)
Total	100 (N=139)	100 (N=151)	100 (N=290)	100 (N=147)	100 (N=128)	100 (N=275)
[short term corporate elite]	15	4	7 (21)	-	-	-

Note: Lawyer is highly underrepresented because though who used to work as judge or prosecutor are categorized as bureaucrats.

Table 5-7 The Proportion of Corporate Community in the Subsequent Jobs of Minister and Vice Minister in the 1980s

	Minister		Vice Minister		Total	
	N	%	N	%	N	%
<b>Government Sector</b>						
Government officials	31	22	58	38	89	31
Government advisory	14	10	7	5	21	7
Government public board	19	14	20	13	39	13
National Assemblymen	26	19	12	8	38	13
Political party official	-	-	3	2	3	1
Subtotal	90	65	100	66	190	66
<b>Civic Sector</b>						
Corporate community	15	11	12	8	27	9
University/media foundation	7	5	3	2	10	3
Social organization	4	3	6	4	10	3
Professor/ Research institute	7	5	8	5	15	5
Lawyer	4	3	5	3	9	3
Hospital manager			1		1	-
Don't Know	9	6	15	10	24	8
Death	3	2	1		4	1
<b>Total</b>	<b>139</b>	<b>100</b>	<b>151</b>	<b>100</b>	<b>290</b>	<b>100</b>

Table 5-8 Frequencies of Career Mobility from Government Sector to Business Community to 1984

Ministry of	f
Trade and Industry	61
EPB	44
Finance	22
Construction	52
Agriculture and Fisheries	22
<b>Total</b>	<b>201</b>

Source: Adopted from Byungwook Seo 1984.

Table 5-9 Fifteen Large Chaebol's Frequencies and Ratios of Blood and Marriage Tie to Government Officials and Other Chaebol, 1986

	Relatives	Direct Marriage tie		Indirect marriage tie	Total
		Children	Siblings & their childrn		
Other chaebols		27(1.8)	2(0.1)	11(0.7)	40(2.7)
President/Prime Mnst		1	3(0.2)	1	5(0.3)
Top gov't official		27(1.8)		8(0.5)	35(2.3)
Middle gov't official		11(0.7)			11(0.7)
National Assemblymen	3(0.2)	3(0.2)		1	7(0.5)
Military elites		2(0.1)			2(0.1)
Subtotal	3(0.2)	44(2.9)	3(0.2)	10(0.7)	60(4.0)

Source: Adopted from Kyunghwan Oh 1986.

Note:

1. Ratio is calculated by dividing the frequency by 15 (total number of chaebol under study).
2. Top governmental officials include minister and vice minister level of governmental officials.
3. Middle governmental officials include judge, prosecutor, bank executives.

## CHAPTER VI

### THE IDEOLOGICAL CONSOLIDATION OF THE CAPITALIST CLASS

Most Marxists, including Gramsci, assume that a major source of social control rests in the process of ideological hegemony. Contrary to having ideological hegemony, however, Korean capitalists in the 1960s were treated as criminals. As shown in Chapter III, Korean capitalists were labelled as "illicit wealth accumulators" in the April 1960 Students Revolution. This label has not been really eradicated up to the present. As economic development accelerated, social criticism against the capitalist class further increased. Why does the capitalist class suffer from such social criticism?

In the previous chapters we argued that it was the political regime which was pivotal in the formation of the capitalist class. The same is true of ideological dimension. First of all, the nature of capitalist class ideology was shaped and imposed by predominance of political regime and their ideologies. Secondly, the ideological state apparatuses were exclusively occupied by the political regime and thus the capitalist class had only partial control of the means of propagating its ideology. And finally, because of these subordinate relations to the political regimes, the capitalist class ideology could not effectively dominate the subordinate classes.

Thus the concept of the ruling class needs some modification in order to be used in the Korean case. For Marx, Gramsci, and Althusser, the ruling class in capitalist societies means the capitalist class; the capitalist class dominates the state

apparatuses, both ideological state apparatuses and repressive state apparatuses. But that assumption is not true of Korean society. In Korea, the state and the capitalist class are coalesced as a ruling group vis-a-vis the subordinate classes. However, within the coalition of the state and the capitalist class, they are definitely split into two different groups: the state managers mainly composed of the military and government bureaucrats (see Chapter V for documentation), and the capitalist class. The state managers enjoy monopoly of state power and the state apparatuses. The capitalist class in Korea, however, is excluded from control of the state apparatuses. Thus the state and the capitalist class will be seen as different entities in this study except vis-a-vis the subordinate classes.

The purpose of this chapter is to address the questions: 1) exactly how did the political regime influence the creation of capitalist class ideology? 2) what was the content of capitalist class ideology? And 3) how did the subordinate classes oppose to the capitalist class and what are their ideologies? Previous studies have tended to view ideology as one way transmission from top to bottom, and focused on the content of ideology. This study approaches the capitalist class ideology in terms of dynamic processes in relation to the political regimes and the subordinate classes.

#### **Ideological Dynamics between the Ruling and the Subordinate Classes**

The basis upon which Marx approaches the concept of ideology is the contradictory character of the capitalist system. "Society has

hitherto always developed within the framework of a contradiction - in antiquity the contradiction between free men and the slaves, in the Middle Ages that between nobility and serfs, in the modern times that between the bourgeoisie and the proletariat" (Marx and Engels 1959:7). The contradiction is brought about by the conflict between two classes (the capitalist and the working class) with differing interests in the capitalist mode of production. As contradictions emerge and reach consciousness before men can solve them in practice, they project them in ideological forms of consciousness. Ideology is, therefore, a solution in the mind to the contradictions which cannot be solved in practice (Larrain 1979:46). For Marx, ideology has a particular negative connotation whose two specific and connected features are, firstly, that it conceals social contradictions in a distorted consciousness, and secondly, that it does it in the interest of the dominant class (Larrain 1979:46). In capitalist society, class differences are negated, and a world of equality is re-constructed on an imaginary level; ideology negates contradictions and legitimates the relations of exploitation and domination (Larrain 1979:48).

An ideology, however, is not a collection of discrete falsehoods; indeed some of its claims will not be false at all. Just as some scientific accounts are more adequate than others, some ideologies are less distorting than others. This is a matter of degree; science and ideology need not be incompatible. The falsity and consequent distortion typically arise from a too limited perspective which misinterprets the facts rather than states what are not facts. Ideologies falsify consciousness by presenting a class-based cluster

of distortion of social reality by expressing the interests of one class as if they were the interests of the whole of society (Nielsen 1980: 58-59). As Marx (1965:66) points out, a dominant class represents its interest as the common interest of all members of society; it gives its ideas the form of 'universality' and represent them as the only rational, universally valid ones (Mellos 1978; Larrain 1979).

Capitalist class ideology also serves to "reproduce" capitalist relations of production. It is ensured by giving labor power the material means with which to reproduce itself: by wages. However, it is not enough to ensure for labor power the material conditions of its reproduction if it is to be reproduced as labor power. Althusser points out that "the available labor power must be 'competent', i.e., suitable to be set to work in the complex system of the process of production. The reproduction of labor power requires not only a reproduction of its skills, but also, at the same time a reproduction of its submission to the rules of the established order" (Althusser 1971:245).

Then how does the ideology work? As Mellos (1978) points out, in order for an ideology to work, the ideology should be shared by opposing classes as a common system of ideas. But can all of the ruling ideas be shared by opposing classes?

**The Opposition Groups:** It is important to realize that the ruling ideology is not always omnipotent and is not without limitations, but rather that the mechanisms which reinforce an ideological hegemony become themselves a focal point of struggle (Sallach 1974:46). Since

the ruling ideology is to be received by the subordinate class, the ruling ideology is a "received idea" for the subordinate classes. The subordinate classes, however, have their own "practical ideas" derived from their own practical class experiences (Cheal 1979). It is wrong to assume that the subordinate classes are simple objects of political manipulation. They are human beings with independent cognitive capability. Also, they have their own class experiences and can develop their own class consciousness. Incessant class struggles in the capitalist society are the evidence.

For this reason, the contradictions between the received ideas and practical ideas are an inherent source of controversy. The contradictions are not simply acquiesced to by the receivers through ideological manipulation of the ruling class, but they are interpreted and evaluated by the subordinate classes. As Max Weber defines legitimacy as the belief of the [subordinate class] that the [ruling class] is legitimate, the subordinate class has at least three perceptual dimensions in evaluating the legitimacy of the capitalist class: system legitimacy (legitimizing ideas of the capitalist system), moral legitimacy (rational, legal quality of business activity or profit making behavior), and functional legitimacy (effectiveness of the business activity such as capital accumulation) (see Friedrichs 1980:544 and Yankelovich 1972). The subordinate class evaluates the ruling class not simply based on the received ideas it receives from the ruling class but based on the overall legitimacy the ruling class has achieved.

Based on these three criteria of evaluation of legitimacy, the

subordinate class reacts in terms of 1) subordination, 2) accommodative opposition, or 3) radical opposition. When the ruling class is perceived as legitimate in terms of overall evaluation of the capitalist system, moral, and functional aspects, the subordinate class is likely to be subordinate. When the ruling class is perceived as illegitimate in any of the three criteria of evaluation, the subordinate classes are likely to stage opposition, either accommodative or radical, depending upon the degree of discontent or the resources the subordinate class can mobilize.

The accommodative opposition generally accepts a dominant social [capitalist] system and its values as a guide, but points to their shortcomings in practice. The accommodative opposition perceives a host of problems, deficiencies, and evils in the system. But the goal of the accommodative opposition is to eliminate these difficulties while preserving the overall system of capitalist production and its social relations. Yet the accommodative opposition, when extended and deepened in its critical bite and made part of an ongoing movement for change, can lead to a more wide-ranging challenge. It may serve as a bridge toward a radical opposition (see Parkin 1971; Katznelson and Kasselmann 1975: 48). Figure 1 schematically presents the dynamics of the operation of the capitalist class ideology between the political regime and the subordinate classes.

In this chapter, we will use this framework to assess the degree of ideological consolidation of the capitalist class in terms of the three criteria of capitalist class legitimacy and to assess the three patterns of oppositions of the subordinate classes.

### **Dynamics of Political Regimes and Capitalist Class Ideology in Korea**

**Political Ideologies of the Park Regime:** In a content analysis of the political speeches of Park Chung Hee, Suh (1986)<sup>1</sup> found two dominant ideological themes created by the Park regime between 1961 and 1979. The two themes are developmentalism and anti-communism (Anti-communism was termed as an ideology of national security in Suh 1986). Developmentalism was created and manipulated as a major political regime ideology by the Park government. In justifying the 1961 military coup, Park Chung Hee identified the military revolution with the frustrated hopes of the April 1960 student revolution. He declared that, for the leaders of the military coup, economic resurgence was an integral part of a nationalistic vision of a more independent South Korea to come (Park 1961). The issues of economic development had thus grown as a core value in the Park period, while in the Rhee regime the issue of independence, partition, the Korean War, and reunification were major foci of the political agenda. While Syngman Rhee was preoccupied with these "political" tasks, Park Chung Hee has enshrined economic growth near the top of the regime's value

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<sup>1</sup>The study content analyzed 456 speeches randomly selected out of total 1,618 speeches delivered by Park Chung Hee during his 18 year rule. Based on Robert Tucker's (1981) model of leadership directive function, the study identified six major ideological themes: military/national security definition of the situation, economic definition of the situation, advertizing regime achievements, hatred mobilization, giving national lessons, and recognizing the followers' achievements. Among these six themes, the military/national security definition and the economic definition of the situation were found as primary definitions of the situation; and the others were found as contingent to one of the two primary definitions of the situation.

hierarchy (Jones and SaKong 1980:41).

Anti-communism has been another dominant ideological theme of the political regimes in Korea since liberation. Anti-communism was directly introduced from the United States by the Rhee regime. As the USA and the USSR got into the cold war after WWII, anti-communism was adopted as a dominant ideology in Korea where communist North Korea and capitalist South Korea confronted each other. The Rhee regime, a conservative right wing regime, utilized anticommunism as a major device for political manipulation (Yang 1972:30). The Park regime reinforced the ideology by establishing new legislation such as The Anticommunism Law and the National Security Law for coercive control of political mobilization (Suh 1987). Furthermore, the Korean War during 1950-1953 made anti-communism a value which has remained unquestionable up to the present in Korea. Anti-communist ideology played the most effective role in maintaining authoritarian regimes from the Rhee to the Park and to the Chun regimes. Any kind of political oppositions, either from intellectual groups or the working class, was defined as instigated by North Korean espionage.

Both developmentalism and anti-communism are ideological themes, not only for the political regime, but also for the capitalist class. Developmentalism is indeed an integral ideology for the capitalist class. In this view, economic development preceded any other values including equal distribution. Social inequality was justified in the name of a policy of "development first, distribution later." Anti-communism also served not only for political regimes. It also served for the capitalist class. In the name of anti-communism, the

capitalist class in Korea has been insulated from any kind of socialist claims. In short, while the Park regime's ideological themes were created mainly for the sake of the regime, both developmentalism and anti-communism made strong contributions to the consolidation of the capitalist system in Korea.

#### **Capitalist Class Ideology in the Park Regime**

The ideological themes of the political regime not only influenced the consolidation of the capitalist system, but also influenced the nature of capitalist class ideology itself. Developmentalism, an ideological theme of the Park regime, was adopted as a major ideological tenet of the capitalist class. As mentioned in Chapter III, leading businessmen in the early 1960s were released from prison under the agreement that they would collaborate with the Park regime in implementing state policy of rapid economic development.

For information on the thematic content of capitalist class ideology in the 1960s and 1970s, we used the annual addresses of the FKI chairman and the annual resolutions adopted by the annual meeting of the FKI. These data are valuable because they provide the points of view of the FKI and the capitalist class as a whole. From these data sources, three major ideological themes were identified. Each will be presented and discussed.

**The Leading Actor of Economic Development:** In the inaugural meeting of the FKI (Economic Reconstruction Promotion Association at that time), the FKI declared:

We organize our association with the greatest duty to rescue our national economy as well as to promote economic reconstruction (Chairman of the FKI 1961, July 17).

We organize this association as a tool to realize a economic reconstruction. Under this organization, our all effort will be cristalized as a driving force for implementing state polices.— In front of the solemn nation's reality, there is neither escape nor private interests. There is only the sincere wish of economic reconstruction in the Fatherland and the eagerness and sincerity to realize the wish (Declaration of FKI Establishment 1961, July 17).

The more serious the current situation, the more seriously we recognize our righteous duty as the leading actor of economic reconstruction. We appeal to our nation that we will never stop for even a single minute making our progress in any barriers and hardship (FKI Resolution, 1963, March 22).

These excerpts reveal that the capitalist class adopted the regime's ideological theme of developmentalism as part of its class ideology and identified itself as a leading actor of the state policy. In this theme, the capitalist class conceals the privatistic class interests and emphasizes the universal interest of national economic reconstruction. Starting from 1968, however, the emphasis of the capitalist class as leading actor of economic development shifted to emphasis on the competition in the world export markets.

**Competition in the World Market:** The basic rationale of this theme is to emphasize that the survival of the national economy is dependent on the survival of the big businesses in the international competition because Korean economy is unquestionably based on export-oriented, outward-oriented strategy. In order to survive in the international export market, business concentration to an international size is claimed as essential for winning and holding confidence on the international level; the laborers, the people, and the government should support and collaborate with big business. This theme serves to conceal the privatistic interests of the corporation; the

distinction between the privatistic interests and public, or the nation's interests becomes disguised; and the interests of the corporation are made identical with the interests of the whole nation. Challenging aspects of world economic situations such as increasing protectionism are always emphasized as the reason for demanding patience from the laborers and the people. In fact this theme reflects the changing situations in the world economy in the late 1960s. This ideological theme was heavily invoked in the FKI statements in the 1970s.

The world economic situation suffers unprecedentedly rapid changes. The upward revaluation of the English pound last year, the subsequent increase in rates of interests in each country, gold shocks, and dollar defense. To be sure, we are facing harder conditions to cope with. Thus cooperation between the government and the people is more urgently required than in any other time (FKI annual meeting 1968, 4/30).

Looking at the international situations, there are various uncertain elements such as the strengthened position of the People's Republic of China in international politics, new unrest in the Indochina peninsular. In order to widely meet these situations and to get around the incessant challenges, a triple coalition among the business, the government, and the people is required (FKI Annual Meeting 1973, 4/26).

**Social Responsibility:** This is another important theme invoked since the mid-1960s. This theme is based on the portrayal of the large corporation as a public service organism. In so doing, the ideological theme serves to conceal the privatistic basis of the private corporation. This theme was initially created in the 1960s and became a major ideological symbol of the capitalist class in the 1980s. Its development goes back to the social conditions in 1954-1958. As industrialization was set in motion, several

wrongdoings of the big businessmen were revealed. To take only major examples in the 1960s, they include 1) episodes of undue profit making from three powder industries (1963-4), 2) exclusive favor of bank loans (1964-5), 3) Hanguk Fertilizer Company's saccharin smuggling episode (1966), and 4) speculation in real estate.

First episode: Three powders include flour, sugar, and cement, which are basic necessities of life and basic material for construction. Since the three powders were rare in supply and essential in basic demand of society, the government imposed fixed prices to prevent price increases. In spite of that, businessmen made excessively undue profits by manipulating supply and prices, while the people were starving. This became a major political issue both in the National Assembly and the press because the monopoly of a few big businessmen destroyed national economic order. The government investigated 19 firms involved in the three powder industries, which contributed to the unfavorable public image of the big businessmen (FKI 1983:223-5).

Second episode: As the first Five Year Economic Planning was set in motion, exclusive bank loans were given to some businessmen which were allegedly selected by political connection for the projects of the first FYEP. As of August 1964, 40% of total bank loans were given to 9 chaebol. These biased loans were opposed not only by the opposition party but also even by the FKI (Park 1982:198-200). This episode contributed to the criticism of politics-economy conspiracy.

Third episode: The largest chaebol, Samsung, was constructing the Hanguk Fertilizer Company, one of the largest industrial projects of

the early 1960s. The plant commenced production in early 1967. Even before the plant was in operation, however, the company was plagued by the "saccharin smuggling" scandal. In September 1966, it was discovered that some of Samsung's staff - including a son of Lee Byungchul, chair of the Samsung - had illegally profited by smuggling from Japan. This became such a controversial social issue that Samsung donated 51% of the company's shares as well as rights of management to the government (Jones and SaKong 1981:353).

Fourth episode: Between 1962 and 1984, the land price index increased 281 times while GNP and whole sale price index increased 5.4 times and 14.5 times, respectively (Hwang 1986). This unbelievably rapid increase of land price may be due to several factors: increasing demand of land for industrial purposes, increasing density of population, and economic reasons, i.e., high rate of inflation and consequent speculation in real estate. Another important reason is the fact that the land price increase rate is extremely higher than the growth rate of GNP. For this reason, big businessmen regarded the investment in real estate as more profitable. What should be emphasized here is that, since profit rates of real estate is much higher than interest rates of bank loans, the big businessmen have tended to invest their own capital into the real estate, and resorted to bank and foreign loans for industrial investment. It is allegedly argued that most of the land is occupied by the big businessmen in Korea (Kim 1968).

These kinds of unethical behavior of the big businessmen produced wide-spread social criticism against the big business.

The response of the FKI to this challenge was prompt. The FKI established within itself the Committee on Business Ethics in 1964 and began to recognize the demand for social responsibility of the corporation and to look for appropriate norms for the entrepreneurs. Kim Yongwan, chair of the FKI, at a press conference on May 1, 1964, said that the big businessmen will be dedicated to social welfare service. On June 5, about 70 businessmen, at a joint meeting with government officials, confirmed that the business group should conduct a project of aiding poverty in slum areas, and other social service projects (FKIBH #50).

It was not until 1968 that the emphasis on public instrument of the corporations was transformed to a tenet of capitalist class ideology. On February 22, 1968, the FKI discussed the challenging issues and passed a resolution that the big businessmen should lead in securing liberal capitalist economic system and that the businessmen should be made conscious of this social issue (FKIBH #72). On February 29, about 150 leading businessmen held a joint meeting with top government officials of the administrative, the national assembly, and political parties to discuss this issue. In this meeting, a conclusion was drawn: in order to meet the social challenge to big businesses, the big businessmen, most of all, should recognize that the corporation is of social nature and public instrument of the society.

1. We will improve the management, quality of commodities and production scales to the international level within five years, and meet the expected competition in the world market.
2. We will make a full effort to separate between management and ownership within three years.
3. We will do our best to increase the income of our employees by

reducing extra-costs, irrational and unproductive expenses based on scientific management.

4. We will make an effort in increasing employment and reducing inequality between urban and rural sector by achieving balanced regional development and utilizing the reserve labor force of the rural area.
5. We declare that the corporation is the public instrument of society, and that public support is the best resources for the survival of the corporation. Hereby we wish to establish a desirable business ethic and respect the honor of the businessmen by establishing a firm base of liberal, democratic capitalism and by being faithful to the social responsibility of the corporation and to the stability of nation's life.

This ideological theme of social responsibility was often invoked by the FKI in the 1970s, but not so heavily as in the 1980s. It was highly reinforced in the Chun regime in the 1980s.

#### Ideological Themes of the Chun Regime

Compared to the Park regime's ideological themes which were highly favorable to the capitalist class, the Chun regime's ideological themes are the opposite. The major ideological slogan of the Chun regime is "social justice, social welfare, and democracy," among which the social justice was most boldly implemented. In fact, the purification campaign and the various social reforms in the name of realization of social justice in 1980 (see Chapter IV) was the major strategy through which military coup leader, Chun Doo Hwan, successfully built up the image of new political leader in the political turmoil after Park Chung Hee's assassination.

The social justice theme was strictly imposed on the big business circles. Instead of punishing the businessmen allegedly involved in various irregularities, the government held a large, nation scale rally at the National Theater in which the Prime Minister presided the

rally. Participants are scores of minister level government officials and 1,500 larger businessmen and managers, including the four major business associations (the FKI, the Chamber of Commerce, the Korea Traders Association, and the Central Federation of Small and Medium Businesses). In the rally, the prime minister urged businessmen to do the following:

- Businessmen should clean up the irregularities associated with their businesses;
- Businessmen should promote a business ethic to seek profit in a fair and just way;
- Businessmen should refrain from excessive expansion of businesses and various speculative activities detrimental to the small-medium businesses and nation's economic development;
- Business should eliminate the past pattern of dependency on the government and develop an independent business climate;
- Businessmen should seriously recognize the social responsibility of the corporation and manage businesses with the first priority to the interest of the nation and the people;
- Businessmen should get around the criticism that "businessmen prosper even if enterprises perish". (DongA Daily 1980, 7/16).

This rally played an important role in initiating both the new themes of capitalist class ideology and subordinate classes' criticism against the big businesses in the 1980s. Also, this rally marked the opening point of the basic policy of the Chun regime toward big businesses. This policy was consistent over the Chun regime period. The evidence is well shown in the five policies taken in the Chun regime: The September 27 Measure designed to constrain the number of subsidiary firms and the speculative investment in real estate; Monopoly Control and Fair Trade Act; Real Name Reforms in Monetary Transaction; Curbing Banking Loans on the Largest 30 Chaebols, and Curbing Mutual Equity among Subsidiary Firms of a Chaebol. These are all designed to control big businesses in the name of economic justice

(see Chapter IV for detail).

#### **Ideological Themes Developed by Capitalists in the Chun Regime**

In the above mentioned rally, the big business group adopted a six-point set of principles and business ethics to keep:

- 1) Recognizing the urgent necessity of defending the nation's balance of payments and the inflation problem, we will do our best to increase exports and to stabilize prices by improving productivity and quality of products;
- 2) We strongly recognize the social responsibility of the corporation;
- 3) We establish peaceful labor relations;
- 4) We refrain from excessive business concentration;
- 5) We eliminate all kinds of irregular profit-making such as excessive loans, speculative investment in real estate, etc;
- 6) We never compromise with any type of injustice and lead the construction of a justice and welfare society (DongA Daily 1980, 7/16).

This theme of social responsibility was heavily invoked by the FKI and individual capitalists as was indicated in the interview with the big businessmen. Indeed, this ideological theme was the most frequently referred to and became a leading idea in the 1980s. But it should be emphasized that this social responsibility theme may have been functional to lessen social criticism against big business; but it may have further provoked the social criticism because it emphasizes the social role of the corporation, relatively down playing the classical interests of the corporation, profit maximization. This can be a partial explanation why social criticism against big businesses increased in the 1980s. In this sense, the social responsibility theme reinforced by the political regime is contradictory to the real interests of the capitalist class. This contradiction is also expressed in the classical claim of the capitalist class as will be discussed below.

In the rest of this section, we will present interview data of 38 big businessmen. The interviews were conducted by staff members of the FKI and reported in the Monthly FKI during 1981 and 1986. Based on the interview text, we analyze ideological theme of the capitalist class ideology in the 1980s.<sup>2</sup> We analyze the ideological content in two ways: 1) frequency analysis of the content for a rough estimation of relative importance of each ideological theme, and 2) excerpts of the core contents of those ideological themes and interpretation of them.<sup>3</sup>

Table 6-1 presents the frequency and the rate per hundred capitalists of reference to the ideological themes. It indicates that "universality claim" (see the definition of ideology discussed above) is the most frequently invoked (145 per hundred capitalists). The subcategories of the universality ideology identified in the Korean case show varying modes of expression of the same ideology: social responsibility, symbiotism, competition, being competitive in the world economy, paternalism, nationalism, and classical capitalist ideology. Their logic is seemingly different, but they are based on the same claims of universal interest of business interest. Among them, social responsibility (or public instrumentalism) is the most frequently invoked theme (53 per hundred capitalists). As was pointed out above, this theme was imposed and reinforced by the Chun regime

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<sup>2</sup>see Larrain 1979:50-52 for distinction between ideological and non-ideological in Marxian conception of ideology.

<sup>3</sup>The frequency of ideological themes was coded on the basis of contingency analysis in which the presence or absence of each of the ideological themes was counted. In this way 38 capitalists were counted 72 times on the 9 ideological themes identified.

and became an official symbol of the FKI.

The interviews contained other forms of ideological themes than the Marxian conception of universality claims: entrepreneurship, evil of state interventionism, trusteeship. Among them, entrepreneurship is more frequently invoked.

The ideological content of these interviews with Korean capitalists shows an interesting contrast with that of American big business ideology. Table 6-2 shows American data from Seider's study (1974) in which a total of 474 speeches from top officials in eleven industries were content analyzed. While the American big businessmen put the highest emphasis on classical (profit maximization and market mechanism) ideology, the Korean big businessmen emphasized the social responsibility (or public instrumentalism). That is, in America, the classical capitalist ideology still prevails; in Korea, social responsibility ideology prevails. Some other ideologies which were not found in Seider's American study were found in Korea. They are being competitive in the world market, symbiotism, paternalism, and being evil of state interventionism. (Entrepreneurship is equivalent to professionalism in Seider's study). These differential contents are related to the different social situations of Korea and the US. As Karl Mannheim's sociology of knowledge approach to ideology emphasizes, formation of ideology is related to the structural conditions of the society. An emphasis on being competitive represents the backwardness of Korean industry in the world market competition. Paternalism reflects the patriarchal nature of Korean society. And Being evil of state interventionism reflects the more intensive

interventionist state in Korea. It is worthwhile to note that these capitalist class ideologies, such as paternalism and social responsibility have their roots in Confucian principles. In the following section, the content of each ideology will be presented in more detail.

The ideologies of social responsibility and competition in the world market were fully discussed in the Park period section and their rationale and contents are the same. Thus we will not repeat them here. In the rest of this section, the other themes will be elaborated.

**Classical (or Profit Maximization) Ideology:** This ideology focuses on the necessity of profit as a bulwark of the capitalist system. This ideology in the 1980s in Korea was created as a reaction to the heavy demand for social responsibilities of the corporation. For this reason, the "classical" in Korea is different from that in America which includes both free market mechanisms and profit maximization. The reaction attempts to go back from the direct social service to indirect social contribution of the corporation, but still claiming the universality of the corporation. For example:

There is some criticism that the corporation pays little attention to the social welfare projects. But the primary social responsibility of the corporation is to develop a healthy business, increase employment, provide quality goods in chief prices, pay taxes, and in so doing, contribute to economic development. The participation in social welfare projects is possible only after the primary responsibility is fully fulfilled (Monthly FKI 1983, no.1).

The primary goal of the corporation is to pursue profit. Without profit, there is no contribution to society (Monthly FKI 1983, no.4).

**Symbiotism:** This theme emphasizes the creed of symbiotic, rather than conflictual, relations between capitalists and workers, and between corporations and society. This theme is expressed in the following excerpts:

As industrialism is advanced, the number of employees in the corporation is rapidly increasing, and thus the relationships between the corporation and society are getting more intimate. In so doing, the corporation and the community are transformed into a symbiotic relationship which cannot be separated each from the other (Monthly FKI 1981, Sep.:38-42).

Managers and laborers are in the same boat with the same fate (Monthly FKI 1983, no.11:40).

**Paternalism:** The paternalism theme proposes that a corporation is a household in which all the employees are members of the family, and the top manager is the head of the household. This theme is articulated in the following excerpt.

The utmost social responsibility of the corporation is to guarantee the wellbeing of the employees and their families. I have never forgotten my mission to provide all my families with the foundation of healthy life and I will be faithful to my duty as a head of household (Monthly FKI 1982, no.7: 47).

**Nationalism:** The nationalism theme proposes that the country, as a whole, is an important entity to work for and to protect. Nationalism is more often than not presented through awareness of an external enemy. For example,

When the country is in crisis, we should rescue it; In normal times, we should contribute to the development of the country by promoting industries. I fought for the nation during the Korean War and then I launched into business to improve employment, to develop industries, and thereby to contribute to the country's finance. I believe this is my duty and mission as a citizen of our country (Monthly FKI 1982, no.3).

I experienced the nation's bone-breaking hardship during the Japanese colonial period. I thought it was my mission to establish a national enterprise and to achieve economic independence (Monthly FKI 1983, no.10).

Except for these appeals to universality of the corporation, other ideologies were also found. They are entrepreneurship, evil of state interventionism, and trusteeship.

**Entrepreneurship:** This theme argues that the economic growth in Korea is the fruit of entrepreneurial spirits of the businessmen, their hardwork, their innovation, or their unique capabilities to overcome difficulties in business management. This ideology reflects a reaction to the social criticism that big businesses have grown based on the receipt of exclusive favor from the government and on the various illegal methods.

It is true that the big businesses have led economic development and export growth. But what caused the big businesses to grow like that is the vigorous entrepreneurship (Monthly FKI 1984, no.4:35).

This ideology was highly manipulated in the TV soap opera. Recently, in the 1980s, an emerging phenomenon is that businessmen's biographies have become the theme of TV soap opera. The soap opera "25 O'clock Ambition" describes the big businessmen as idols of Korean society who realized their ambition through outstanding entrepreneurship. Another series deals with the story of overseas construction in the Middle East, emphasizing the hard working businessmen and their entrepreneurship. Another program serialized the real story of businessmen under the title of "Human Victory," describing their lives from birth, typically in the poor rural areas, to their success in big business. The businessmen are usually described as "saviors of

our period" who saved Korea from poverty-stricken underdevelopment (Bae 1984:144).

"The Businessmen" is a currently running, serial documentary drama in the MBC TV. Each session deals with a businessman for a 90 minute drama. The first session is the story of Chung Jooyoung, chairman of the Hyundai group. Chung played himself in the drama for one third of the scenes. The drama includes a real scene wherein Chung supervises construction of a big building, and a scene where Chung takes a trial run in a new automobile from his factory (Weekly DongA 1987, 2/21).

"The Door of Ambition" is a currently running, Wednesday and Thursday soap opera on KBS. The drama describes the process through which a fictionary big businessman develops and manages his corporation from the colonial period to the present. The drama emphasizes the entrepreneurship which coped with hardships in the turmoil of socio-historical changes.

**Attribution to the State and Being Evil of State Interventionism:**  
In this ideology, all good things follow from the free, unfettered operation of the free enterprise economy. Bad results are attributed to governmental responsibility. Also, government intervention in economic affairs is intrincically evil. This theme reflects the high degree of state interventionism in Korea. This ideology is related to the movements of the capitalist class toward private initiative economy as discussed in Chaper IV. It needs to be noted that this theme is somewhat different from the classical ideology which emphasizes profit maximization. Here are two excepts:

In my opinion, the government is responsible for inequality. The

corporation pays taxes of 70-80% of its profit. The social issue of inequality is due to the improper role of the government because it is the role of the government to redistribute the revenue from taxes (Monthly FKI 1983, 1:37).

It is undoubtable that the basic principle of private initiative economy is free enterprise system. The capitalist economy prospers and enterprises blossom only when freedom of business activity is secured and when maximization of business profit is received as just, economically and morally (Monthly FKI 1984, no.4).

**Trusteeship:** This theme depicts that the managers of the corporation are nothing but trustees for its stockholders, or manager for God's wealth. This ideology distorts the reality that the corporation is the owner's private properties. For example:

According to Bible, possession is explained in terms of trustee. God gave us properties as well as life. I am nothing but a good manager for the god's properties. I will fulfill my duty by properly managing and accumulating the properties given by God (Monthly FKI 1981 no.12).

Those who invoke this theme are definitely Christians such as Kim In Duk, chairman of Byuksan Group.

In sum, the content of ideology dynamically changed over time and along the changes of political regimes. In the Park regime, developmentalism and being competitive in the world export market were the major themes; in the Chun regime, social responsibility was more emphasized even though the ways of expression are various. Thus, the major factor influencing the changing content of capitalist class ideology is identified as the political regimes, even though some other situational factors such as world economic conditions, and social criticism were also reflected.

### Partial Control of the Means of Propagating Ideology

Even though the capitalist class created various sophisticated ideological themes as shown above, their ideas, however, were not fully propagated mainly due to limited control of the ideological state apparatuses. The capitalist class in Korea does not dominate the state apparatuses, either ideological state apparatuses or repressive state apparatuses. For this reason, even though the capitalist class has developed several class ideologies, they are not really systematically transmitted and diffused to the subordinate classes. As Sooyeon Suh's study shows, elementary school textbooks contain references to economic development. But the economic development is attributed to the role of the government such as providing financial supply, economic planning, building industrial estates and infrastructures, and promoting exports, but not to the big businesses (1987:14). This is an important evidence that the education is controlled by the political regime, rather than the capitalist class.

The control of the mass media is an important condition for the ideological hegemony of a class. In Korean society, however, mass media are controlled by the political regimes, rather than the capitalist class. The system of mass media thus has been changed with every shift of political regime to increase the new regime's effective control of the mass media. The Syngman Rhee regime exercised government control over mass communication through registration and licensing procedures (Han 1967:95). The Park regime exercised tighter control over editing processes as well as over facilities and

installation requirements of the mass media. In the early period of the regime, editing control was exercised on the basis of self-regulation by the Press Ethics Commission (Han 1967:83).

Self-censorship was drastically reinforced in 1972 by the Yushin regime, which required the press to refrain from reporting events that 1)defy the present ruling structure, 2) endanger national security, and 3) create social unrest (Hahn 1978:17). Several other measures and legislations were taken to control mass media (Han 1967; Hahn 1978).

Except for the Korean Broadcasting System (KBS), most of the country's mass media were owned by individuals and private enterprises. The privatistic ownership, however, was nationalized by the Chun regime in the name of tranformation from the prior commercialism to public interests. This reform of the mass media, which was unprecedentedly radical in the history of Korean mass media, was conducted under the National Defense Legislative Council (Military junta legislative of the Chun regime) on November 14, 1980. TBC (TV and radio), DBS (radio), both privately operated broadcasting companies, were merged into the state-run KBS; 65% of MBC (TV and radio) was merged into the KBS; and the Christian Broadcasting System (CBS radio) was forced to air only evangelical programs. The presidents of both KBS and MBC are former spokesmen of the Presidential Residence Office. In short, all of the private commercial broadcasters were merged into one state-run KBS.

The country's two leading news agencies - Orient Press, and Hapdong News Agency - and another four minor new agencies were all

integrated into the newly established Yonhap News Agency for exclusive supply of domestic and foreign news to all newspapers and broadcasters across the country. All the members of the mass communication cooperatively own the Yonhap News Agency, but the management is controlled by the state. The current president is a former minister of Culture and Public Information. All these measures were taken in an effort to consolidate the newly risen Chun regime which faced a formidable challenge of legitimacy.

Newspapers, however, were left untouched except for local newspapers which were merged on the principle of one newspaper in one province (Yonhap News Agency 1981: 36-40; DongA Yearbook 1981, 1982). Instead, the Chun government enacted the Press Basic Law, replacing all the former legislation related to mass communication. This law, sometimes called one of the vicious laws of the Chun government, is characterized by its emphasis on tight censorship, and the public nature of mass communication. In addition to the new laws, financial pressure on business owners, secret threats, and editorial censorship by KCIA (now Agency of National Security Planning) members are used to curb and control the press.

Nevertheless, it should be noted that the newspapers clearly remain a very powerful institution in Korea. The press as an institution in Korea has its roots in the anti-Japanese publications of the Japanese ruling period, and some of the leading papers today have a long, proud tradition of having challenged the authority of government - Japanese and Korean. Thus the intensity of criticism of the government by the newspapers has been regarded as a measure of

quality of the newspapers, and the newspapers, as commodities to be bought through selective choice of the readers, came to believe that total criticism would sell their papers better than rational policy (Hahn 1978:15). The two newspapers owned by chaebols (Jungang Daily by Samsung, and DongA Daily by Samyang) operate based on commercialism rather than by class-based interest. Individual newspaper company owned by individual chaebol does not represent the capitalist class as whole even though it represent its owner chaebol. Rather, the press is almost vitriolic on issues of chaebol mainly because of competition among newspaper companies. The content analysis of two journals will document this point in a later section.

Some chaebol own schools and universities. However, when it comes to their operation, even the private schools and universities are totally under government control. There is absolutely no difference between public and private school because all schools use the same textbooks compiled by the government. Thus the owners of the schools and universities do not have room to control the content of education.

The capitalist class thus does not have a systematic mechanism to control ideological apparatuses. Instead, to a large degree, the capitalist class resorts to the limited resources available through the FKI and some individual channels.<sup>4</sup>

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<sup>4</sup>(1) TV program sponsorship: Although the ownership and management of TV is under control of the government, big business can influence some of the program content through its commercial sponsorship of the programs. (2) Tour Guide to Industrial estate: one of the most frequently mobilized resources is the industrial estate guided tour. This program provides opinion leaders and other groups of people with guided tour to the major industrial estates. The most frequently

(Footnote continued)

### Opposition Groups and Opposition Ideas in Korea

The subordinate classes are not confined to only the working class. The students, the press, the academic intelligentsia, and other intellectual groups are also important opposition groups who not only provide social definitions but also participate in social movements.

**The Press and the Professors:** We present two sets of data to explore the content of social criticism by the intellectual groups: a general survey of opinion leaders' opinion of the big businesses, and a content analysis of major semi-popular journals.

Sungnam Cho's study (1979) <sup>5</sup> shows a detailed feature of the opinion each social group had of the big businessmen in the late 1970s. It indicates that more than 80% of the respondents have negative opinions of the big businessmen's general image. Urban

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<sup>4</sup>(continued)

mobilized groups are college professors, journalists, national assemblymen, and student leaders. The FKI operates this program 3-4 times a year for 20-50 persons at a time (FKI Annual Report 1983-1985). The purpose of this program seems to be to show opinion leaders and social critics that the private businessmen are the leaders in developing the world level industries and that the industrial facilities built by the creativity of the entrepreneur are the properties of the nation which everybody can share. (3) Lobbying the journalists: Another type of resource mobilization is the lobbying activity of the chairmen's group of the FKI to influence journalists. The chairmen's group of the FKI held informal meetings with the journalists 7-10 times a year between 1983-1985. The type of meeting varies from luncheon to picnic or golf meeting (FKI Annual Report 1983-1985). It is commonly believed that the journalists are periodically offered bribery which is commonly called "chonji" (small contribution). (4) Public speech: Another activity of the FKI is public speeches. Chung Jooyoung, chairman of the FKI, is a frequent guest speaker at various groups of college students, consumers'

(Footnote continued)

respondents are more negative than rural ones, comparing 96.6% and 76.6%, respectively. There are some variations about different aspects of the businessmen. About 73% respondents have a negative image of the moral features of the businessmen; but 64.4% have positive images of businessmen's contribution to the national economy. About 68.3% of the respondents had the view that the big businessmen are uninterested in social welfare projects, only 11.4% answered in terms of somewhat and very interested. It is interesting that college students, college professors, and the journalists tend to show higher negative attitudes than other groups (Cho 1979:44-55). In short, Cho's study demonstrates that even though the big businessmen are generally recognized for their contribution to economic development, they are perceived negatively for their immoral behavior and low participation in social welfare.

To see the detailed content of social criticism by the journalists and the professors, we conducted a content analysis of two leading

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<sup>4</sup>(continued)

association. (5) Other resource mobilization: The big businessmen provide many scholarships in Korea, and own schools, universities, and cultural foundations (FKIBH #54).

<sup>5</sup>Cho's study is based on the data set collected by a survey research project of the Korea Institute of Science and Technology during July 1978 and February 1979. The subjects of the survey consist of 818 opinion leaders from 9 occupational and social groups - government employees (13%), mass media (10%), business associations (9%), college professors (7%), college students (17%), consumers' associations (6%), research institutes (6%), literary writers (5%), and leaders of farmers (27%). The first 8 groups are all from Seoul area; the rest (27%) are from nation wide rural areas. The subjects are highly representing the higher education groups. That is, 72.9% of the subjects are college or above graduates. Ages are relatively equally represented: 23.9% of 20s, 36.2% of 30s, 31.3% of 40s, 7.5% of 50s, and 1.1% of 60s (Cho 1979: 30-34).

semi-popular journals, Monthly Shindong-A (1980-1986) and Monthly Chosun (1983-1986). We selected these two journals because they are periodicals to which both professors and journalists contribute their social criticism, and because they have a wide range of readers from lower to upper strata of Korean society. The analysis of journal content is very important firstly because the journal represents the social reality as it is and secondly because the journal not only represents, but also creates social reality. Thus, whatever the content is, the journals are good indicators for our analytical purpose. From the two journals, we selected articles related only to the big businessmen. As Panel A of Table 6-3 presents, the total number of articles selected for analysis is 162 from Shindong-A and 103 from Monthly Chosun. (The 1980-1982 issues of Monthly Chosun are not available). The average number of articles related to our concern is almost the same, 2.06 and 2.14, respectively. Major contributors to the journals are journalists (59% for Shindong-A and 56% for Monthly Chosun), and professors, mainly in Economics and Sociology (22% for Shindong-A and 33% for Monthly Chosun).

As shown in Panel B of Table 6-3, most of the articles express critical attitudes towards the big businessmen, 77% in Shindong-A and 81% in Monthly Chosun. Those articles with favorable attitudes are largely reports of interviews with big businessmen. With that exception, the attitudes of journalists and professors are more critical than presented in the table.

Panel C of Table 6-3 shows the details of the critical attitude of the articles.<sup>6</sup> The contents cite various wrongdoings of the big

businessmen. Although the two journals are different in frequencies, they tend to present similar contents. It is important to note here that the articles appeared in the two journals are not simple essays or assertions without documentation. Rather, they are vivid empirical reports or detailed analyses of the big businesses or businessmen. In terms of frequencies, the five leading themes of criticism against the big businessmen are 1) exploitation of labor (poverty, maltreatment and union repression), 2) octopus-like firm mergers and monopoly, 3) illegal profit making through exclusive favors from the government or conspiracy with the politics (or chung-kyung yoochak), 4) non-entrepreneurial profit making through speculation in real estate, 5) over-loaded foreign loans or dependent development. Other contents of criticism include irregularities of finance dealings, tax avoidance, over-competition in some popular items of industries, environmental pollution, inefficient management and frequent bankruptcy, conspicuous consumption and luxury, lower effort for technology innovation, and Seoul area concentration of business activities.

If we categorize them into two larger attributes, first, the profit making activities of the big businessmen are perceived as illegitimate because they resort more to various kinds of irregularities rather than to entrepreneurial effort. And second, the

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<sup>6</sup>Unit of enumeration is article, rather than theme. Even though one article includes more than one theme, we referred to the major content expressed in the articles. We employ this method because most of the articles enumerate several themes to argue one major theme. Fortunately, most of the articles summarize their content in their titles.

big businessmen are not perceived as adequately distributing the profit for the working class. In short, these criticisms are largely related to the moral (including legal and rational) aspects of business activity. In contrast, the capitalist system per se is relatively not referred to. In fact, the capitalist system per se has not been criticized by either the professors or the press. Also, the contributions the big businesses have made to the Korean economy are generally well received. Thus, social criticism of the press and professors are more accommodative than radical.

**The Students:** The college student group was an important locus of nationalist fever and activity under the Japanese rule. But it was in the April 1960 Student Revolution that they acquired the prestige and power that led them to be looked upon as a major independent political force. Thereafter the student revolution, the students played an integral role in Korean politics.

The consistent ideology of the student activism is democracy. Indeed, the student group has been a bulwark of democracy in Korea. In the name of democracy, the April 1960 student revolution put an end to the Rhee dictatorial regime; in the 1970s, the students played a leading role in overthrowing the Park Yushin regime in the name of democracy; also, in the 1980s, the student protest demonstrations successfully forced the Chun regime to revise its authoritarian constitution indicated by a rubber stamp election system to a constitution based on democratic principles and direct presidential election (Cole and Lyman 1971; Dong 1987).

Student activism against the capitalist class and student

participation in labor movements are also developed based on the democracy ideology. The students criticize the capitalist class because they perceive that capitalists are coalesced with the authoritarian political regime. For activist students, thus participation in the labor movements and criticism against big businesses are a way to achieve "democracy."

A watershed event of student participation in labor movements was the self immolation of Chun Tae-il, a young garment worker in Seoul, on November, 1970 in a "protest over labor exploitation." His death awakened his countrymen of the miserable labor conditions (Kim 1984). Indeed, it was not until this incident that even the labor movement per se started in Korea. Until the late 1960s there was no salient opposition of the working class even though there existed increasing labor problems as industrialization accelerated (Kim 1984).

The usual form of student activism in the 1970s was both violent and non-violent demonstration within university campus or in the street. The usual slogans used in the demonstrations were "equal distribution", "guarantee of democratic labor unions", and "guarantee of basic labor rights" (Kim 1984; Moon 1985; Hwang 1985).

In the 1980s, student activism became more strategic and radical than ever. First of all, the activist students established a nation wide organization. As the democratic movements after Park's assassination in 1979 were frustrated by the rise of neo-military regime in 1980, the activist students were organized across the universities, whereas previous student activism was led by small groups within university. On 17 April 1985, the National Federation

of Student Associations (Chunhangnyun) was inaugurated, representing sixty two universities and colleges in Korea. Under this organization, the Sam-min-tuwi or Three Min<sup>7</sup> Struggle Committee was organized as a political arm of the National Federation of Student Association.

Secondly, the students formed connections with the working class. The student group perceived that one of the main causes for the failure of the democratic movement in 1980 was the lack of connection with the working class. That is, in their view, democratization in 1980 failed because the working class did not join the student movement for democracy.

It is clear that the ultimate goal of student activism in the labor movement is to form an ally with the working class for political democracy. One of the ideological thrusts of the Sammintuwi lies in the emphasis on solidarity between labor and students as a cornerstone of effective political struggle, particularly programs of consciousness raising on economic injustice, dependent development and political oppression among the exploited low-wage workers, farmers and the urban poor (Dong 1987:244). A Samintuwi study material singles out the absence of this key factor as one of the main causes for the failure of the student movement in 1980 (Dong 1987:249).

Thus, what the students did to create connection with the working class was that group of students (both current students and those who

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<sup>7</sup>The three min include the Liberation of the Grass-root people (min-jung), the attainment of democracy (min-ju), and the unification of the nation (min-jok).

have been expelled because of political activism) become workers in the factories, hiding their identities. In so doing, the student workers play a leading role in raising class consciousness organizing workers, and staging labor disputes. The number of former student activists obtaining employment in industrial plants as manual workers is estimated to be about 1500 (Dong 1987:249). According to data from the Ministry of Labor Affairs, as of December 14, 1985, about 302 student workers in 148 firms were identified and dismissed. About 60 cases of labor disputes out of a total of 256 during 1985 were led by the student workers (DongA Yearbook 1986:171).

Thirdly, the activist students increasingly resorted to violence. An incident related to big business is the occupation of the FKI on March 18, 1986. Sixteen college students from 6 universities in the Seoul area occupied the office of the chairman of the FKI and issued a statement entitled, "Deal an Iron Blow to the Headquarters of Dictatorship and Monopoly," in which they called for punishment of the 'comprador monopoly capitalists,' and the overthrow of the dictatorship of the military regime. The students were soon arrested by police (DongA Daily 1986, 3/19). In sum, the student group in Korea is an ideological vanguard against the capitalist class.

**The Working Class:** The working class in Korea has been systematically constrained by the corporatist state policy in the name of developmentalism and anti-communism since the Park regime. From the beginning of the Park regime, although "labor laws were revised to strengthen state intervention" (Kim 1979:38), the 1963 constitution guaranteed the rights of free association, collective bargaining, and

collective action. However, movements away from the labor philosophy of the 1963 constitution could be observed in the latter part of the 1960s. The most drastic change came at the end of 1971. At the end of 1971, the Special Laws for National Defense<sup>2</sup> was enacted. With the special law, the government Office of Labor Affairs was given jurisdiction in all labor-management disputes. Collective contracts had to be approved by the Office of Labor Affairs and the solution of all dispute issues became the prerogative of that agency. Strikes, of course, were forbidden (Ogle 1978:143).

In spite of, and because of, the repressive government control, the working class has developed its class consciousness and has maintained strong labor movement in the 1970s although the absolute frequency decreased because of repression. Kim (1984) summarizes the characteristics of labor movements in the 1970s: Since the legal channels to resolve labor complaints were blocked by the repressive policy, the prominent pattern of class struggle became one of extreme violence. Between 1970 and 1979, at least 7 workers committed or attempted suicide to protest against the ruling groups, and two workers were killed. Also, workers most of the time resorted to brutal violence. As is well known, the downfall of the Park regime was initiated by a violent labor struggle (Lee 1980).

In the 1980s, the state control became even more repressive in several respects. The most radical change was that the system of trade unions was shifted from industry level to individual firm level units. This system was designed to prevent class-wide activity and intervention from third external forces such as the students, the

religious groups. By this system, even the Korean Federation of Trade Unions (KFTU) was prohibited from involving in the firm level labor disputes. Also, the required conditions for unionization became further constrained and thus unionization was made almost impossible (Kim 1984:336). Furthermore, the Chun regime "purified" the existing trade unions. On August 20, 1980, 12 chairmen of industrial trade unions were dismissed; 105 local branches of unions were closed; On September 20, 191 union leaders were fired from their jobs (Hwang 1985:476). In so doing, strikes were forbidden and the KFTU became a puppet of the government.

The more repressive labor control further stimulated working class consciousness and facilitated class activity in a sense. Rather than resort to the puppet unions, some workers organized their new independent class organizations in the 1980s. They are the Korean Workers Welfare Association, the Chung-ge Garment Trade Union, the Korean Federation of Christian Workers, the Fighting Committee Against Labor Movement Repression, the Kuro Area Democratic Trade Union Promotion Alliance, the Workers Joint Struggle Association, the Korean Christian Workers Evangelic Council, the Korean Catholic Working Youngmen Association, the Korean Industrial Evangelic Association, etc (Moon 1985).

Here, we will not analyze what the labor unions did because it is not the purpose of this chapter (see Launius 1984; Kim 1984; Hwang 1985; Moon 1985). It is sufficient to take a brief look at one episode to see the class consciousness of the angry workers.

The largest labor dispute ever experienced in Korean society

occurred on July 1987 and continued for more than three months. It exploded right after the June 29 Democratization Declaration (or 8-point proposal) by the ruling party as a result of the nation-wide protest of opposition groups during the month of June. Since the declaration was basically a shift from dictatorial, rubber stamp, electoral college system to a democratic system for direct election of the president, the ruling party withdrew the coercive forces from the corporatist labor policies just to build a democratic image of the ruling party in a preparation for the direct presidential election to come.

For the three months after the Declaration, more than 3,329 cases of labor disputes occurred in almost all larger enterprises and 1,261 new labor unions were organized, and the total rate of unionization rose to 30.6% (compared to 30.8% in Japan, 32.3% in Western Germany, and 36% in England). The labor disputes were conducted in violent ways: Two workers were killed during the incident; the city hall of Ulsan, the largest industrial city, was attacked and set aflame by the angry workers; many production facilities were destroyed; managers of enterprises were forced to sit on their knees in front of the workers (DongA Daily 1987, 8/25, 9/11, 9/29, 9/30). This episode suggests that when the coercive state power was withdrawn, big business totally lost its control over the working class, which was keenly aware of its class interest.

In short, the capitalist class does not ideologically dominate the working class. The working class is kept suppressed by the state.

## Conclusions

In this chapter, the capitalist ideology was analyzed in terms of a dynamic conflict model among the capitalist class, the regime and the ruled groups over time. The model illuminates the operation of the capitalist class ideology in terms of power relations with the political regime and the subordinate classes. We found that the political regime had a profound impact on the capitalist class ideology in Korea. First of all, the ideological state apparatuses and the repressive state apparatuses are monopolized by the political regimes. Thus the capitalist class has only limited resources to mobilize for its ideological manipulation.

Secondly, and more importantly, the change of regime itself had a definite effect on the capitalist class ideology. The Park regime's ideological themes of developmentalism and anti-communism established the ground work for the consolidation of the capitalist system in Korea and made possible rapid economic development without being seriously constrained by demands for equal distribution from the working class. In contrast, the Chun regime switched to the emphasis on social justice for the sake of regime legitimation. Under this theme, big business was forced to put emphasis on social responsibility of business. The classical ideology of profit maximization was pushed into the background. The political ideology of the Chun regime and the emphasis on social responsibility seemed to influence the basic direction of social opinion of the big businesses. It is true that the big businessmen had been criticized from earlier periods for their wrongdoings and irregularities. But the Chun regime

reinforced the past image and defined it as social evil which should be eliminated by the lead of the new regime in the 1980s.

The intellectuals, especially the journalists and the professors, which lead public opinion in Korea, helped escalate it to a highly negative image of the big businessmen on the moral/ethical dimension.

The students are another active group in opposing the capitalist class. The students established the Sammintuwi, a vanguard organization of student activists, and created the sammin ideology which is strongly influenced by Marxist revolutionary ideas. They are active in leading joint student-labor activity partly as a strategy of labor movements and partly as a strategy to form ally with the working class toward democratic movements.

The working class in Korea, especially in the 1980s, is characterized by the brutal violence in its labor movements, even though it is not radical in ideological orientation. The working class remains as a strong challenge to the legitimacy of the capitalist class in Korea.

We assessed capitalist class legitimacy using our analysis model (see Figure 6-1) which is based on triple criteria of system legitimacy, moral (and legal) legitimacy, and functional legitimacy. The capitalist system legitimacy was generally well shared by the ruled classes in terms of system legitimacy such as developmentalism and anti-communism. Functional effectiveness of the big capitalist class was also quite well received by the ruled classes in terms of its contribution to the rapid economic development. However, moral (legal and rational) legitimacy was strongly challenged by the ruled

classes. Especially by the students, professors, and the press which led public opinion through various modes of social movements and social criticism against the immoral business activity of the big capitalist class. The big businessmen were generally perceived as engaged in illegal profit-making through various types of wrongdoing including exclusive favors from the government, speculation in real estate, octopus-like firm mergers, tax avoidance, labor exploitation, etc. Indeed, the earlier label of "illicit wealth accumulator" is not yet eliminated. The big capitalist class developed several sophisticated ideologies to meet these challenges from the ruled classes. For example, the most highly invoked theme in the 1980s was the social responsibility of the corporation. But these ideologies were outvoiced by the stronger opposition of the ruled classes.

Then, if we apply our model in Figure 6-1, the type of opposition of the subordinate classes; either the working class, or the press or the professor, is "accommodative" rather than "radical" opposition or simple subordination because the subordinate classes accept the capitalist system itself but points to their shortcomings in practice. The capitalist class ideology is then only partially consolidated.

Figure 6-1 Schematic Presentation of the Operation of the Capitalist Class Ideology

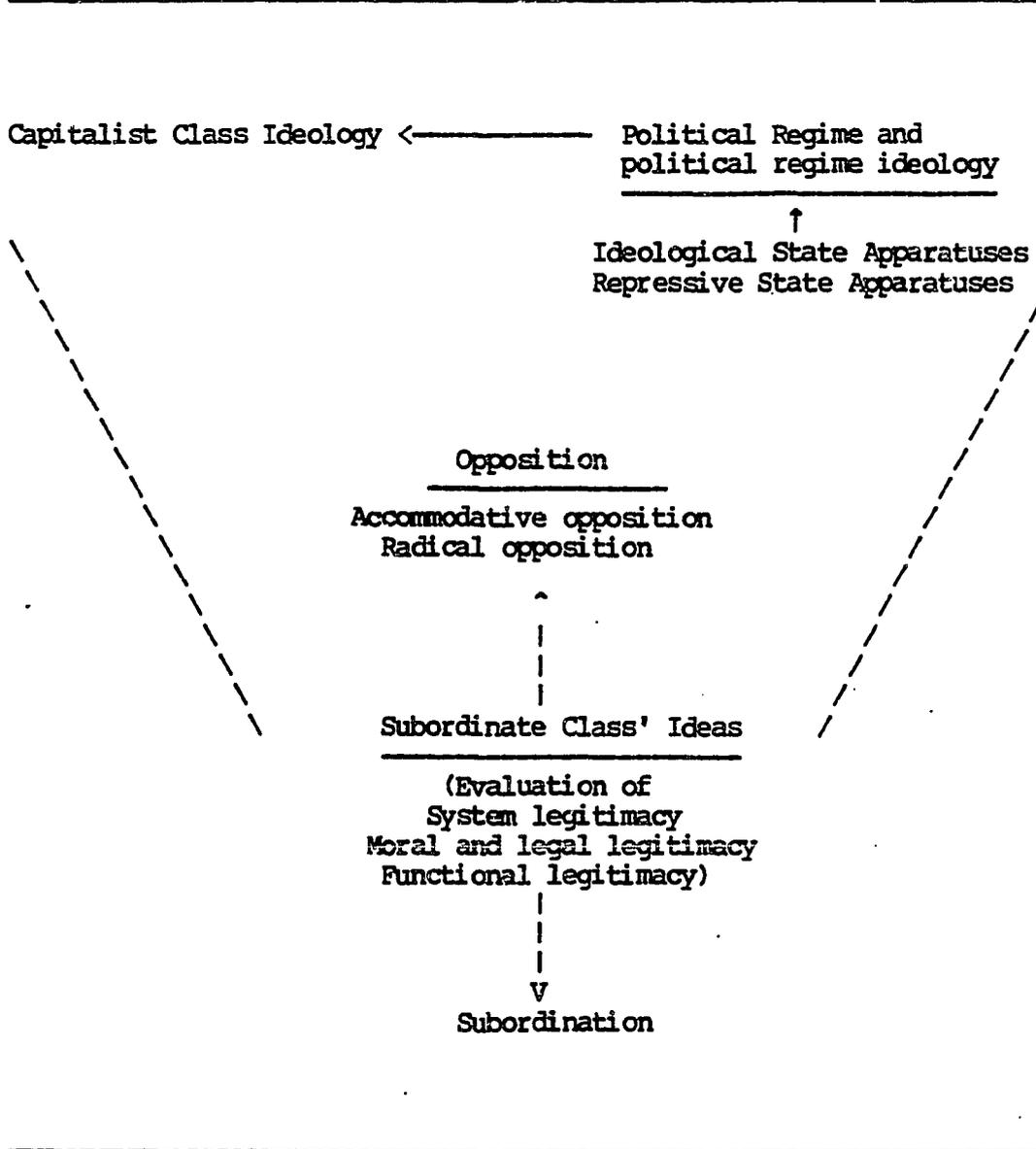


Table 6-1 Korean Capitalist Class Ideology: Frequency and Rate per Hundred Capitalists

Themes	F	Rate
Universalism	57	150
Social responsibility or public instrumentalism	20	53
Classical ideology (Profit maximization)	9	24
Symbiotism	9	24
Competition in the world economy	8	21
Paternalism	6	16
Nationalism	5	13
Entrepreneurship	9	24
Attribution to the state & being evil of state interventionism	4	11
Trustee	2	6
Total	72	

Note: Rate is calculated by dividing frequencies by 38 (total number of capitalists under study).

Table 6-2 American Big Business Ideology: Rate per Hundred Speakers of Reference

Themes	Rate
Classical	52
Nationalism	31
Social responsibility	19
Trustee	9
Professionalism	6

Source: Maynard Seider, 1974, American big business ideology: a content analysis of executive speeches. *American Sociological Review* 39:807.

Note: 1. Classical means "focus on the necessity of profit as a bulwark of the system or emphasize the market system as a regulatory force."  
2. Trustee means that "the officers and directors of a corporation are only trustees for its stockholders."  
3. Professionalism means "the unique skills necessary to the operation of large corporations" (Seider 1974).

Table 6-3 Percentage Distribution of Anti-Chaebol Content  
of Two Semi-popular Monthly Journals

		Shindong-A	Monthly Chosun
A	Period covered	1980-1986	1983-1986
	Total # of articles selected	162	103
	Average rates of selection	2.06	2.14
<hr/>			
Authors of articles (%)			
	Journalists	59	56
	Professors	22	33
	Businessmen	11	5
	Workers/Union leaders	4	-
	Others	5	6
	Total	100	100
<hr/>			
B	Contents in general (%)		
	Favorable	16	11
	Neutral	7	9
	Critical	77	81
	Total	100	100
<hr/>			
C	Detailed Contents of Critical Articles (%)		
	Labor exploitation	39	16
	Octopus-like merger & monopoly	15	23
	Exclusive favor from gov't	24	19
	Speculation in real estate	12	23
	Foreign loan and dependency	23	13
	Irregularity of financing	6	10
	Tax avoiding	5	10
	Over-competition	14	6
	Environmental pollution	3	4
	Frequent bankruptcy	9	19
	Luxury	3	2
	Lower effort for technology	3	6
	Seoul concentration	4	10
Total	100%	100%	

## CHAPTER VII

### CONCLUSIONS

In this concluding chapter, we will summarize our findings and then discuss the strengths - empirical and theoretical contributions - and weaknesses of this study. This study is based on the conceptualization of the Korean big business groups, chaebol, as a capitalist "class." Previous studies, mostly based on a political economy approach, have analyzed chaebol as an economic group and focused largely on the process of capital accumulation, neglecting the sociological aspects as a class.

This study has further elaborated the concept of social class into four dimensions - organizational, economic, social network, and ideological - and then constructed a framework of capitalist class formation in terms of class activity and its interplay with objective conditions (the political regime, the state, world system, and the subordinate classes).

Using the framework of class formation analysis, we started with the social origins of the industrial capitalists. In chapter II, we have shown that the social origins of industrial capital were largely from foreign capital, i.e., foreign aid and foreign loans. The traditional native source of capital in the agricultural society was of course the landlord class. But the landlords failed to transform themselves into modern industrial capitalists. We examined in detail the biography of big businessmen and the historical processes. The

historical processes which blocked the transformation of landlords to industrial capitalists include: 1) the traditional Confucian norms and the landlord class ideology of "agriculture being the prime task in the world"; 2) Japanese colonial policy which was designed to develop Korea as a periphery specializing in producing food grains to the interest of the Japanese economic system; 3) land reform and the Korean war (1950-1953); and post-war reconstruction policies (1953-1960).

Thus the actual root of modern industrial capital was found in the post-war construction period. The capital formation in this period was mainly funded from external sources: commercial capital accumulated through the import trade during the Korean War, the reverted properties left by the Japanese who returned to their country after WWII, and the American aid given for post-war reconstruction. The allocation of the last two external sources of capital - Japanese properties and American aid - was made by the Rhee regime based on a strong "political" consideration to form a financial base of the newly created Liberal Party. In this process, the Korean capitalists, from the onset, were formed with strong political connections bearing the seed of the label of "illicit wealth accumulator" which was given during the April 1960 Student Revolution.

In Chapter III, we analyzed the dimension of class organization, focusing on the Federation of Korean Industries. The FKI was organized to meet the political and social challenges which were initiated during the April 1960 Student Revolution. We discussed the process of the organizational consolidation of the FKI in terms of

establishment of various organizational resources and several official and regular channels through which it influences government policy formulation. We also discussed the pattern of the FKI activities. We have shown that the FKI is highly active in economic affairs such as economic planning, finance, taxation, trade, etc.; but not in other affairs especially in political issues and other non-economic affairs. For more accurate terms, information on these non-economic matters were not detected in our study. The organizational resources the FKI developed also reflect this pattern. Most of the organizational resources are concentrated on economic affairs; the channels to government are confined to economy-related ministries.

In Chapter IV, we analyzed 16 state policies between 1961-1987 in terms of their formulation processes and their impact on the big capitalist class formation. Three major steps of class formation in economic dimension were identified: emergence, consolidation, and economic hegemony. These three steps coincided with changes of political regimes and changes of their development strategies. The emergence step was launched with the rise of the Park regime (1961-1972) and the adoption of export-oriented industrialization strategy. The consolidation step was introduced by the rise of the later Park regime or Yushin regime (1972-1979) and the deepening of the export-oriented industrialization strategy. The hegemony step was ushered in with the rise of the Chun regime (1980-1987) and the private initiative economy strategy.

During the emergence step, the capitalist class emerged as monopoly capital from the beginning because the large monopoly firms

were encouraged to gain competitiveness in the world export market. Based on the monopoly profit in the domestic market, each big business group rapidly grew and expanded into larger chaebol.

During the consolidation step, big businesses increased diversification of industries, upgraded industrial structure toward capital and technology-intensive industries, and concentrated businesses into a few hands of big business enough to control the Korean economy.

During the economic hegemony step, a private initiative economy was declared after a long rule of the state-led economic system since 1961. The capitalist class, based on its firm economic base and the big business-centered economic structure, could wield a determining power in state policy formulation processes. During the Park regime, the state strongly supported big businesses, but now became increasingly structurally constrained by capitalist relations of production. As far as the economic sphere is concerned, the capitalist class has obtained hegemony.

In Chapter V, we analyzed the social network consolidation. We have shown that, within chaebol, family ties and local ties constitute a centrality of the corporate executive network. In terms of outreach positions in the non-profit organizations, Korean capitalists developed a considerable number of networks in social organizations such as sports-related associations. However, when it comes to positions in the government sector, the capitalist class has negligible contributions in terms of both interlocking positions and career mobility. In other words, the capitalist class is excluded

from the formal positions in government power elites. However, the capitalists developed a high degree of indirect and informal relationships through third persons such as children's and siblings' marriages, and other personal relations.

We attempted interpretations in four different ways in terms of four possible factors: internal, below, and above the capitalist class, plus general political conditions. First, the patrimonial system of chaebol constitutes an internal cause. Since a chaebol is substantially owned and managed by its founder, the absence of the founder is detrimental to the management of the chaebol. Also since family members occupy the major executive positions, there is not much room for professional managers to develop their authority and social prestige. Because of this internal structure of the chaebol, the top managers could not have left their positions to join government positions; the professional managers do not have enough social prestige and power to become government power elites in Korea. Secondly, there has been strong resistance from below against politics-economy connections. The earlier label of "illicit wealth accumulators" was a fatal stigma against the big businessmen. As the chairman of the FKI remarked, the business community avoids even sending their formal representatives to the National Assembly just to avoid the criticism of politics-economy coalition. Instead, indirect and informal ties have become the preferred alternative. Thirdly, there was a constraining factor from above. The businessmen were not allowed to share official positions in the state bureaucracy because the state managers formed a social closure among themselves. And

finally, frequent political upheavals in Korea prevent businessmen from participating in politics which means joining a particular political faction. Keeping aloof from the 'dangerous game' is a safer way.

In Chapter VI, we discussed the ideological dimension of the capitalist class formation. The capitalist ideology was analyzed in terms of a dynamic conflict model in relationship to the political regime, and the subordinate classes. The political regime played a determining role in capitalist class ideology. First, the political regimes monopolized the ideological state apparatuses and the repressive state apparatuses for the sake of the regime maintenance. Thus the capitalist class was excluded from access to them. The capitalist class was highly constrained in manipulating its ideologies. And secondly, the political regime ideology itself asserts itself as an ultimate value system. The Park regime ideology, developmentalism and anti-communism, were favorable ideologies for the capitalist class. The developmentalism was reflected in big capitalist class ideology in the Park regime. The Chun regime ideology, social justice, pushed the capitalist class to recognize the social responsibility of corporations and business ethics, which initiated the overwhelming social criticism from the subordinate classes against big business in the 1980s.

To analyze the reaction of the subordinate classes, we used a specified set of legitimacy criteria: system legitimacy, moral (legal and rational) legitimacy, and functional legitimacy. The capitalist system legitimacy was generally well shared by the subordinate classes

in terms of system legitimacy such as developmentalism and anti-communism. Functional effectiveness of the capitalist class was also quite well received by the subordinate classes in terms of its contribution to the rapid economic development. However, moral (legal and rational) legitimacy was strongly challenged by some of the subordinate classes. Especially by the students, professors, and the press which led public opinion through various modes of social movements and social criticism against the immoral business activity of the capitalist class. The big businessmen were generally perceived by the subordinate classes as engaged in illegal profit-making through various types of wrongdoing including exclusive favors from the government, speculation in real estate, octopus-like firm mergers, tax avoidance, labor exploitation, etc. Indeed, the earlier label of "illicit wealth accumulator" is not yet eliminated. The capitalist class developed several sophisticated ideologies to meet these challenges from the subordinate classes. For example, the most highly invoked theme in the 1980s was the social responsibility of the corporation. But these ideologies were outvoiced by the stronger opposition of the subordinate classes.

#### **Nature of Korean Capitalist Class: Differential Development and the Limits of Class Power**

As revealed from the summary part, perhaps the most important result of this study is the evidence we found for the differential development between the economic level and the non-economic level (or class organizational activity, social networks, and class ideology) of

the capitalist class formation. In the economic base, the capitalist class dominates over other social classes and, to a substantial degree, even state economic policies. However, the capitalist class could not consolidate its non-economic dimension equivalent to the consolidation of the economic base. There are several possible interpretations and evidence of these findings. First, it is possible that the economic dimension and the non-economic dimension change at different rates. That is, the non-economic dimension develops more slowly than, and lags behind, the economic dimension. According to William Ogburn (1964), "superstructure" (or nonmaterial culture) is "adaptive," meaning that it responds to changes in the "infrastructure" (or material culture). Cultural lag occurs when the superstructure fails to change fast enough to keep up with infrastructural change.

This cultural-lag interpretation of our findings is not simply a speculative assumption. Considering that the rapid economic development in Korea was launched in 1962, it is only 25 years that Korean capitalist class emerged as a social class. This period is shorter than a one generation period. In fact, a large proportion of chaebol owners is still of the founder generation. Even though the economic base of the capitalist class could grow rapidly, the superstructure not only lagged behind the economic base, but also lacked absolute time. As Chung Joo Young, chairman of the FKI, remarks, "the Korean big businesses are not mature yet in their internal ethic, mode of behavior and social relations, compared to their size in the economy. We lacked enough time to do that yet"

(Monthly FKI 1983, Aug.:22). A former big businessman, Lee Chang Woo, stated in an interview with me, that "the Korean big business group is a mentally retarded group in the sense that it is morally deficient even though its physical body is mature enough."

Secondly, our study coherently documented that the non-economic sector is 'deprived' by the domination of the political regimes which are based on the military and the "overly developed state" (Ougaard 1982; Alavi 1972). The political regime controls the political and ideological sector of Korean society by monopolizing the state apparatuses. Indeed, as Alavi (1972) and Saul (1974) found in other post-colonial societies, Korean society also has handed down an overly developed state bureaucracy from the Japanese colonial government. Furthermore, Korea has developed a super-strong military group, internally, due to the experience of the Korean war, division and confrontation between communist North Korea and capitalist South Korea, and externally, due to the military support from the United States. Thus the government bureaucrats and the military which directly intervened in politics since the 1961 military coup constituted a dominant power group in Korea even before the capitalist class came into being in Korean society. Thus the political regime has been the super-strong force in shaping the nature of Korean society.

The capitalist class emerged as a new power group during the developing era based on the rapidly developed economic sphere. But the capitalist class could not extend its economic power beyond the economic sphere because of the predominant power of the political

regime. Chapter III, V, and VI documented this interpretation.

An important political organization of the capitalist class, the FKI, is highly active only in the economic sphere. The FKI cannot dare to influence the political regimes on non-economic issues. In terms of social status, the big businessmen occupy only marginal positions in non-profit social organizations, and a negligible number of government positions. The military and bureaucrat groups monopolize the power positions. The capitalists make connections to the power elites only through indirect and informal ways. In the ideological dimension, the capitalist class cannot have easier access to the ideological and repressive state apparatuses than political regimes do. Also, political regime ideologies are the ultimate criteria on which the capitalist class ideology stands.

Indeed, the political and ideological sector of the society is substantially controlled by the political regimes in Korea. The capitalist class, dominant in the economy, is deprived of an equivalent degree of control over the non-economic sector mainly because of the predominance of political regimes.

When it comes to the power leverages available to the capitalist class, they are definitely differentiated between the economic level and the non-economic level, and among different dimensions of the non-economic level. On the economic level, the capitalist class has a dominant power leverage over any other social group in Korea. However, it has no equivalent power leverage on the non-economic level.

Among subdimensions of the non-economic level, the power leverage

of the capitalist class is also differentiated. In class organization, it is active in the economic sphere, but not in other non-economic sphere. In social networks, it has developed a power leverage through indirect (marriage of children and siblings to power elites) and informal (personal relationship) ways, but not in direct and formal positions in the government. In ideology, it is strong in system legitimacy and functional or effectiveness legitimacy, but not in moral and legal legitimacy.

In order to illuminate the nature of the capitalist class, it may be worthwhile to compare it with the traditional Korean dominant class, the landed aristocracy in the Yi-dynasty (1392-1910). The Yi-dynasty was a typical class society in which the ruling landed aristocracy (or landlord class or yangban in Korean terms) controlled all sectors of the society. Whereas the vast majority of the subordinate classes were peasants who either owned small plots of land, farmed the land of the landlords as tenants, or were workers as landless agricultural laborers, the ruling yangban class monopolized all the economic, political, ideological, and social status privileges (Palais 1975:6). As Hong argued, the Weberian trichotomy of class-status-power all merged into the yangban class (1980:19). The yangban class was powerful enough to control and check even the throne. Especially in the first half of the nineteenth century the yangban class increased its control over the throne and the central bureaucracy. Consequently, the Taejong, who was in power between 1854 and 1873, waged an arduous struggle to restore the power and prestige of the throne to earlier levels, increasing the central

government control over financial resources, and building up military strength (Palais 1975:5). The Taewongun's reform, however, failed mainly due to the predominance of the yangban class intent upon the preservation of its social, economic, and political privileges (see Palais 1975 for detail).

Compared to the landed aristocracy in the Yi-dynasty, the contemporary capitalist class is far behind in the degree of its class consolidation.

Comparing our findings to Eun Mee Kim's study (1987), we see a sharp contrast. She focused only on the economic dimension of the chaebol, construing the chaebol as an economic group not as a social class, and concluded that the chaebol grew large enough to constitute a symbiotic relationship with the state. As far as the economic dimension is concerned, we reached the same conclusion as Kim's study. But when we employed the social class conception and elaborated the social class into four specific dimensions, ie, organizational, economic, social status, and ideological dimensions, we found that the capitalists have differential power leverage in different aspects of class activity vis-a-vis the state managers and the subordinate classes.

#### Theoretical Contributions

Our findings on Korea, summarized as deprivation of non-economic sectors and differential power leverage of the capitalist class, may contribute to reconsidering the "ruling class thesis" when it is applied to developing societies, especially post-colonial and

military-interventionist societies. The ruling class thesis is basically a class-hegemony paradigm originating from Marxist class theory. According to Domhoff (1979), a ruling class is characterized as:

1. A disproportionate amount of wealth and income compared to other social classes and groups within the country;
2. Control over the major social and economic institutions of the state;
3. Domination over the governmental processes of the country (p.12).

According to this conception, the Korean capitalist class is not a ruling class as in the advanced capitalist societies. Although it occupies a disproportionate amount of wealth and income, the Korean capitalist class does not dominate over the governmental processes of the country. Rather, the military group and career bureaucrats do that in Korea. The Korean capitalist class is not a ruling class in the society as Marxist class thesis implies. The Marxian conception of the ruling class thus cannot be used to refer to the capitalist class in Korea. This argument may be generalized to other developing countries with similar power structures such as Taiwan, Hong Kong, Singapore, and some Latin American countries.

Our findings do not fit the Neo-Marxist statist thesis, either. The statist literature on political economy in Third World countries in turn shifts to the state to emphasize the weak capitalist class and the leading role of the state. Our study, however, revealed that even though the role of the state is fundamental, the capitalist class can never be seen as an agency to implement state economic planning. The capitalist class can control and check the state policies as far as

economic affairs are concerned; the Korean state has been increasingly constrained by the big business-oriented-economic structure. If the capitalist class has a differential power leverage vis-a-vis the state, the state in turn has a differential power leverage vis-a-vis the capitalist class. But the capitalist class is surely senior partner to the state.

#### **Some Speculation about the Short-term Future**

It would be worth while to extend our findings to some speculation about the short-term future. We have argued that it was the predominance of the political regime which shaped the nature of the capitalist class in Korea.

However, we should not neglect the increasing potentiality of the capitalist class and the new trend in the new Rho regime. In economic dimension, the capitalist class is rapidly increasing its competitiveness in the world market by innovating technology. For example, recently, the Association for Semiconductor Research, which consists of Samsung, Lucky-Gold Star, and Hyundai Group, succeeded in developing the 4 Mega-D RAM semi-conductor in the third place in the world, closely following the USA and Japan (DongA Daily 1988, 2/11).

Also, several new factors will affect the short-term future. One is the 1988 Seoul Olympics. Big businesses are intimately involved in the program of the Olympics such as hosting foreign representative players, and large scale commercial advertisement (guided factory tour guide). Another is the normalization of relations with the People's Republic of China. The Rho regime is making an ardent effort for this

and a tentative agreement is already made between the two countries. With these new opportunities, Korean businesses expect another turning point for rapid development. In fact, the capitalist class in Korea is the strongest in its economic base. The further development of economic and structural base of the capitalist class may be translated to political power in the near future.

In the social network dimension, big businesses had only indirect and informal ties with the government in the past. But in the new Rho Tae Woo regime which was launched in February 1988, there are some signs of change. For example, a president of Hyundai Group (son of Chung Joo Young) and a few other big businessmen were nominated as candidates for national assemblymen by the ruling party, and a former corporate elite was appointed as minister of the Economic Planning Board in the new regime.

In the ideological dimension, as discussed, the capitalist system ideology was firmly stabilized in Korean society. Also, the Korean capitalist class knows how to justify class interests in terms of widely held national aspirations. And now, The capitalist class may dispense with resorting to the allegedly illegal and immoral ways of capital accumulation because the economy is in better shape now.

Another political structural factor to be considered is the shift of the rubber stamp electoral college system to a democratic direct election system in late 1987. This constitutional revision was due to the massive opposition from the students and the middle class which emerged in the wake of economic development. The constitutional change has an important implication for capitalist class power. If

democratic electoral success is in part dependent on availability of campaign funds, and if the major source of such funds is business, the power of the capitalist class may considerably increase.

But, the question remains unanswered if the capitalist class chooses the civilian regime, giving up the effective control over the working class provided by the authoritarian military regime. There is strong evidence that the capitalist class prefers the authoritarian military regime. When former president Chun suddenly prohibited the ongoing debate on constitutional revision on April 13, 1987 (this is so-called April 13 measure), the only social group which supported the authoritarian reactive measure was the FKI and other businessmen associations (DongA Daily 1987, 4/14). This episode reveals that big businesses prefer stability of investment climate and the insulation from the working class activity to the increased class power vis-a-vis the state.

However, in the event that a civilian regime should come to power based on electoral support from the majority middle class, capitalist class power vis-a-vis the government might still be enhanced because the political regime's occupation of the ideological state apparatuses would be considerably weakened; and more room would be left for capitalist class participation in governmental processes. When the capitalist class has easy access to the ideological state apparatuses, it may enhance its legitimacy much more easily than before.

#### **Weaknesses and Suggestions for Further Research**

Having discussed the contribution of this study, it is fair to

point out some of its weakness and suggestions for further research. Some of the weaknesses in the present study may be left for consideration in further study. First, although class formation stresses the need to understand classes in relationship to one another, that is, in terms of class struggles, this study focused on capital-regime relations. In each chapter, we made some effort to illuminate class relations with the subordinate classes and the political regimes, but we did not cover, if not neglected, the details of class relations with the peasantry, the working class, small-medium capital.

Secondly, in chapter III, based on manifest data only, we drew a conclusion that the FKI is active only in economic affairs. For a more accurate estimate of the FKI activity, the stories behind the scene should be investigated. It was impossible in this study because of problem of access. Finally, in Chapter V, informal networks of the big businessmen such as friendships, social clubs, etc, were left untouched due to lack of information. These deficiencies and missing information may be considered in further research.

In spite of these methodological and data deficiencies, we appropriately utilized a method of comparison between multi-dimensions of social class concept - organization, economy, networks, and ideology - and subdimensions within each dimension for an analytical elaboration. We hope that the findings and generalization guided by the further elaborated conception of social class make a contribution to understanding the uniqueness and complexity of the capitalist class in a newly industrialized country, Korea.

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