

Debating Economic Democracy in South Korea: The Costs of Commensurability

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ABSTRACT: In the 2012 Korean presidential election, both liberal and conservative parties fought their campaigns on the slogan of “economic democratization,” marking a strong departure from past presidential elections and the growth-first policies of the then-incumbent conservative administration. Both parties pledged to tackle growing social polarization and the concentration of economic power by reforming the corporate governance of Korea’s large, family-led conglomerates (*chaebol*), to the degree that *chaebol* reform itself became synonymous with economic democratization. This focus led to a series of heated exchanges among liberal-left reformers about the vision of economic democratization being promoted, with one camp favoring the creation of a “fair market” through the restructuring of the *chaebol* and another promoting the protection of the *chaebol*’s management rights over their affiliates as a desirable strategy for the creation of a Korean welfare state. This essay examines the long-standing tensions between these two liberal-left perspectives and argues that the capital-centric and market-based visions these camps promoted risk confining intellectual debate over the meaning of economic democracy within boundaries that serve dominant political interests.

Keywords: democratization; welfare state; developmental state; economic democracy; corporate governance; *chaebol*; neoliberalism; financialization; South Korea

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In this essay I examine a long-standing antagonism among prominent liberal-left economic reformers and intellectuals in South Korea over the nature and role of the *chaebol*: Korea’s large, family-

controlled conglomerates such as Samsung and Hyundai. One group of reformers sees the *chaebol* as an obstruction to greater democracy while the other contends that the *chaebol* have a potentially complementary role. While the tension between these camps has been simmering since the Asian financial crisis of the late 1990s, it reached a fever pitch in advance of the 2012 presidential elections when reformers engaged in a lengthy debate over the concept of economic democracy (*kyoungje minjujuui*). Catalyzing this debate was the fact that both the incumbent conservative Saenuri Party and the opposition Democratic United Party (DUP) embraced “economic democratization” as their central campaign slogan and promised to pursue *chaebol* reform.¹ Under the umbrella of economic democracy, the presidential candidates promised to contain the octopus-like expansion of the *chaebol* into sectors that have traditionally been the preserve of small businesses and the self-employed, such as neighborhood bakeries, restaurants, and small- to mid-sized retail shops. They also pledged to tackle unfair contracting practices between the conglomerates and their subcontractors and to crack down on illegal and unfair activities perpetuated by their concentration of economic power.

To gain leverage over the *chaebol*, both parties targeted the dense cross-shareholding networks ruling families use to maintain managerial control over their affiliates through the ownership of only a small fraction of shares. Reforming this system would be the key to the creation of a fairer market economy that would limit the monopoly power of the *chaebol* and force their affiliates to act like independent businesses in their dealings with workers, contractors, and investors. Both parties drew up ambitious plans that included vigorously enforcing antimonopoly legislation, banning further cross-shareholding on new investments, and eliminating existing cross-shareholding among affiliates.

The focus on *chaebol* reform generated a sharp debate within conservative and liberal-left circles about the vision of economic democratization. The Federation of Korean Industries denounced economic democracy as a dangerous breed of populism. While on the left, the globally recognized development economist Ha-joon Chang² complained that politicians had mistakenly embraced economic democratization as a process of “weakening the strong,” adding that “economic democratization isn’t such a thing that simply promotes small stockholders’ rights or prevents circular equity investment between subsidiaries.”³ In opposition to reforms that weaken and dissolve

¹ After the election, the DUP changed its name to the New Politics Alliance for Democracy.

² In this essay, I follow the Korean convention of placing surnames first, e.g., Kim Dae-jung, except in cases where the name of the individual concerned is widely known otherwise, e.g., Ha-joon Chang.

³ Ha-joon Chang, quoted in Lee Sang-eon 2012. As Kim Jin-bang notes, the terms cross- or circular-shareholding/investment are often used to translate the Korean term *sanghoch’ulcha*, which is more directly translated as reciprocal or mutual equity investment. *Chaebol* families use cross-shareholding to maintain control over the whole group even though they hold a minimal amount of stock: in most cases only owning less than 5 percent of total stock in core affiliates. The usual pattern is that the ruling family owns a large quantity of shares belonging to a non-listed, de facto holding company (company A) that owns a high percentage of shares belonging to company B, which owns shares belonging to company C, and so on. This creates a dense, interconnected web through which they maintain managerial control over the whole group. Kim Jin-bang 2013, 74.

conglomerate power, Chang and his close associates argued that the large conglomerates should play a vital role in the establishment of a Korean welfare state.⁴ They proposed that a social compromise be made that protects conglomerates' management rights over their affiliates in exchange for an agreement on increased domestic investment and taxation to spur job creation and fund the necessary expansion in social security needed to establish a welfare state.

The criticisms of *chaebol* reform made by Chang and his coauthors Jeong Seung-il and Lee Jong-tae stimulated a series of heated exchanges with other liberal-left economic reformers who had either promoted *chaebol* reform in the past or had been involved in supporting the DUP's economic democratization campaign.⁵ These exchanges were full of vitriol and recrimination. For instance, Chang and his colleagues attacked *chaebol* reformers for "decorating left-wing neoliberalism as economic democratization."⁶ In response, *chaebol* reformers labeled Chang's camp "pro-*chaebolists*" and charged them with being apologists for Park Chung-hee, whose regime had nurtured the *chaebol* into the large conglomerates firms that they are today.⁷ Despite the animosity between these reformers, however, the proposals of both camps fixate on the *chaebol*'s corporate governance as the central problem for the development of economic democracy. One camp favors the elimination of the *chaebol*'s existing cross-shareholding arrangements in order to create a "fair market economy,"⁸ while the other aims to preserve the arrangements in order to protect the *chaebol*'s managerial rights over their affiliates against the perceived threat of hyper-competition and speculative financial markets for corporate control and to lay the basis for a broader social compromise that leads to the development of a Korean welfare state.⁹

⁴ Chang et al. 2012c.

⁵ On the liberal-left, this debate became known as the "debate on the nature of the Korean economy," see Choi (Byung-cheon) 2012. While it built upon existing tensions among reformers, it was inaugurated by the publication of a book of conversations between Ha-joon Chang, Jeong Seung-il, and Lee Jong-tae, entitled *Making the Right Economic Choice*. In the book, they advocated for a transition to a welfare state and criticized *chaebol* reformers. This book was published roughly at the same time as one by prominent *chaebol* reformer Kim Sang-jo entitled *The Korean Economy Inside Out: Eight Questions about the Korean Economy for the Chaebol and MOFia*. (Note: "MOFia" is a popular slang term for Ministry of Strategy and Finance). Reviews of both books quickly generated exchanges that were published by Pressian (a popular, progressive internet-based magazine) and spilled over onto other progressive websites and journals such as redian.com, *Citizens and the World*, and progressive newspapers such as the *Hankyoreh*, among other newspapers and popular websites.

⁶ See Chang et al. 2012b; 2012d.

⁷ Lee Byeong-cheon 2012a.

⁸ Kim Sang-jo, director of Solidarity for Economic Reform and a leading minority shareholder activist, uses the phrase "fair market economy" to describe a process of establishing firm rules for the dispensation of justice concerning the services and crimes carried out by the *chaebol*; see Kim 2012a. He argues that this strict approach will make the *chaebol* enter into the framework of social cooperation, producing economic democratization. Likewise, Lee Byeong-cheon (2012b) advocates that *chaebol* reform is the gateway to a "symbiosis" in which independent businesses flourish in every corner of society and high-quality jobs increase.

⁹ Chang et al. (2012c) describe this conflict as one between "*chaebol* reform according to the principle of shareholder capitalism" and "*chaebol* reform according to the principle of the welfare state." See also Kim (Jin-chol) 2012.

I argue that the passion of these debates conceals the fact that both perspectives embrace a capital-centric and market-based vision of economic democracy that risks confining intellectual debate within boundaries defined by dominant political interests. Neither the *chaebol* reformer's stricture that firms abide by the principles of the shareholder value, nor, conversely, the welfare state camp's championing of "national" firms against "international" finance, significantly challenges the social relations upon which the market sits. Instead, as discussed below, these strategies are commensurate with the concerns of both moderate and traditional conservatives. The cost of this commensurability – by which I mean the fact that both sides share with the conservative bloc a common conceptual understanding of economic democracy based on either market economics or state-led developmentalism – is that despite their best intentions of enhancing fair competition and establishing a welfare state, both camps prioritize the interests of capital over those of workers and other diverse subaltern groups.¹⁰ This priority leads to the assumption that getting corporate governance right will allow for a smooth transition to a welfare state. The effect is a limited strategy for economic democracy that primarily emphasizes *intra-class* relations among capital holders rather than the *inter-class* relations between labor and capital that structure economic inequality.

This essay is organized as follows: the next section examines the political context in which economic democracy became the central slogan of the 2012 presidential elections. It discusses how despite the fact that the slogan allowed for more progressive and egalitarian demands to be heard, the DUP failed to put forward a vision of economic democratization that significantly challenged the policies proposed by the moderate conservatives who led Park Geun-hye's campaign to victory. The next section surveys the alternate proposals of Chang's "welfare state camp" (hereafter WSC) and examines some of the criticisms they received, in return, from *chaebol* reformers. The next two sections historicize the animosity between these two liberal-left perspectives in more detail. The strategies of *chaebol* reformers are discussed in relation to the opportunities for economic reform activism that followed the transition to electoral democracy, while the WSC's criticism of *chaebol* reform is situated in light of the 1997–98 Asian financial crisis and its aftereffects. These sections detail how the strategies of both camps have built upon existing antimonopoly and nationalist tendencies that date from the Korean democracy movement, but in a moderate direction that has replaced class analysis with idealized understandings of both market competition and the role of the *chaebol* in Korea's economic development. The final section looks at the WSC's endorsement of

¹⁰ Nonetheless, to say that the conceptual frameworks of dominant liberal-left reformers remain commensurate with those of moderate and traditional conservatives is not the same as saying that their policy prescriptions are *equivalent*; for instance, the DUP had relatively more assertive policy proposals surrounding welfare programs and it advocates for more stringent corporate governance reform than the Saenuri Party. Meanwhile, while Chang and his associates' proposals to protect the *chaebol's* management rights share its praise of Korea's national champions with traditional conservatives, they see this strategy as necessary to establish the foundations for much higher rates of taxation and welfare spending than conservative governments have historically endorsed.

social democracy in more detail as it appears to represent a more progressive alternative to mainstream *chaebol* reform. Upon closer analysis, the WSC's neglect of inter-class relations of exploitation and its willingness to protect the management rights of the *chaebol* without clearly specifying a strong role for the democratic participation of the labor movement and other subaltern struggles limit such a strategy. The concluding section briefly discusses the Park Geun-hye government's retreat from economic democratization shortly after her inauguration and suggests that a more broadly egalitarian and emancipatory politics of economic democracy provides a better starting point for future debates over economic reform.

Debating Economic Democracy

In South Korea's 2012 presidential election, both ruling conservative and liberal opposition parties fought their campaigns using the slogan "economic democratization." Under this banner, they promised to tackle social polarization by addressing the enormous concentration of wealth in the hands of the *chaebol*, expand social welfare, and create thousands of new, high-quality jobs. Though the precise meaning and policy content of the concept lacked definition, to the majority of the population economic democratization implied that the next government in office would pursue some form of *chaebol* reform and an expansion of social welfare. For instance, Kim Jong-in, chair of the Saenuri Party's Public Happiness Committee and architect of Park Geun-hye's economic policy campaign, declared that "no matter who becomes president, if they do not effectively push economic democracy and *chaebol* reform, they will end up an early lame duck and the administration will be short lived."¹¹ The presidential candidate for the DUP, Moon Jae-in, similarly announced that "the task of the next government is to realize economic democracy.... [W]ithout *chaebol* reform, economic democracy cannot take place."¹²

In Korean politics, where cold war rhetoric often saturates the discursive field, this emphasis on welfare and economic democratization, with *chaebol* reform at its center, appeared to be significant departure from the status quo. The military dictatorships and conservative governments that succeeded them repressed concepts and ideas associated with social democracy. After his 1961 military coup, President Park Chung-hee curtailed the activities of social democratic parties and arrested their leaders under the National Security Law. Socialists fared even worse.¹³ Despite the transition to democratic elections in 1987, conservative politicians have rarely ceased using cold war rhetoric to demonize even the moderate opposition. They have frequently labeled liberal economic

¹¹ Kwak 2012b..

¹² Son 2012.

¹³ See Roh 2002, 312–313.

reformers as “reds” or “pro-North Leftists.”¹⁴ Popular enthusiasm for welfare expansion and the curbing of corporate power in the lead-up to the 2012 elections thus surprised politicians in both the ruling and opposition parties, who quickly found themselves musing about the Korean peoples’ newfound “passion for welfare.”¹⁵ Moon Jae-in enthused that during the Roh Moo-hyun government (2003–2008), “advocating economic democracy would have had you labeled as a leftist. Today, however, the entire public supports economic democracy.”¹⁶ Kim Sang-jo, a prominent reform economist, voiced a similar sentiment: “economic democratization is the spirit of the times now, but just one year ago the opposition camp pointed a finger at me calling me an extremist, red-leftist about my opinions.”¹⁷ Conservative intellectuals also approved. For instance, the American scholar of Korean politics, Victor Cha, praised the fact that the election was fought in the center, with less polarized rhetoric on North Korea, a toning down of “growth-at-any-cost” rhetoric, and promises to close the income and wealth gaps and to regulate the behavior of the *chaebol*.¹⁸

The conservative Saenuri Party’s embrace of political slogans associated with the left stood in stark contrast to the previous presidential election. The party fought their 2007 presidential campaign with a traditional, growth-first rhetoric that faulted the “leftist” policies of the preceding administrations of Kim Dae-jung and Roh Moo-hyun – liberal presidents who sought to address the crimes of past authoritarian regimes and promote peaceful engagement with North Korea – for slowing Korea’s growth momentum and undermining its national identity. The winner of the 2007 election, conservative Lee Myung-bak, claimed that he would usher in an era of high growth and “national advancement” (*seonjinhwa*) beyond democratization and industrialization.¹⁹ Lee eased regulations on the *chaebol* established by previous liberal governments – such as the equity investment ceiling that limited cross-investment among *chaebol* affiliates – and relaxed laws on the separation of finance and industry under the pretext that these actions would increase domestic investment. In the midst of Korea’s slowdown following the global financial crisis of 2008, however, Lee failed to deliver on his

¹⁴ For a closer analysis of how cold war rhetoric continues to be used to obscure democratic demands in South Korea, see Doucette 2013.

¹⁵ Chung 2012.

¹⁶ Lee (Tae-hee) 2012.

¹⁷ Kwak 2012a.

¹⁸ Kang, Leheny, and Cha 2013, 246. While the conservative Saenuri Party fought its campaign in the center, cold war discourse still played an active role in the presidential election, especially in its later stages. After Park Geun-hye’s victory, it was discovered that conservative state agencies had organized their own campaign to discredit the liberal-left opposition parties. In violation of the Public Officials Election Act, Korea’s National Intelligence Service (NIS) conducted a vigorous social media campaign that illegally circulated approximately 22 million tweets with political and election-related content. The majority of the tweets endorsed the conservative candidate and portrayed the opposition as “*chongbuk chwap’a*” (a term translated as “pro-North Leftists” that has connotations of being slavish to or followers of North Korea). While some of the content was recirculated from conservative websites, much of it was created and circulated by NIS agents. Former NIS chief Won Sei-hoon was later indicted and charged for this interference. See Doucette and Koo 2013 for an account of these events. While the NIS interference caused many to doubt the legitimacy of the election results, the effect of the NIS’s campaign should not distract from the fact that the conservative party went to great effort to put forward a moderate image for Park Geun-hye.

¹⁹ For a sustained analysis of the discourse of *seonjinhwa*, see Kim (Jong-tae) 2011, 2012.

“747” plan (a promise to achieve 7 percent in annual GDP growth, \$40,000 in per capita income, and make Korea the world’s seventh largest economy). By 2012, conservatives could not ignore the effects of widening socioeconomic polarization, rising levels of household debt, and a banking crisis related to Korea’s poorly regulated project finance market. The unpopularity of Lee Myung-bak’s pro-*chaebol* policies and his corruption-prone and ecologically destructive infrastructure projects such as the “Four Rivers Project” combined with these factors to make talk of *seonjinhwa* sound anachronistic, even to commentators in the popular conservative press. For example, Lee Jin-seok, an economics reporter for the conservative *Chosun* newspaper, asked, “Is it reasonable for the Korean people to repeatedly deplore their backwardness and cry for national advancement?”²⁰ To distinguish herself from her predecessor, Park Geun-hye, daughter of former dictator Park Chung-hee, would have to find an alternative to Lee’s pro-*chaebol* policies that would assuage popular concerns about inequality and social welfare. “Economic democratization,” a slogan traditionally associated with the left, seemed fit for purpose.²¹

To promote a moderate image for Park Geun-hye, the Saenuri Party appointed Kim Jong-in, a former advisor of Park’s father, to lead her economic campaign. Park described Kim as the “father of economic democracy” for his role in amending the Constitution of the Republic of Korea during Korea’s June Democratic Uprising of 1987. As National Assembly member for the ruling Democratic Justice Party (a predecessor of today’s Saenuri Party), Kim drafted Article 119, item 2 – the famous “economic democracy clause” – of the revised Korean Constitution, which reads:

The State may regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power, and to democratize the economy through harmony among the economic agents.²²

This clause provided a constitutional basis for economic reform. It authorized the state to intervene in the market to take on powerful groups such as the *chaebol*, whose economic power Kim had long been reticent about. In early 2012, Kim Jong-in released a book called *Why Economic Democracy Now?* in which he identified the contracting, cross-shareholding, and the illegal succession practices of *chaebol* families as targets for reform.²³ Kim’s willingness to criticize established interests, including those within his own party, helped shift the frontiers of official debate beyond Lee Myung-

²⁰ See Lee 2010.

²¹ Liberal reformers would later argue that conservatives had won the election by simply stealing the DUP’s agenda.

²² See the Constitution of the Republic of Korea. Available at http://korea.assembly.go.kr/res/low_01_read.jsp?boardid=1000000035 (accessed 6 January 2013).

²³ Kim 2012.

bak's conservative discourse of *seonjinhwa* in a way that allowed for progressive demands to be heard.²⁴

Kim Jong-in, however, was not solely responsible for the popularity of economic democracy as a political goal. Korea's progressive civil society organizations, which expanded rapidly following the transition to free elections in 1987, have long embraced the concept. As discussed below, for these nongovernmental organizations economic democracy has been synonymous with reform of the *chaebol* in order to lessen their concentration of economic power and create a "fair market economy." Both the DUP and independent presidential candidate Ahn Chul-soo (who threw his support behind the DUP before the election and later merged his nascent party organization with it) enlisted the help of prominent economic reform activists associated with these movements to craft their economic democratization campaigns. Ahn recruited the liberal economist and prominent minority shareholder activist Jang Ha-sung as his economic advisor.²⁵ Meanwhile, the DUP enlisted the help of left-liberal economists Yoo Jeong-il and Lee Jeong-woo to draw up its economic democratization plans; both men endorsed *chaebol* reform and had strong ties to the citizen's movement.

The inclusion of Yoo and Lee in the campaign signaled a shift away from the policies of previous liberal administrations, at least on the surface. Both men had advised former president Roh Moo-hyun during his first two years in office, but had broken ties with his administration over its economic policies. Like other civic activists, they considered the trade, labor, and financial policies instituted by the liberal administrations of Kim and Roh to be the reason behind rising inequality since 1997. The party's failure to combat inequality had led to the renewed appeal of pro-growth politics and, ultimately, the conservative party's victory in the 2007 presidential elections. What the DUP needed now was to put "people first" by resolving social polarization and the concentration of wealth and power within Korean society. As Moon Jae-in declared as he accepted his party's candidacy, "The spirit and mindset to lead the next five years is to correct this imbalance of 1 percent to 99 percent in our society."²⁶

Despite a political climate that favored strong and assertive proposals for egalitarian reform and the construction of a welfare state, the discourse of economic democracy embraced in both parties' campaigns remained narrowly concentrated on the corporate governance of the *chaebol*. As discussed

²⁴ Because of his anti-*chaebol* stance, Kim's role in Park's campaign was not universally welcomed on the right. The Federation of Korean Industries, which represents the interests of the *chaebol*, complained that economic democracy was populist politics. More conservative advisors to Park tried to dilute Kim's calls for *chaebol* reform by arguing that Park's 2007 "Julpuse" platform – short for *jurigo* ("reduce"), *pulgo* ("relax"), and *seugo* ("set right") – had embodied the ideal of economic democratization. In response, Kim Jong-in dismissed this approach as obsolete and openly criticized his own party for lacking the political will needed to resolve the *chaebol* problem.

²⁵ Coincidentally, Jang is the cousin of Ha-joon Chang, which gives the dispute between *chaebol* reformers and welfare state advocates the characteristics of a family feud. See Hamlin 2001 for an excellent profile of Jang.

²⁶ Son 2012.

above, these firms' interlinked cross-shareholding practices, illegal intergenerational transfers of wealth, abuse of subcontractors and irregular workers, and expansion into traditional small business sectors became the central focus of the campaign. In order to tackle the *chaebol's* enormous strength, the DUP promised to force the *chaebol* to abandon existing cross-shareholding arrangements between affiliates within three years. Meanwhile, the Saenuri Party pledged to ban new cases of cross-shareholding and to vigorously enforce the Monopoly Regulation and Fair Trade Act, as well as introduce measures to protect small- and mid-sized business from unfair trading practices. The intense focus put upon the conglomerates' misdeeds left little room for substantive proposals on the development of a welfare state, however, even though both parties stated their intentions to work toward this goal. The task of *chaebol* reform itself became synonymous with the concept of economic democracy to the degree that reformers associated with the DUP struggled to remind the public that economic democratization includes both *chaebol* reform *and* the task of resolving social polarization.²⁷ Without a comprehensive strategy for achieving a welfare state, the promises both parties made appeared unrealistic. In the words of the eminent scholar of Korean democratization, Choi Jang-jip, "the electoral campaign...degenerated into a competition of rhetoric rather than substance."²⁸

“Progressive Critiques, Conservative Solutions”

Against this background, the criticisms Ha-joon Chang and his associates leveled against of *chaebol* reform struck a nerve as they drew attention to the weakly developed welfare policies both parties were proposing. For the WSC, Korean reformers faced a choice between neoliberalism and “productive welfare.”²⁹ They objected to what they saw as the *chaebol* reformers' two-step strategy of separate agenda items: first pursuing *chaebol* reform and then establishing a welfare state. Weakening the *chaebol* through intensifying restrictions on total investments and prohibitions on cross-shareholding would only amplify shareholder pressure on firms, they claimed, and make progressive labor and welfare policies difficult to implement. Instead of neoliberal *chaebol* reform (breaking up the *chaebol* to make them more responsive to shareholders), the WSC urged progressives to focus on the “positive aspects” of Korea's past developmentalist regimes, such as industrial policy and control of speculative capital, to reform the *chaebol* in line with the principles of a welfare state:

If Korea pushes forward with a five-year plan for a welfare state, it can reach the present level of the United States within five to ten years, and then the level of a mid-level European

²⁷ See Kim (Sang-jo) 2012b.

²⁸ Choi 2012, 4–5.

²⁹ Chang 2012a.

welfare state, and finally the current level of the Swedish welfare state in twenty to thirty years.³⁰

As the owners of capital would have to be taxed and domestic investment increased to advance toward this goal, they recommended that an agreement be made with the already internationally competitive *chaebol* in order to win their consent. They proposed a “suitable concession”: to protect the management rights of the *chaebol* in order to bring them into a social compromise. In their opinion, the *chaebol* needed protection from speculative markets in order to concentrate on productive investment.

Intellectuals associated with both the DUP and progressive civil society organizations greeted this proposal with swift and severe criticism. They argued that protection of the *chaebol*'s management rights under the existing cross-shareholding system was a reckless way to achieve a welfare state and they accused the WSC of overexaggerating the threat posed by foreign capital. For instance, Chung Tae-in – a stakeholder theorist and former economic advisor to President Roh Moo-hyun who had resigned over the Roh administration's neoliberalism – called Chang's camp naïve for thinking that the *chaebol* would ever agree to such a proposal; after all, the *chaebol* did retain managerial control under both the liberal Roh and conservative Lee administrations and, thus, “do not feel particularly threatened.”³¹ Allowing the *chaebol* to keep managerial control over their existing cross-shareholding arrangements risked giving away the goods, reducing their incentive to follow through on a social compromise.³² Kim Sang-jo, a prominent liberal economist and leader of Korea's minority shareholder movement (hereafter MSM), said that instead of offering the *chaebol* the “carrot” of guaranteed management rights, progressives should push for legislative policies to enforce transparency and punish economic crimes. This “stick” would discipline the *chaebol* into a social compromise. Leniency would be reserved only for cases in which the *chaebol* acted in accord with broad social ends.³³

The progressive political economist Lee Byeong-cheon criticized Chang's camp for ignoring the syncretic nature of the *chaebol* and transnational capital. He argued that the WSC had misrepresented the nature of the *chaebol*, which has, in the past, advocated for neoliberal financial and labor market

³⁰ Chang et al. 2012c. Author's translation.

³¹ Chung 2012.

³² Since the late 1990s, the *chaebol* have been allowed to form official holding companies provided they unwind their circular shareholdings, and the government has taken steps to encourage this transition. While establishing an official holding company would stabilize management and help ward off speculative attacks, it would also require greater public scrutiny of the firm's financial statements and personnel decisions. This could make it more difficult for the younger generations of *chaebol* families to inherit managerial control without paying a sizable inheritance tax. Nonetheless, some *chaebol*, such as LG, Hanjin, SK, and the Doosan group, among others, have established official holding companies, while the largest *chaebol*, such as the Samsung group, have not.

³³ Kwak 2012a.

reforms to suit their interests.³⁴ Lee added that the protection of the *chaebol*'s management rights risked condoning the crimes and injustices the *chaebol* heads had committed. These included using illegal means –political slush funds, illegal transfers of stock, and tax evasion – to maintain managerial control. The collusive nature of the *chaebol*, Lee claimed, has its origins in the economic policies of Park Chung-hee who allowed them to grow into the mammoth organizations they are today through the strategic industrial policies Chang and his associates now advocate, but also by labor repression, graft, and corruption.³⁵ The WSC's proposal to preserve the *chaebol*'s management rights risked not standing up to the *chaebol* and, by extension, leaving the historical injustices of past regimes unresolved.

The antagonism between the *chaebol* reforms endorsed by Chang's WSC and by prominent reformers in the DUP and MSM conceals their similarities in that both perspectives focus on intra-class relations among capital holders more than on the relationship between labor and capital. Intellectuals on the periphery of both camps noted this fact during the debates about economic democracy. In an open letter to Ha-joon Chang that kicked off the heated exchanges between the WSC and their critics, Chung Tae-in wrote that the perspective of Chang's camp is similar to that of the *chaebol* reformers in that both tend to view the *chaebol* in terms of competition between capitals. "The difference is that you consider the *chaebol* as victims suffering from the competition with foreign capital, but Prof. Kim Sang-jo sees the *chaebol* as a group that exploits minority shareholders."³⁶ As Choi Byung-cheom pointed out in another important intervention into the debate, this narrow focus leads both camps to propose strategies that neglect the overall balance of power in the Korean economy.³⁷ Choi writes,

The problem in contemporary Korean society is short-term profit optimization caused by shareholder capitalism *and* the exercise of mighty political-economic-social power by *chaebol* heads.... Given this situation, for the discourse surrounding the character of the Korean economy to advance in a progressive direction, it is imperative that both camps [those who champion *chaebol* reform, on one side, and those who champion defeat of shareholder capitalism, on the other] demonstrate how the political-economic-social "authority" and the "balance of power" in the hands of workers-ordinary people-citizens can be strengthened.³⁸

³⁴ Park Gil-sung and Kim Kyung-pil also point out the syncretic relationship between the *chaebol* and foreign investors. They observe that while foreign investors made demands for greater transparency in the past, now that they have learned to reap greater profits from the conglomerate structure of the *chaebol* as whole they have "become timid toward promoting transparency." Park and Kim 2008, 68.

³⁵ See Lee 2012b. Mediating between the concerns of liberal *chaebol* reformers and the WSC, Lee has advocated that both internal and external capital holders should be strictly regulated.

³⁶ Chung 2012.

³⁷ The narrow focus also obscures alternative perspectives, such as the perspectives held by intellectuals in civil society organizations, such as the Welfare State Society, and the labor movement. Nonetheless, these two perspectives remain the most influential with the media and policy-makers in the DUP.

³⁸ Choi (Byung-cheon) 2012. Author's translation.

Choi urged both sides to maintain a better sense of balance between their perspectives in order to advance the debate in a more productive direction, one that would be more sensitive to the appropriate checks and balances needed to limit the power of capital in general and create an effective balance of power between socioeconomic classes.

Hyoungh-joon Park uses the felicitous phrase “progressive critiques, conservative solutions” to describe the antagonism between these two dominant economic reform camps. He notes that while one side unpacks uncritical assumptions about the market economy and the other criticizes the abuse of monopoly power, their understanding of Korea’s political economy rests on either an idealized view of the state planning of the Park Chung-hee economy – and by extension the role of the *chaebol* within it – or, conversely, the assumption that markets are rational means of distributing economic resources.³⁹ These narrow perspectives confine the strategies of both camps to solutions that are commensurate with those of conservative forces. The demand that the *chaebol* respect shareholder value resonates with moderate conservatives, such as Kim Jong-in, who see the *chaebol*’s concentration of economic power as a moral hazard and obstruction of “fair competition.” Meanwhile, the preservation of the management rights of the *chaebol* because of their role as productive industrial capital accords with the pro-growth vision of national champions that traditional conservative forces advocate. And yet, both camps have strong connections to progressive civil society organizations and both see their strategies as oriented toward greater democratization, albeit in a moderate direction compared with the demands of the radical democracy movement. To better understand the disjuncture between their progressive critiques and conservative solutions, then, the strategies of both camps must be seen in light of both the trajectory of economic reform activism that followed the transition to electoral democracy and the effects of the 1997–98 Asian financial crisis on the Korean economy.

From Equality to Efficiency

The intense rivalry between *chaebol* reformers and their critics builds on a central ideological tension on the Korean left between a strategy of emancipation that targets the structures of monopoly capitalism and another that prioritizes nationalism. This tension, already present in the peoples’ movements of the 1970s and early 1980s, crystallized in the social formation debates of the late 1980s and early 1990s. These debates, which aimed to revive and develop Marxism in South Korea, led to the theoretical clarification of rival “peoples” democracy” (PD) and “national liberation” (NL) camps.⁴⁰ PD theorists emphasized the role of monopoly capitalism in shaping capitalist accumulation

³⁹ See Park 2013a and 2013b. Park is critical of how both of these perspectives neglect the transnational power of the *chaebol*. Following Shimshon Bichler and Jonathan Nitzen’s innovative “capital as power” approach, Park has produced a detailed quantitative analysis of how the *chaebol* have outgrown the protective “cocoon” of the developmental state to become a significant fragment of transnational capital.

⁴⁰ The social formation debate has been collected and published in four volumes edited by Park Hyun-chaeh and Cho Hee-Yeon (1989–1992). In the words of Marxist economist Jeong Seong-jin, “people’s democracy” (PD)

in South Korea and prioritized class struggle as a means of action. In contrast, NL regarded Korea as semi-feudal and subject to US colonial domination. Thus, they embraced anti-imperialism and reunification.⁴¹ While the demise of the Soviet Union spurred many to reject the orthodox Marxism of these debates, the antimonopoly and nationalist understandings of the Korean economy articulated in the debates continued to inform the priorities of the civil society groups that developed out of the democracy and student movements of the late 1980s and early 1990s.⁴² Movements for economic reform retained the antimonopoly and nationalist frameworks of the debates but, in most cases, substituted anti-capitalist perspectives for an idealized understanding of state and market relations. It is beyond the scope of this essay to explore this topic in detail, but not all social movements abandoned the class politics of the radical democracy movement. Many remain faithful to the movement's radical egalitarianism but not, necessarily, to the stagism, economism, and fatalism of the relatively orthodox social formation debates.⁴³

After the 1987 June Democratic Uprising and transition to free elections, the antimonopoly tendency of the Korean left strongly influenced new economic reform movements such as the Citizens Coalition for Economic Justice (CCEJ), founded in 1989, and Peoples' Solidarity for Participatory Democracy (PSPD), founded in 1994. The CCEJ explicitly targeted the "*chaebol* monopoly system" for bringing "undeserved suffering" to the citizens who produced Korea's economic miracle.⁴⁴ The CCEJ's activism concentrated on issuing public statements critical of both government policy and specific *chaebol* firms and holding public hearings and press conferences to make their criticisms of the *chaebol* heard. These efforts were later strengthened with the formation of PSPD, which sought to bridge the gap between popular social movements and middle-class groups like CCEJ. PSPD had a greater diversity of voices within its ranks, including liberal lawyers and economists, as well as Marxian thinkers and many former student, democracy, and labor movement activists.

"conceived Korea as embodying neocolonial state monopoly capitalism, requiring an anti-imperial and anti-monopoly-capital people's democratic revolution." The other major tendency in these debates, "national liberation" (NL), "argued for the anti-imperial and anti-semi-feudal people's democratic revolution to overthrow a colonial semi-feudal Korea." Jeong 2010b, 199–200.

⁴¹ While some intellectuals attempted to form a synthesis or advocate alternative frameworks in these debates, NL and PD emerged as the dominant positions. See Park (Mi) 2008 for an analysis of the different factions. Lee Byeong-cheon, mentioned above, participated in the 1980s' social formation debate as a Marxist theoretician of PD. Lee played a mediating role in earlier debates between rival economic policy camps within both Peoples' Solidarity for Participatory Democracy and the Alternatives Network (*Tae-an Yeondae*) – the network from which the WSC emerged. See also Lee and Yoon 1988.

⁴² Marxist economist Jeong Seong-jin argues that both tendencies in the social formation debates shared "fatal theoretical defects, such as economic determinism, catastrophism and stagism" and these made it difficult for them to adapt to the demise of the Soviet Union. Jeong 2010, 200. For a discussion of stage-theoretical debates in Korean Marxism, see Miller 2010.

⁴³ Since the social formation debates, PD theorists have continued to develop their perspectives in more innovative directions by engaging with post-structuralism, institutionalism, classical Marxism, and other traditions of social thought. NL has remained stagnant in comparison. See Kim (Alice) 2011 for an excellent discussion of contemporary social movements that retain fidelity to the radical democracy movement.

⁴⁴ CCEJ's mission statement is available online at <http://old.ccej.or.kr/English/> (accessed 4 July 2013).

PSPD's Participatory Economy Committee (PEC) launched Korea's first and most prominent minority shareholders movement to take on the concentration of economic power in the hands of the *chaebol*.⁴⁵ Several high-profile cases of corporate crime and malpractices – such as the collapse of the Seongsu Bridge in 1995 – and amendment of the Securities Act strengthening minority shareholder's rights made this strategy possible.⁴⁶ These reforms gave minority shareholders considerable legal leverage with which to challenge managerial decisions at individual affiliates of *chaebol* firms. By mobilizing minority shareholders, PSPD was able to move beyond the CCEJ's modus operandi of public forums and policy statements and directly challenge the *chaebol* as capital holders. Using their legal right to monitor corporate data, they were able to raise issues that management of the *chaebol* affected: from the exploitation of minority shareholder's self-interest by controlling families to the tunneling of funds between affiliates to support “non-viable” investments and strengthen family control over the group. In addition to traditional shareholder concerns, PSPD documented other abuses of corporate power – such as illegal political donations – and advocated for the stakeholders management was ignoring.⁴⁷ In the midst of the 1997–98 economic crisis, which many blamed on the *chaebol*, PSPD launched and won the first derivative suit in Korean history against the Korea First Bank (KFB). The suit charged that KFB's directors had failed to investigate the risks involved in a large loan to Hanbo Steel, which declared bankruptcy shortly after it received the loan. This case and other high-profile victories raised public awareness of the MSM's efforts.

Given PSPD's primary mission to work toward social justice, shareholder activism did not appeal to everyone in the organization at the start. As Rho Han-kyun points out, for some of the Marxian intellectuals involved in PSPD,

capitalist actors like shareholders or boards of directors had never been acceptable allies. Furthermore, most PSPD members doubted whether minority shareholder rights would work well for checking corporate mischief. One member predicted that shareholder activism would not be so effective, that it could only draw media attention at best.⁴⁸

⁴⁵ The topic of *chaebol* reform was first discussed in PSPD's Economic Democratization Committee before the organization decided to form the PEC.

⁴⁶ See Rho 2004, 12–15.

⁴⁷ As Thomas Kalinowski points out, the PEC's minority shareholder movement took care to frame its campaigns in the public interest and avoided joining initiatives started by profit-oriented investors. See Kalinowski 2008, 360. In some cases, however, the MSM actively coordinated their actions with major overseas shareholders. In the case of SK Telecom, an affiliate of the SK *chaebol*, it allied with foreign investors to get outside board members elected, create an auditing committee, and force the firm to repay funds it used to prop up other troubled affiliates. Tiger Management, which allied with the MSM in this case, remarked that because of the MSM's successful campaign “international investors should eventually be more willing to invest in Korean companies.” Julian Robertson of Tiger Management, quoted in Hamlin 2001.

⁴⁸ Rho 2004, 16. Some Marxist theorists, such as former PD-theorist Lee Byeong-cheon, played an important role in PSPD's economic reform efforts.

Once launched, however, the movement was more successful than originally anticipated. While some members of PSPD remained uncomfortable appealing to shareholder interests, others – such as the liberal economists and lawyers who made up the bulk of the PEC – were content to frame their demands around shareholder interests and market-oriented conceptions of monopoly power.

Most of the prominent liberal economists who participated in the PEC had trained in mainstream economics at US universities or, locally, in the “reformative Keynesianism” of Cho Soon and Chung Un-chan, prominent professors of economics at Seoul National University.⁴⁹ Chung Un-chan believed that the state had a strong role to play in creating market infrastructure through “micro-economic and structural intervention.”⁵⁰ He saw the concentration of economic power among the family-led, conglomerate structure as an obstacle to fair market competition and the professionalization of corporate management. He went so far as to describe the *chaebol* as “dinosaur-like” monsters that “took the whole economy hostage.”⁵¹ Reflecting a drift away from the radical demands of the democracy movement, the understanding of the “concentration of economic power” Chung and members of PSPD embraced had less to do with the balance of power between classes than with understandings of monopoly predominant in mainstream economics.

The government-funded, Korea Development Institute (KDI) introduced the concept of the concentration of economic power into public policy in the 1980s to express concerns about the distortion of the market caused by the *chaebol*.⁵² Rather than inter-class relations, the concept drew attention to issues of monopoly power such as ownership concentration and succession, diversification, inter-affiliate support, and the ruling family’s influence on management.⁵³ In order to regulate the *chaebol*’s concentration of economic power in these areas, the government prohibited holding companies in 1986 under the Fair Trade Act.⁵⁴ Nonetheless, through circular shareholding and cross-investment, the ruling families retained managerial control over their affiliates – often with very little direct stock ownership, in some cases with fewer than 1 percent of listed shares. Concerns about concentration of economic power thus continued unabated. The 1997–1998 economic crisis validated these concerns. As individual *chaebol* affiliates became bankrupt, their elaborate cross-shareholdings and cross-loan guarantees began to pull down other members of the group and much of the economy with them.

⁴⁹ Their “reformative Keynesianism” bore an affinity to Paul Samuelson’s “neoclassical synthesis” of neoclassical microeconomics with Keynesian macroeconomics.

⁵⁰ See Chung 1999, 24–25.

⁵¹ Chung 1997, 18.

⁵² See Rho 2004, 9. Prominent KDI economists, such as Kim Woochan, have participated in the MSM.

⁵³ *Ibid.*

⁵⁴ See Jang, Kim, and Han 2010.

The liberal economic reformers who participated in PSPD's MSM believed that the *chaebol's* concentration of economic power and "inefficient" corporate governance had contributed significantly to the financial crisis. Jang Ha-sung, chair of PSPD's Participatory Economy Committee, wrote that "many blame the flight of foreign capital for the crisis, but while such capital may have been a carrier, it was certainly not the virus itself." Rather, the virus was the risk from the "inadequate" and "poor corporate governance" of the *chaebol*.⁵⁵ This view conformed to that of other liberal economists such as Chung Un-chan who, in the wake of the crisis, declared that *chaebol* reform should now move beyond its previous grounding in the "egalitarian viewpoint" because with "efficiency considerations brought into the argument, the *chaebol* system has now lost whatever remaining justification [it had]."⁵⁶

Chung, Jang, and other economists associated with the citizen's movement helped create pressure for *chaebol* reform during the crisis.⁵⁷ As a result, Kim Dae-jung's "5 + 3" principles for the *chaebol* restructuring – implemented in January 1998 and August 1999 – largely adhered to liberal concerns about the concentration of economic power.⁵⁸ Some MSM members, however, complained that Kim's reforms had not gone far enough toward improving corporate governance, as Kim's administration had banned hostile mergers and acquisitions. For instance, Kim Sang-jo, one of PSPD's leading shareholder activists, and a former student of Chung, complained that the post-crisis reforms had not produced the "big bang" needed to develop "competitive domestic financial capital" independent of the *chaebol* and, by extension, professionalize corporate governance.⁵⁹

Defending the Developmental State

⁵⁵ Jang 2001, 73

⁵⁶ Chung 1999, 28–29.

⁵⁷ As Chung argued in the midst of the financial crisis, "there has never been a more opportune setting for *chaebol* reform, and neither will there be one in the future. The public is in favor of *chaebol* reform, and the media also agrees in principle.... *Chaebol* reform is also one of the demands by the IMF and continues to receive much attention from the developed countries. If such a great opportunity is squandered, we may not see another chance for a long time." Ibid., 29.

⁵⁸ The first "5" principles sought to combat the concentration of economic power in the hands of the *chaebol* by enhancing transparency in corporate management; eliminating intra-group debt guarantees; improving the capital structure of independent firms; promoting concentration on core competencies; and increasing the accountability of controlling shareholders and management. To these were added an additional "3" supplementary items in August 1999: restrictions on industry's control of finance; suppression of circular investment and unfair transactions among affiliates; prevention of illegal and improper bequests to *chaebol* heirs. Kim (Ky-won) 2004, 8–9.

⁵⁹ Kim (Sang-jo) 2002, 71. While Kim, Chung, and other liberal economists sought to restructure the corporate governance of the *chaebol*, this does mean that they were uncritical of the neoliberal restructuring of the Korean economy. Chung and others were particularly frustrated by the high interest rates mandated by Korea's IMF-supported workout plan. Nonetheless, most of the IMF's prescriptions for economic restructuring were willingly endorsed by economic advisors to Kim Dae-jung such as Chon Chol-hwan and You Jong-keun – monetarists who even *chaebol* reformers described as "market fundamentalists" – despite the fact that some policies such as high interest rates and labor market restructuring led to numerous bankruptcies and mass layoffs and retrenchment.

In the backlash against the post-crisis reforms and the continuing attempts to restructure the corporate sector during the administrations of Kim Dae-jung and Roh Moo-hyun (1998–2008), the antimonopoly perspective of the MSM and other liberal economists became associated with the damage that Kim’s IMF–supported restructuring had caused. They faced bitter criticism from development economists and industrial policy advocates associated with a loose network called the “Alternatives Forum” (Tae-an Yeondae), who later formed the welfare state camp around Ha-joon Chang. Chang and his colleague Jeong Seung-il, in particular, went beyond blaming the negative effects of the crisis on the neoliberal policies of the IMF and Wall Street and criticized their colleagues in the civic movement for undermining Korea’s political economy. They accused *chaebol* reformers of selling out the country by promoting the speculative, stock market model of corporate governance foreign financial capital favored: the same capital that bought up undervalued Korean assets during the restructuring process and sold them on again for a handsome profit.⁶⁰ *Chaebol* reformers saw the conglomerate structure of the *chaebol* as a moral hazard and the cause of the crisis. Against this perspective, Chang and his associates blamed the Asian financial crisis primarily on the liberalization of the Korean state’s capital controls and industrial policies, which led to extensive foreign borrowing in short-term debt. They argued that the *chaebol*’s buildup of large nonperforming loans (NPLs) during the crisis resulted not from “the inherent inefficiencies of the Korean corporate sector,” but because of “an abrupt change in financial environment in a way that excessively punished high debt.”⁶¹ They correctly pointed out that neither the high levels of debt taken on by the *chaebol* nor their interlinked corporate governance structures had led to a crisis before the liberalization of external finance.

Instead of following a market-oriented path of development, for critics such as Ha-joon Chang and his colleagues, the Korean state’s cultivation of the highly diversified but also highly indebted *chaebol* – through policy loans, product licensing, and export-promotion targets – was an integral policy component of Korea’s developmental state model. They saw the pro-*chaebol* industrial policies of the Park Chung-hee regime as a model oriented toward innovation, competitive export performance, and patient capital (e.g., capital that is oriented toward long-term investments that lead to substantial gains in the future). External control by the stock market and minority shareholders (the interests of which are often oriented to short-term gains) was not the only way to create market efficiency, as Shin Jang-sup and Chang Ha-joon explain:

⁶⁰ See Park 2012 for a discussion of the backlash against the MSM. While Kim Sang-jo, the target of much of Chang and his associates’ ire, endorses Anglo-American standards of corporate governance, he remains agnostic on whether or not a stock market or a bank-based model is the more appropriate model for South Korea. His emphasis on the property rights of minority shareholders, however, puts him closer to the former than the later. See Kim 2002.

⁶¹ Shin and Chang 2003, 88.

If a capital market is underdeveloped it may be more efficient to rely on intra-group mobilisation of capital than to rely on capital markets. If a business group has financial institutions as its member firms, the intra-group capital market can be even more effective.⁶²

In other words, cross-shareholding and insider control can have positive implications for innovation and development by creating a mini capital market for member firms. These firms would benefit from the intra-firm exchange through direct subsidies, loan guarantees, and indirect financial support for projects the group as a whole deemed strategically important: the very same practices that *chaebol* reformers saw as market distortions.⁶³ From the WSC's point of view, the Anglo-American-style shareholder capitalism *chaebol* reformers were promoting caused the slower growth and heightened the social polarization that followed in the wake of the Asian financial crisis.⁶⁴ Korean firms were timid to invest, they argued, because their management rights were under threat and in need of protection. This fear left CEOs with no choice but to hire irregular workers and cut back on entrepreneurial activities.

In the WSC's view, *chaebol* reformers had become misguided by their naïve belief in “progressive liberalism,” a philosophy, they claimed, that had its origins in the Korean democracy movement. This philosophy caused progressives to see “Korean capitalism represented by a Park Chung-hee-type state-controlled economy and the *chaebol* group system as “abnormal” capitalism,” as something to be replaced by importing institutions from other countries.⁶⁵ They identified their opponents among liberal-left *chaebol* reformers in particular as the source of this perspective:

It is most commonly known as “pariah” capitalism (Kim Sang-jo). It has been described as “semi-colonial” capitalism...or “new colonial state monopoly” capitalism (Lee Byeong-cheon was the representative proponent in the past) as well. The reason these adjectives are used is because Korea's capitalism has grown in a way that distorts the meaning of capitalism as understood in advanced countries, and in an immoral fashion. So it is said that without coming to terms with such a past, Korea's capitalism will not develop into “normal” capitalism.⁶⁶

In contrast to the alleged stagism – i.e., the belief that Anglo-American market rules should be established first before Korea can advance toward a welfare state – embraced by “progressive liberals,”

⁶² Ibid., 27.

⁶³ In these conditions, interlinked firms can provide “various indirect financial supports through purchasing products and inputs at strategic prices and transferring managers and other personnel.” See Shin and Chang 2003, 26–27. Jeong Seung-il, Chang's coauthor in the WSC, advances a similar argument in Jeong 2004. See also Chang et al. 2012b.

⁶⁴ See Chang and Park 2004.

⁶⁵ Chang et al. 2012c. Author's translation.

⁶⁶ Ibid. Parentheses in original.

the WSC insisted that no one set of market rules is universally applicable to all economies. Nor do advanced countries even follow such rules.⁶⁷ Rather than promoting Anglo-American-style markets that allow shareholders to shed labor and sell assets to increase a company's market value, the WSC urged progressives to defend the *chaebol* against shareholder capitalism. They argued that Park Chung-hee regime's economic policies had many positive features – “such as control over foreign finances, control of shareholder capitalism, and the aggressive fostering of industry” – that could help establish a welfare state. Negative aspects of Park's regime, such as labor oppression, could simply be disregarded, they believed.⁶⁸

In their rush to condemn the market-based strategies of their rivals, the WSC exaggerate the institutional differences between the Korean development experience and other histories of capitalist development. They do so by ignoring the underlying social relations upon which the free market policies of Anglo-American economies and industrial policies of developmental states both rest: such as the dominance of private property relations, the exploitation of wage labor, and the subordination of social reproduction to the market. Instead they idealize the non-liberal or “good” financial policies of Park Chung-hee by abstracting them from the “bad” labor repression. However, while it is possible to separate the financial from labor market policies of Park's government as objects of analysis, these factors were intimately connected in the history of Korean development. Without the repression of labor that underpinned the high profit rates of the *chaebol*, the Korean state would have had difficulty maintaining its highly leveraged industrial policies and control over finance.⁶⁹ Therefore, the development of the *chaebol* cannot be isolated from the struggles of wage earners in the sphere of production (as well as the appropriation of their savings in the sphere of circulation to fund the expansion of industry).⁷⁰ The only way to separate the “shadows” from the “light” of the Park Chung-hee model – whether by separating finance from labor or removing the national state from the wider cold war context in which it pursued growth-first strategies of rapid industrialization – is to create an ideal type description that idealizes those institutions that do not conform to the standard prescriptions

⁶⁷ “If you scrutinize the history of American and European capitalism, you will realize that they developed through underhanded and abnormal means with rampant corruption, anti-democracy, and pariah and government intervention.” Ibid.

⁶⁸ Chang et al. 2012c. “But our point is extremely common-sensical: we should make use of the positive elements but disregard the negative elements (labor oppression) of Park Chung-hee's economic system.... [W]e should wholeheartedly accept the positive legacy of the Park Chung-hee regime, such as control over foreign exchange, control of shareholder capitalism, and the aggressive fostering of industry....” Chang et al. 2012d, author's translation.

⁶⁹ See Hart-Landsberg 2001, 407, for a discussion. See also Burkett and Hart-Landsberg 2003.

⁷⁰ Korean development should also not be separated from an analysis of other subaltern struggles that Park Chung-hee's authoritarian regime provoked over the commodification of land, labor, and capital and for civil and political rights. For an excellent critique of developmental state theory and analysis of the Korean state's interventions, see Chang 2009, Kim and Park 2007, and Hart-Landsberg 2001 and 1993. For an analysis of the gendered regimentation of labor and the subordination of struggles over social reproduction, see Moon 2005.

of laissez-faire economics, while ignoring oppression, injustice, and exploitation.⁷¹ But this approach creates a de-historicized and de-politicized account of Korean development that makes it difficult to understand the developmental state and propose alternatives to it.

To Korean democracy activists, especially those who participated in the social movements of the 1980s, the proposition that Korea's "developmental state" and the *chaebol* might together constitute desirable economic institutions would have sounded absurd. As Dae-oup Chang remarks, at that time, not only radical social movements but also almost all reformist political movements regarded the state and capitalist class as enemies.⁷² Yet, in the wake of the Asian financial crisis, the WSC's criticisms of *chaebol* reform began to gain attention. By the late stages of the liberal Roh Moo-hyun administration and amid an increasing backlash against foreign speculative funds and growing social polarization due to the expansion of irregular work, the WSC's proposals that progressives should protect the management rights of the *chaebol* began to be entertained.

Several high-profile cases influenced the development of this proposal such as the hostile takeover attempt of the SK Corporation by the Sovereign Group in the early 2000s; the "assault" on the formerly state-owned Korean Tobacco & Ginseng Corporation by activist investor Carl Icahn – who forced KT&G to sell off assets in order to increase its share price – in 2006; and criminal investigations against the Texas-based Lone Star Fund for stock price manipulation related to its acquisition of Korea Exchange Bank. In this context, liberal economists from the MSM voiced support for hostile mergers and acquisitions. For instance, Kim Sang-jo argued:

A public backlash against overseas capital is not desirable. When takeover attempts are made, share prices of the targeted corporations rise in most cases. Increases in share prices indicate that external interference in corporate management is an effective means of enhancing corporate efficiency. Could the enhancement of efficiency be realized automatically without external interference? The answer is negative.⁷³

⁷¹ See Chang 2007, 18, for some comments on the "East Asian model" as an ideal type. This parsimonious theorizing afflicts not only the theory of the East Asian model Chang embraced, but other schools of institutional political economy as well, such as the Varieties of Capitalism school, which uses a similar methodology. Social relations that do not fit into strict national "types" are often neglected. This focus obscures both the patchwork or variegated nature of institutional forms between countries, as well as common, underlying social relations upon which national institutions sit. For a critique of the Varieties of Capitalism school, see Peck and Theodore 2007 and Bruff and Ebenau 2014.

⁷² Chang 2009, 2–4.

⁷³ Kim (Sang-jo) 2006. Due to internal and external criticism, the MSM left PSPD in 2006. The liberal economists who had participated in the MSM formed Solidarity for Economic Reform to continue their shareholder activism and the Center for Good Corporate Governance to provide financial advice to the newly established Korean Good Corporate Governance Fund overseen by former PSPD director Jang Ha-sung. Established in 2006, the fund was managed by Wall Street's Lazard Asset Management and aimed to invest only in firms with good corporate governance. While the fund attracted a number of large, foreign institutional

For the WSC, this attitude made it clear that *chaebol* reformers were more interested in crafting a neoliberal financial model than defending the institutions that, from their point of view, had been so essential to Korean development.

In late 2006, WSC member Jeong Seung-il proposed that instead of trying to weaken the *chaebol* through limits on cross-shareholding, reformers should protect them from speculative capital by allowing the *chaebol* to create (tax-free) public foundations and appoint their heirs as directors.⁷⁴ The public foundation would then play the role of the majority shareholder, stabilizing corporate governance, and eliminate the need for illegal succession practices.⁷⁵ The ruling Uri Party entertained a version of this proposal in late 2006, near the end of President Roh Moo-hyun's tenure, and after his exit from the party itself. Uri Party chair Kim Guen-tae proposed a New Deal Policy whereby the *chaebol* would promote jobs and investment in exchange for the removal of restrictions on cross-investment, protection of management rights, and pardons for several business leaders. The *chaebol* and their critics were skeptical about this strategy, however, and it quickly fell apart. Dissenting Uri Party members argued that the pledge was "designed to revive the economy not for the working class, but for the wealthy (or *chaebol*)."⁷⁶

The Costs of Commensurability

The WSC's argument that features of the Park's developmentalist model can be used to establish a Scandinavian-style welfare state appears, on the surface, to represent a more progressive alternative to DUP's emphasis on market-based, *chaebol* reform. The WSC declare explicitly that their goal is a more equal society and their endorsement of restrictions on speculative capital seem sound compared to the praise *chaebol* reformers voice for speculative markets for corporate control. Yet, the WSC's emphasis on preserving the management rights of the *chaebol* represents, for many, a difficult strategic choice, as it appears to condone past injustices. The role of labor in such an agreement is also significantly underdeveloped, as discussed below, and labor concerns take a back seat to protecting the *chaebol*. Furthermore, the WSC's rationale for such an agreement is not grounded on a fundamental criticism of the commodification and exploitation of labor by capital, but on praise for the developmental merits of elite-driven industrial policy and the *chaebol*'s corporate governance.

investors, it was shut down in 2012 after several years of significant losses. See Park and Kim 2008 for a fuller assessment and criticisms of the MSM.

⁷⁴ See Jeong 2006.

⁷⁵ Critics of this approach pointed to the fact that Samsung had previously used public trusts as a vehicle for transferring ownership directly to the next generation under the pretense of dispersing ownership. Instead of being merely symbolic and a way to save face, public foundations could easily be manipulated to enhance family control.

⁷⁶ *Dong-a Ilbo*, "Uri Economic Reforms Draw Skepticism," 12 August 2006. Available at http://english.donga.com/srv/service.php3?biid=2006081227978&path_dir=20060812 (accessed 12 July 2014). 12 .

This raises serious questions about how progressive a strategy for social democracy can be, when it is founded on such open support for capital.

While the WSC have claimed that they regard Swedish social democracy as a “provisional utopia” – a phrase coined by the Swedish democratic socialist Ernst Wigforss – a large gap exists between the WSC’s understanding of capitalism, modeled on developmental state theory and institutional economics, and the democratic socialism embraced by Wigforss and other Swedish social democrats.⁷⁷ For example, Wigforss based his critique of capitalism on how it has rendered the working class property-less and placed them in a dependent condition that creates insecurity and competition. This situation, Wigforss argues, can be remedied only by the active participation of the working class in the organization of production and greater public control over the organization of the market.⁷⁸ Instead of Wigforss’s radical vision of participation, the WSC present their version of a welfare state as one based on the logic of welfare as “group purchase” rather than the explicitly egalitarian prescriptions for industrial democracy and collective ownership of capital that were an integral part of the Scandinavian model.

Doubt surrounding the WSC’s strategy is strengthened by the fact that while they recognize the empirical fact that organized labor played an important role in the establishment of Scandinavian welfare states, in practice they have been ambivalent about the role that the Korean labor movement should play in the establishment of a welfare state. They advocate for a social compromise that represents the interests of citizens, business, and the government and conforms to the principle of “one person one vote,” but allows little room for the participation of organized labor and other social movements.⁷⁹ For example, in the aftermath of the 1997–98 Asian financial crisis, Ha-joon Chang endorsed a Dutch-style system of “flexicurity” as a possible response to the crisis. Chang mused that “making redundancy easier by changing the labor laws may actually be desirable,” if combined with the right, institutional mix of social security and active labor market measures.⁸⁰ As Martin Hart-Landsberg pointed out at the time, this response resonated with neoliberal responses to the crisis that asked the working class to bear the costs of profitability and competitiveness.⁸¹ Jeong Seong-jin has

⁷⁷ Chang et al. (2012c) reference Hong Gibin’s *Wigforss: Welfare State and Provisional Utopia* when they use this phrase (see Hong 2011), but they do not use it in the same way. Hong’s book on Wigforss was an important attempt to introduce a more critical and egalitarian understanding of Swedish social democracy into Korean debates surrounding the welfare state.

⁷⁸ See Tilton 1979 for a decent summary of Wigforss’s views.

⁷⁹ Chang et al. 2012c.

⁸⁰ Chang 1998, 1560, cited in Hart-Landsberg 2001, 422.

⁸¹ Hart-Landsberg 2001, 422. Ben Selwyn notes that Chang and other developmental state theorists such as Ilene Gabel, Robert Wade, and Atul Kohli (whom he calls statist political economists) express hopes that labor can be included in a more social democratic form of development that could contribute to some kind of non-neoliberal development strategies. Selwyn argues that these findings do not agree with these theorist’s own observations that labor was heavily repressed by late developing states. Because it is the managerial control of the firm that interests these theorists, they defend it from workers’ incursion and thus shy away from a strong normative argument that labor should be included. “The obvious reason is that if they do so too loudly, their

noted a similar absence in the vision of the social compromise Ha-joon Chang and his associates have proposed. Their “social compact,” Jeong argues,

is fundamentally different from the Swedish model in that it does not recognize the organized workers as key partners in the social compact.... However, since the organized workers are one of the most important social forces in Korea since the 1987 Great Workers’ Struggle, any proposal for a social compact without their inclusion is simply unrealistic.⁸²

Lee Byeong-cheon repeated this criticism during the 2012 economic democracy debates, noting that despite the fact that the WSC see their strategy as one that promotes democratic control of capital, it is difficult to find deep concern in their proposals about horizontal cooperation and democratic participation between the *chaebol*, workers, and other stakeholders. “It seems that the power to realize a new economic democratization and welfare state is just left with the state,” Lee wrote.⁸³

Without a strong countervailing force to capital, it is difficult to see how protecting the management rights of the *chaebol* could lead to the development of an egalitarian Korean welfare state. Instead, like the market-based strategies of *chaebol* reformers in the MSM and DUP, this strategy risks naturalizing the private property rights of dominant interests, neglecting inter-class relationships, and condoning the illegal activities through which *chaebol* heads and their offspring have maintained managerial control. To this criticism of their offer to preserve the *chaebol*’s management rights, the WSC reply that their critics are not able to separate the “usefulness and legitimacy” of the conglomerate structure as a non-liberal market institution (an ideal type) from the “selfish interests and desires” of the ruling families.⁸⁴ But since preserving management rights is a de facto offer to preserve the rights of ruling families, how can these be separated in reality? Furthermore, in practice, members of the WSC seem quite content to make proposals that serve the interests of *chaebol* families and to pursue the preservation of the *chaebol*’s management rights without making strong demands for codetermination or industrial democracy as a precondition.⁸⁵

For instance, as Samsung CEO Lee Kun-hee’s health declined in the summer of 2014, Ha-joon Chang and his colleagues in the WSC proposed that the National Assembly draft a special law to allow the third generation of the Lee family to maintain its management rights in Samsung, with the caveat that the government could take over if the firm was not managed productively. Critics correctly replied

claim that [statist political economy] represents an alternative, superior, form of development to neoliberalism, would be undermined.” Selwyn 2014, 45.

⁸² Jeong 2009, 162.

⁸³ Lee 2012a.

⁸⁴ Chang et al. 2012b.

⁸⁵ Though some WSC members suggest that progressive groups such as the (now dissolved) United Progressive Party and trade union movement might embrace these preconditions. See Lee and Jeong 2014.

that such a strategy risked perpetuating the notion that Samsung deserves special treatment and it did nothing to reconcile the historic injustices and antilabor policies Samsung had long embraced.⁸⁶

Unfortunately, neither the market-based vision of mainstream *chaebol* reformers nor the capital-centric proposals of the WSC challenge the social relations upon which the market sits. Instead, economic democracy is treated merely as a technocratic problem, and this makes it difficult for the liberal-left to distinguish itself from both moderate and traditional conservatives. As a consequence, proposed solutions to economic inequality have not been designed in a way that would substantively overcome the inequalities and lack of democratic participation earlier regimes have created. Instead, as Cho Young-chol notes, the strategies of both camps risk “minimizing the seriousness of the historical circumstances surrounding the *chaebol* and overlooking the foundation on which they are based, on the grounds that these are merely property issues between *chaebol* owners and minority shareholders.”⁸⁷ Cho proposes that any solution must be oriented toward social justice, and, in particular, toward those whose rights have been sacrificed for Korea’s rapid development instead of merely being confined to the managerial prerogatives of one group of capital owners over another. In this case, making the more radical demands for egalitarian reform along the lines of the industrial wages, collective ownership, and gender equality Swedish democratic socialists advocate, or an alternate popular program tailored to the reality of the current Korean conjuncture, would expose the *incommensurability* that exists between demands for egalitarian economic democracy and the relatively technical, corporate governance fix both camps seek.⁸⁸

Conclusion

After her government’s inauguration in the spring of 2013, Park Geun-hye quickly introduced several bills aimed at expanding old age pensions and childcare, restricting some in-house subcontracting and additional cross-shareholding among conglomerate firms (under particular conditions), and protecting the rights of small franchise-store owners against their suppliers. In a sudden about-face, however, the Ministry of Strategy and Finance declared that it would relax the rules on additional shareholding and funnelling for companies that were facing insolvency. By late August 2013, Park promised to delay enforcement of the new laws and to revise her plans to amend the Commercial Code, which would have limited the power of majority shareholders. Park also backtracked on her promises to increase pension and childcare benefits by introducing a means-tested system instead of a universal one. After introducing these bills, she stated that her government had completed the task of economic democratization and that now the emphasis of her policies would shift to fostering the “creative

⁸⁶ Kwak 2014.

⁸⁷ Cho 2006, 109.

⁸⁸ Jeong 2009, 162.

economy” and reducing “cancerous” regulations that impede economic growth.⁸⁹ Her administration dropped all mention of economic democratization, much to the dismay of moderate conservatives such as Kim Jong-in, who publicly lamented the cosmetic nature of Park’s policies and later apologized for his role in her campaign.

While before the election, observers commented that Park’s proposed policies seemed set to continue a pattern of Korean democratization as a process of passive revolution from above – whereby the elite successfully appropriates demands from the liberal-left to preserve their interests – my reading of the economic democracy debate suggests that reducing economic democracy and the creation of a welfare state to a technical discussion of the *chaebol*’s corporate governance leads reformers to restrict their proposals to policies that favor dominant interests.⁹⁰ The absence of strongly voiced egalitarian prescriptions for economic democratization made it easier for Park Geun-hye to borrow the slogan of economic democratization while keeping substantive redistributive policies and alterations of the balance of power between classes to a minimum.

If progressive forces are to get beyond the conservative solutions of both mainstream *chaebol* reformers and the WSC, they will have to put greater emphasis on the overall balance of power between labor and capital, between dominant and subaltern groups. Sociologist Cho Hee-yeon, a prominent progressive critic of Korean democratization, makes a similar argument: In the face of setbacks on the issues of socioeconomic polarization due to the neoliberalism of liberal democratic governments and the rollback of wider progressive and liberal initiatives under conservative regimes since then, Korean democratization can be consolidated only when a solution is found to the monopolization of power by socioeconomic groups, such as the *chaebol*, and by the wider capitalist class. Cho cautions that “de-monopolization” should not be thought of as economic liberalization or the retention of monopoly power through developmentalist compromise, but rather as a process of “socialization” and “equalization” that continues to consolidate democracy through the relative disintegration of the power of socioeconomic monopolies in relation to the power of diverse subaltern groups, including labor and other social identities.⁹¹ Without egalitarian reform, the benefits of commensurability, or “peaceful co-existence” as Cho puts it, in the political debate between left and right remain limited in that it leaves both existing and past injustices unaddressed.

Acknowledgments

⁸⁹ See Oh 2013.

⁹⁰ For arguments surrounding Korean conservatism and passive revolution, see Gray 2013. Choi Jang-jip provides a similar theory of conservative democratization in Choi 2005.

⁹¹ Cho 2012, 24–30. See also Cho 2010.

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