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Article

GLOBAL CAPITAL, BUSINESS GROUPS AND STATE COORDINATION: THE CHANGING PROFILE OF CHAEBOL-STATE RELATIONS IN SOUTH KOREA

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Abstract

This article examines the effects of global capitalism and state coordination on the financial behaviour of *chaebol* (business conglomerates) in South Korea. This study focuses on the evolution from controller to coordinator in the post-developmental South Korean state. In recent times, the Korean government has been studied as the exemplar of the Asian newly industrializing economies (NIEs) based on its ability to *control* economic development. As civil society pressures outgrew government control in the 1990s, the government's mission shifted from control to *coordination* – the state sought to accommodate newly emerging or enlarged bargaining domains of key political-economic actors. However, the emergent post-developmental state is buffeted by the growing strength of the private sector, domestically and transnationally. While civil society strived to mobilize mass movements to further social democracy, the neoliberal evolution of capitalist class interests generated institutional configurations favouring the hegemony of finance capital.

Keywords

Global capitalism, finance hegemony, state coordination, post-developmental state, *chaebol*

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While East Asian business groups are well studied, the focus has been on the economic success produced by particular industrial relationships *within* the developmental state (DS). Now confronted by expanding global capitalism, the state in the post-developmental era is greatly affected by transnational stimuli and strives to regain legitimacy over both the private sector and civil society. Hintze's (1975) classic concept of the state as an actor constrained by historically changing transnational contexts finds its modern echo in the conceptualization of the post-developmental state (PDS) in South Korea.

The 1997 East Asian economic crisis prompted Asian governments to adopt neo-liberal reforms that overwrote traditional developmental strategies. The roots of structural change in business entities arose from two related processes of global expansion in the previous decade. First came the state-mediated effect on their governing arrangements amid the waning control of the DS and the waxing finance capital; and the direct effect of global capitalism altered the financial structure of various business entities.[1] The transnational market order reaffirms the classical Marxist view of the hierarchical relationship between global financial institutions – mostly housed in western countries – and the countries and the enterprises that are rated by those institutions.

This study focuses on the leverage that transnational capital obtains as the local business groups in the DS outgrow the financial resources of their home country.[2] Then it addresses how global capitalism affects subsets of social formation, particularly business-state relations in South Korea (henceforth Korea).[3] The financial profile of the Korean economy emphasizes *chaebol*-centered capitalism. The financial behavior of *chaebol* in Korea reveals the external influence of global capitalism on domestic actors and the internal changes of the state from a controller to a coordinator. In mediating the impact of transnational capitalist expansion, the state also had to reconcile disputes of labour-management relations. Despite the political oppression by the DS, the economic success of the DS ultimately strengthened civil society. The PDS, unlike the historical DS, is neither able nor willing to stifle industrial relations but instead attempts to coordinate these competing interests among industry and civil society.

The Grand Processes of Global Capitalism: State Guidance to Global Standards

A corporate group is a preferred form in emerging economies because a strong state encourages this particular form of economic organization. Since Johnson (1982) first

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[1] Robinson and Harris (2000) argue that a new global hegemonic bloc emerged in a ruling body of global governance under world capitalism. This new historic bloc includes transnational corporations and financial institutions that behave as a class, affecting global circuits of accumulation beyond locality and domestic polity.

[2] *Transnational* refers to cross-border practices that transcend national boundaries; g*lobal* to the complete denationalization of corporate procedures and activities; and *international* to relationships mediated by the nation-state system (Sklair 2001).

[3] I use the term subsets of social formation to refer to the dyadic relations of state-capitalist, labour-capital and state-labour relationships. The present study focuses attention on state-capitalist relations.

coined the term, *developmental* state versus *regulatory* state, comparative studies have mostly focused on state intervention in producing economic success.[4] Such propensity dominated both academicians' theorizing state configuration and policy-makers' administrative effort to attain it. Ironically, both theoreticians and policy-makers tend to underestimate the aggressive expansion of capitalism, domestically and transnationally.

The DS apparatus includes a bureaucracy ideologically buttressed by Weber's legitimate monopoly of coercion (Camic, Gorski, and Trubek 2005) and practically equipped with a rigid top-down ordered bureaucracy. Such a bureaucracy is simultaneously a tool for monitoring people and a vehicle for implementing economic policy. The ties between the bureaucracy and the large corporations control the upward mobility of new players outside exclusive political economy networks. This structure developed in most successful instances of DS. Among its most important features is governmental supervision of financial institutions that provides otherwise unavailable funds to leading companies.[5] State intervention is a key component for establishing a rule-following culture within the business community; developing inter-firm cohesiveness in key sectors (Evans 1995); orchestrating the coordination of several sectors to achieve international competitiveness (Wade 1990); and emphasizing macro-economic policies at the expense of labour rights (Deyo 1989). Besides price controls, tax exemption for major industries, and the construction of infrastructure, the state monitoring of capital most significantly included control over the financial system.

Business groups in DS like the Korean *chaebols*—with a long history of centrality to the economy and organic ties to the political elite—were designated as leading partners for industrialization. Corporate leaders complied with state policy, making key business decisions based on state policy, even when such decisions were inconsistent with short-term economic efficiency or profitability. This embeddedness was rephrased as *governed interdependence* (Weiss and Hobson 1995, 169), or as *crony capitalism* (Krugman 1994, Kang 2002) — control over corporate assets based on social ties between economic and political elites. For example, the Suharto regime in Indonesia provided Astra with a protective environment and inside information crucial to the company's operations. Thailand's government sponsored Charoen Pokphand's entry into agribusiness, its diversification into telecommunications, and its expansion to China. The Malaysian government's New Economic Policy allowed the Robert Kuok Group to obtain a monopoly in the sugar industry. The Thai, Philippine, and Indonesian states encouraged the development of large, vertically integrated textile companies (Brown 2000).

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[4] For the best accounts of the role of the state in the economic development, see Akyuz and Gore (1996); Amsden (1989), Tun-jen Cheng (1987), Evans (1995), Haggard (1990); see David Kang (2002), Duck-Jin Chang (1999) Sea-Jin Chang (2003), Eun-Mee Kim (1997) and Yeon-Ho Lee (1997) for Korea; Johnson (1982) for Japan; Wade (1990) for Taiwan; Campos and Root (1996), Koh (1995), and Quah (1982) for Singapore; Root (1996) for Hong Kong.

[5] See Eun-Mee Kim (1997); Woo-Cumings (1999); Chibber (2002) and (2003).

Business entities nurtured by the DS were under normative pressure in tandem with the obvious coercion exercised by the strong state.[6] Not only finance capital but also most professional expertise was controlled by the state through its structural ties to key scholars and scholarly associations. Businesses were guided by direct negotiation of investment agreements and the homogeneous advice offered by state-affiliated experts. This coercive and normative pressure made this form of business group dominant in the economy, reflecting a state preference for large entities. The state demanded political funding in exchange for information about governmental investment plans and subsidies. Additionally, the military-like corporate culture was supported by the authoritarian capitalist DS. Those "mutual hostages" (Kang 2002) led to similar outcomes in the financial behavior of business groups which included high debt ratios and circumscribed diversification in size expansion.[7]

Embedded autonomy theoretically bridges the self-sufficiency of the state apparatus and its coherent administration over the private sector (Evans 1995). Only when internal bureaucratic coherence is maintained, the state utilizes external networks without compromising its autonomy. The connectedness then represents a high level of state competence. The embedded autonomy depends on both a rule-following culture and an effective bureaucracy; as well as the historically determined character of the state apparatus (Evans 1995, 50). Korean and Taiwanese bureaucratic organizations comparatively showed that state autonomy may or may not succeed if the bureaucracy does not follow the rule but relies economically upon the private sector whom "the state shares a joint project of transformation" (Evans 1995, 59). However, the same degree of rule-following culture generated opposite outcomes, depending on the interagency relations within the government. Korean DS produced economic growth through the successful coordination among state agencies while India failed because the various state agencies were closely tied to the corporate sectors that they were supposed to regulate (Chibber 2002) .

These theories characterize a strong DS like Korea as a *controller,* the planner and sustainer of state capitalism leading to economic growth. Simultaneously, it coordinated interagency relations and controlled the relationships of each agency to the private sector. This unusual emphasis on the state apparatus tends to treat DS as the only dynamic force, with other social actors as mere expressions of state planning. The changing relationships of government with civil society and with the capitalist class are critical in determining economic trajectories. The potential for bottom-up effects from civil society are

[6] For more detailed conceptualization of normative, coercive and mimetic isomorphic pressures, see Powell and DiMaggio (1991).

[7] Size expansion behavior temporarily waned at the economic crisis in 1997. Soon after the economy recovered, however, chaebols continued to expand the number of subsidiaries. The top four chaebols (Samsung, Hyundai, SK and LG) had a 30% increase in the number of subsidiaries as of 2007 after the crisis (www.saesayon.org).

underestimated, as are the independent actions of businesses, either as a class or in smaller factions. Song (2011) critiques both DS theorists (e.g., Johnson, Amsden, Wade) and institutionalists (e.g., Chibber and Evans) for their common lack of criticism of dictatorial statism and their heavy focus on the linkage of state and private sectors for development. Despite Song's misreading on developmental state theory as if it takes authoritarianism for granted for the economic growth,[8] she addresses theorizing DS beyond a national level as essential. To reconsider the state's class interests while relocating the DS within the hierarchical world-system would create more room to identify the transformation of DS into PDS in a global context.

Alternative analysis has to place both the dynamics of global capitalism in the private sector and the state-business relationship at the center. Left unanalyzed is the impact of global capitalism on the nationally embedded structure. Bureaucratic coherence becomes harder to maintain once the state and its economic partners are integrated into transnational scenes. While the state apparatus could operate with relative autonomy in the national context, the same autonomy is no longer allowed in the ongoing confrontations between transnational and local capital on the one hand, and between global capitalism and global civil society on the other. Traditional analysis of DS has the least room for these issues.

The private sector's transnational expansion first undermines the legitimate monopoly of *state control* over capital and financial expertise. The state retains the internal cohesiveness that allowed it to guide economic development during the initial expansionary period. As business groups invest in foreign countries and procure capital from foreign capital markets, however, state monopoly declines. Transnational capital flows bolster the influence of foreign lending institutions and the credit-rating system that guides their investment. This undermines state control over finance and its industrial policy becomes contested by the transnational credit-rating institutions. Those external agencies evaluate the sovereign nations and their local firms for international capital based on global standards.

Therefore, the governments of late developers, like Korea of the 1980s and 1990s, responded to these pressures by accepting new *global standards* to work within the global framework. State strategy evolved into a series of ad-hoc remedies designed to accommodate the penetration of global capitalism and declining control over the private sector. This evolution involved a fundamental reconceptualization of the state: from an

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[8] For instance, Chalmers Johnson (1999) the creator of DS theory, in the compiled book of state theorists' reviews on DS (Woo-Cumings 1999a) after the East Asian economic crisis, had already defended his original concerns on the pervasive false criticism of DS theory for a possible dangerous justification given to any authoritarian regime for development. It is noteworthy to closely read his distinction between developmental and authoritarian based on cultural context of East Asia, which gives a particular legitimacy to the developmental state.

authoritative/dictatorial organizer of economic policy to a *coordinator* between local needs and the demands of the global political-economy.

Global Standards Under the Hegemony of Finance Capital

Hobsbawm (1979) had posited that the world economy had almost completed the transition from an aggregation of distinct national economies to an integrated and coordinated global division of labour in production and trade. Western-based institutional isomorphism has been pronounced in global financial system.[9] The transformation of DS has occurred amid its integration into the global financial system. Capital dependence generated structural constraints for industrial firms, which in turn delegated conditional power to financial institutions.

While regional economic blocs exist, global convergence towards a set of economic rules for businesses becomes tangible as is observed in global competition rules, specific lending patterns, dependence on global financial institutions, conforming national standards to global standards for rating investment risks and options, and restructuring the domestic financial system.[10] Although the debate continues whether a TCC (transnational capitalist class) exists as a tangible power network in the global economy,[11] such global isomorphic processes continue to drive the corporate action of participants. The power of agreement between multiple parties is not susceptible to control by an individual nation-state. Recent research on transnational policy-planning networks finds that a TCC is forming unevenly regionally, with the North Atlantic ruling class at the center of the class formation process via the global corporate-policy network (Carroll and Sapinski 2010). Additionally, the establishment and enforcement of

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[9] I refer *global financial system* to the systematic interplay of financial institutions and regulations that operate both *at* and *beyond* national or regional level. The major participants are global institutions (e.g. IMF and World Bank), nation-state's agencies (e.g. central banks and finance ministries), and private institutions acting on a global level (e.g. transnational banks and hedge funds). These actors are concisely divided into three categories: regulators (e.g. the European Central Bank or the IMF), regulated entities (e.g. international banks and insurance companies) and the lightly or non-regulated bodies (e.g. hedge funds, private equity and bank sponsored entities such as off-balance-sheet vehicles).

[10] For elaborations of the ways in which the world economy homogenizes corporate behavior, see Chase-Dunn (1998). Globalizing aspiration of firms expressed in organizational forms is more pronounce in financial industry. National aspirations to advance financial industry by benchmarking the systems in core countries bred oligopolistic financial groups in countries like Korea, i.e., *Four Major Financial Groups,* including Hana, KB, Woori and Shinhan.

[11] Sklair (2001) interviewed global fortune 500 companies' CEOs to show the existence of TCC while Carroll (2010) tested global interlocks and concluded that the existence of an inner circle of TCC is highly plausible.

International Financial Reporting Standards (IFRS) by the Group of 20 Leaders (G20) indicates a global convergence of national standards.[12]

In the DS, it was common for high-level state administrative personnel to be assigned by the state to financial institutions, where they monitored financial decisions to insure their consistency with government policy. Such placements, however, faded for two possible reasons. First, domestic banks are less dominant as loci of key lending decisions than in the DS, and foreign direct investors are loosely monitored by government institutions. The dynamics of capital flows started conditioning the role of the state and economic trajectories. Secondly, foreign stockholders have occupied domestic banks as neo-liberal policies are enacted. The domestic banks are no longer the traditional extension of the state apparatus. Thus, the notion of *finance hegemony* has relevance to corporate behavior in the new organizational field of global finance.

The finance hegemony has its origins in Lenin's capitalist imperialism (Lenin 1990[1914]).[13] As banking centralizes, the fluidity and profitability of finance capital tends to promote investment in all aspects of the economy beyond national boundaries. Once investment capital is concentrated in a few oligopolistic financial groups, the groups tend to have similar investment profiles and priorities. In Mintz and Schwartz' (1985) modern version of the theory, corporate activity is constrained to follow the priorities set by finance capitalists because of a combination of institutional connections between the hegemonic financial institutions and other standard setters. These include direct intervention in key industrial firms during periodic business crises, the pressure derived from institutional stockholding, and by the expectation among all firms that future capital needs will be judged according to their conformity to the behavioral and investment profiles that these hegemonic lenders favour. In the long run, however, financial decision-making is paramount, at least in broad strokes, and the intersection of financial and nonfinancial constraint is financial hegemony by financial institutions and other standard setters (Mintz and Schwartz 1985: 107). The dominant lenders like the IMF & WB and Bank for International Settlements (BIS), and other credit rating companies create a set of constraints that constitute isomorphic pressures on the firms operating within the global financial system.

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[12] The IFRS is to develop one set of globally accepted financial reporting standards. The IFRS foundation and IASB (International Accounting Standards Board) cooperate with global stakeholders, investors, national standard-setters, regulators/auditors, academics who are interested in developing global standards. All G20 countries have established time lines to converge with the IFRSs. See http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm

[13] Lenin's argument was based on Hobson's earlier work(1971 [1938]) and later extended by Hilferding (1981[1910]). Zeitlin's work (Zeitlin 1974) revived the interest of scholarship to explain the role of capital flows and financial institutions in determining political economic trajectories in America (Mizruchi 1996, Palmer, Friedland, and Singh 1986, Mizruchi and Sterns 1994, Useem 1996, Glasberg 1989), in European countries (Stokman, Ziegler, and Scott 1985) and in Japan (Gerlach 1992).

Corporate Financial Behaviour in the PDS

Large corporations emulate the best practices of TNCs in the context of hegemonic global standard as addressed above.[14] What specific mechanisms operated in those practices? With the role of external impact considered, the overlapping domains among domestic actors and their global nexus need to be at the center of analysis. The relational domains are the arenas of political competition for hegemonies.

First, let us disentangle the *mediated effects* on financial behavior, a result of the decline of the DS during the period of neo-liberal reform. Transnational capital exerts influence on business practice when banks from Western financial markets deal directly with national business groups, or when these ties are mediated by the indigenous government. One mechanism of state-mediation is the practice of measuring a country's *sovereign rating.* The ratings, while judging the country's business climate, are maintained by key global firms, including S&P, Moody's, Fitch, and IBCA. These institutions compete with nation-states for information that is used to create a country's economic profile; and their opinions often have tangible impact on investment judgments. The sovereign rating is meant to judge the capacity for timely payment of financial commitments, and thus—although the rating is given to the country as a whole—directly affects foreign loans of individual firms (Lee 2003). This combination of national evaluation with firm-level consequences severely leverages the nation-state behavior, since a low rating coerces the government to enact and enforce measures that assure prompt repayment of international obligations, both for itself and for major domestic companies. The sovereign ratings, therefore, exert tremendous pressure on the PDS to adjust its own actions to the standards and demands of transnational entities, undermining the state monopoly of standard in private sector.

Second, the *direct effect* of global capitalism on corporate behaviors, regarding financial and management should be addressed. The hegemonic position of foreign financial institutions appears in corporate boards and/or in the position of a direct investor holding voting stocks. Finance hegemony theory maintains that institutions at the nodes of capital flows exercise definitive leadership over business decision-making within the American economy (Mintz and Schwartz 1985). Global financial institutions exercise a similar hegemony over the TNCs that rise to the global market from emerging economies. As domestic firms expand into the global marketplace and establish production facilities abroad, they seek to enter the already existing TNC community. Such entry involves submitting to the established patterns of this organizational field, while following its established leadership, the multinational financial community. This

[14] For the new global market order re/generated by world best practice and benchmarking across nations aspiring to national competitiveness, see Sklair (2001) chapter 5.

integration of domestic large firms into global networks created an excuse for business groups to request further deregulation from the state. Meanwhile, foreign financial institutions may invade the once self-contained financial networks of the host country and upset the state-centered balance within these networks.

Seen this way, *finance hegemony* of transnational financial institutions is an ongoing reality of the post-developmental era. This hegemony is made visible in two ways. The presence of representatives from global financial institutions on the boards of directors is a signal that transnational capital flows are being effectively monitored. Foreign major stockholders, e.g., non/institutional investors in the domestic financial industry are another.[15] The foreign direct investment (FDI) trend in national economy indicates the direct effect of finance hegemony on corporate financial behavior as well as the changed role of PDS. Though the effects of FDI have been controversial, current practices of finance capital support the capital dependency theory of the Marxian tradition.[16] The past two decades evinced the increasing FDI in emerging economies.[17]

Coordinator, the New Face of the PDS

Leveraged by the transnational finance hegemony, the state voluntarily discards the role of *controller* and becomes a *coordinator* among competing interests. In doing so, the state seeks to preserve national interests and guide them into reinvestment in the local economy. As the state becomes more a flexible coordinator than a protector of exclusive social ties, the state's intact domain becomes marginalized with a notable trend of reducing state-owned enterprises and privatization. Meanwhile, capitalist domain enlarges as business groups go global in orientation. The business groups and the state become rivals while the bargaining between business groups and civil society is dramatically expanded. The controlling power of the DS is transformed by both democratization and globalization.

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[15] According to the OECD Benchmark Definition, 10% rule applies to become *direct investment* as holding stocks in the form of voting stock. www.oecd.org

[16] Economic sociologists, e.g., Chase-Dunn (1998 [1989]) and Firebaugh and Beck (1994), continued to test capital dependency theory. The foreign investment appeared to negatively affect both richer and poorer developing countries with stronger effect within the richer. The relationships hold independently of geographical area (Bornschier, Chase-Dunn, and Rubinson 1978). Contrary to the Marxists, Firebaugh (1992) found a positive effect of foreign capital on economic growth conditional upon exogenous factors—the differential productivity of foreign versus domestic investment; and the negative externalities from foreign capital penetration. Dixon and Boswell (1996) reappraised Firebaugh and found that less-developed countries dependent on foreign capital show slower economic growth, higher income inequality, and possibly impaired domestic capital formation.

[17] Emerging markets took the largest share of FDIs made by businesses for the years 2012 and 2013. The share of FDI claimed by Brazil, China, India, Russia and South Africa has almost doubled since 2008. *Wall Street Journal,* January 28, 2014.

Tri-partite bargaining among state, business and civil society, becomes a factor in projecting economic trajectories. The tri-partite domain reflects internal democratic consolidation and external globalization where the state houses the negotiation between civil society and the private sector. The autonomy of civil society is always a crucial factor even in the most authoritarian states and further expands with civilian globalization. The global NGO network and personal contact provide resources and strategies for political action. While the state is actively engaged in international governmental organizations (IGOs), both capitalist class actions and bottom-up social movements substantially increase.[18] People are organized into groups both within and across national borders that limit state sovereignty (Sassen 1998; Sassen 2000; Sklair 2001). Yet, the state is not only constrained by this bottom-up movement, but often actively chooses to yield the position of controller, responding to the realpolitik of globalization. Ironically, this much more democratic PDS is constrained both internally and externally. Symptomatic is the IMF bailout during the East Asian economic crisis: the state that once dominated labour and business groups now strives to coordinate domestic industrial relations, and the bi-lateral agreement between business groups and IGOs and other foreign financial institutions.

The state interacts with the global environment in two distinct ways. One is the direct interaction via intergovernmental networks between the global economy and the nation-state. For instance, the Committee on the Global Financial System (CGFS) meetings and forums continuously produce international consensuses around global financial matters.[19] The effects are negotiated through domestic bargaining and produces changes in the behavior of business groups. Trade blocs try to strengthen the economic and political ties among the subsets of nations at the governmental level. Meanwhile, the IMF structural adjustment plan illustrates contemporary relations between the global political economy and domestic actors. Such institution's prescription implies decreased nation-state sovereignty and the increased power of foreign lenders. It also draws attention to the role of TSMOs (transnational social movement organizations) as the counterforce of regional FTAs (Free Trade Agreements) and the global financial system. Although the states formally sign IMF plans, they are in fact agreeing to economic plans imposed externally, plans that often reflect the interests of transnational capital, e.g.

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[18] Activists share tactics globally while interacting with the local mass public in socio-cultural space through high tech strategies, e.g. pod-casted news and political music concerts as well as traditional direct action. A study in the 1990s found that the number of NGO and TSMO including the membership size increased both in the global North and the South (Smith, chapter 3 in Smith et. al. 1997, p.49-50). The current civil forums linked to World Social Forum (WSF) first begun in 2001 indicate the highly expected significance of global civil society intervening in social change. Their regional/thematic forums have addressed diverse issues like financial crises, democracy, human rights, war, drug trafficking, etc. (Smith et al. 2007).

[19] The CGFS, a central bank forum monitors and examines issues relating to financial markets and systems. Members are deputy governors, other senior officials of central banks, and the Economic Adviser of the BIS. Member institutions are mostly from G20, see: http://www.bis.org/cgfs.

capital demands to open up a state for foreign direct investment (FDI), are imposed as IMF conditionalities.

Yet, the IMF is opposed by TSMOs, for instance, *Fifty Years is Enough*. In a globalized economic sector, TSMOs can add pressures through the global socio-economic environment, which directly challenges state autonomy.[20] In some cases, there is direct confrontation between TNCs and TSMOs, but more typically the outcomes of such conflict are consolidated in the form of specific legal arrangements of a nation-state.[21] In the case of IMF conditionalities, for instance, some may be modified by the state to satisfy conflict between TNCs and TSMOs. The impact of ever-growing direct cooperation between domestic NGOs and INGOs has not been addressed in the state-centered approach. TSMOs tend to reinforce supporting networks of social relations for direct action, providing resources and stimulating one another to attack transnational sources of common problems (Chepurenko 2010, 14-5). These civil society changes have created both tensions and cooperation within and across national boundaries, as INGOs attempt, with more and more success, "to intervene in global political processes once monopolized by states" (Smith, Pagnucco, and Chatfield 1997, 65). The global civil society networks may indicate the degree of political opportunity that civil society enjoys. Consequently, globalization challenges the autonomous decision-making of the nation-state and forces the state to come to the bargaining table with business and civil society. Now the key for social democracy under PDS has more to do with the power game between the civil society and the capitalist class interests, rather than the old frameworks that heavily focused on how to win against the oppressive DS government.

Chaebol, the State and Civil Society in Korea: An Empirical Analysis

At the outset of the "Korean miracle", the state nurtured the *chaebols,* seeing them as a better vehicle for rapid economic growth than relying on small and medium-sized enterprises (SMEs). The contradictions of institutional autonomy were avoided by authoritarian politics that were solicitous of already established businesses. The state directed major capital flows toward *chaebols* while allowing the repression of unions that

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[20] The first Occupy protest to receive wide coverage was Occupy Wall Street in New York City's Zuccotti Park, which began on September 17, 2011. Over the next twenty days, protests had occurred in over 95 cities across 82 countries, and over 600 of the U.S. communities. Global solidarity around the Anti-FTA movements in emerging countries (www.bilaterals.org) and the synergy of occupy movements across the globe after global financial crisis are noteworthy (www.washingtonpost.com Oct 15, 2011).

[21] Global *sweatshop watch* movement against transnational manufacturing companies like NIKE and Forever21 pushed the governmental legal measure for improving working condition of the factory workers by directly challenging the company. Similarly, "rank-and-file internationalism" focuses on labour-right violations in the Third World. Despite the insufficient world-wide enforcement, there has been noticeable advancement at the practical level.

arose to challenge their labour practices (Chang 1999, 60-67). The export-oriented industrialization was a key locomotive that integrated the Korean economy into the global market. *Chaebols* perfectly suited this purpose, and the Park Jung-Hee regime, born in the military coup of 1961, worked with established *chaebols* throughout the 1960s' East Asian miracle era. The partnership of Park and the *chaebols* remained firm as the country moved steadily toward economic prosperity (Kim 1997, 100).

However, a friction began to develop between the government and the *chaebols* after the second military coup in 1980. The first public sign of this friction was the regulation of the *chaebols* after General Chun became Korean president (Lee 1997, 46-77). From that moment forward, the government oscillated between policies of regulation and deregulation (Harvey 2005). The Chun regime struggled to guide the behavior of the *chaebols*; a dramatic departure from the Park regime, which had maintained seamless relationships based on uncontested government control. To this end, Chun implemented a series of regulatory policies, including the termination of financial support from banks to certain business groups. As a result, one of the *chaebols, Kukche Group* in 1985 went bankrupt, the first such bankruptcy since the economic boom began. The negative control by the state over the *chaebols* increased resistance against government interference. Nevertheless, the Chun regime sought to shore up the *chaebols* by enunciating labour policies aimed at eliminating any possibility that the rapidly developing labour movement would become an active counterforce (Kim 1997, 200-203) to the demands and dictates of industry.

Unlike the Park regime, the Chun (1980-1988) and the Roh (1988-1993) administrations relaxed the exclusive partisanship through new deconcentration policies against *chaebols*. The *chaebols* made every effort to deter the state from executing these policies and ultimately managed to vitiate the policy.[22] Other policies designed to rein in the *chaebols* met similar fates, including the revised Fair Trade Act, which prohibited firms within *chaebols* from giving each other favorable terms of trade. The government acted with its accustomed autonomy, but effective resistance by the *chaebols* narrowed the scope of the amendment and enforcement of the Act (Lee 1997, 77f). During the 1980s, the state took the regulatory posture of limiting the economic independence of chaebols, but experienced commensurate frustrations. The *chaebols* acquired important and diverse holdings in real estate and financial institutions, thus further constraining state action, while accusing the government of failing to provide the information and leadership needed to cushion the crisis that arose in the late 1980s. The state apparatus for economic

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[22] Chaebols had a well-structured organization for corporate action through The Federation of Korean Industries (FKI), the biggest lobby in Korea. The association was launched in 1961 as Businessmen's Association to induce American capital investment and encouraged to be economic partnership of government as KFI in 1968. Later on, it evolved into the primary mechanism for sustaining hegemonic position in bargaining with both the state and labor. FKI pursues free market, free enterprise and free competition as its core ideology. http://www.fki.or.kr/en/

formation had comprised the Economic Planning Board (EPB) (1961-1994) and Ministry of Finance (MoF). The EPB, for more than thirty years of economic development had constrained the private sector and limited its ties to transnational capital. By the 1990s, the state was no longer able to restrict access to transnational capital, demonstrating the decline of the DS in Korea.

In responding to globalization, the civilian president Kim Young-Sam enunciated extensive neo-liberal reforms and justified these changes as necessary adjustments for the national economy to survive in the global competition. The EPB and MoF were merged into the Ministry of Finance and Economy (MOFE) in 1994 for that purpose.[23] The hoped-for consequence was to expand international investment capital, both inflow and outflow. Many *chaebols* invested abroad, consistent with the economic plans of president Kim's policy since 1992. Yet it was not strictly speaking dictated by the logic of the nation's own investment strategies. Rather, like other MNCs, *chaebols* pursued emerging neo-liberal capitalist norms, including a global consumerist ideology. Like other DSs, the Korean state "adapted" to the new global market order in situations where transnational corporations are permitted to dominate the country's relationship to the world economy.

Globalization also allowed private sectors in Korea to develop political economy expertise. Corporate institutes started competing with state-sponsored expertise on the internal market and promoting a global consumerist ideology. By 2005, many of the large firms among the thirty largest *chaebols* in Korea ran their own political economic research institutes.[24] Not only business groups established their own affiliated research institutes, but also non-for-profit NGOs grew in numbers and in influence. In 1994, for example, the activists, scholars and lawyers launched People's Solidarity for Participatory Democracy (PSPD), inherited from various democratic movements during the military dictatorship. To promote democratic participation in government policy-making and reforms, PSPD in 1996 established an auxiliary research institute, Institute for Participatory Society (IPS). In 2004, PSPD also obtained a special consultative status with the United Nations Economic and Social Council (ECOSOC) and started to advocate

[23] In 2008, the MOFE and the Ministry of Planning and Budget (MPB) was again merged into the Ministry of Strategy and Finance (MOSF) to coordinate fiscal policy and inter-ministerial policy. Meanwhile, the MOFE's authority onver financial market was transferred to the Financial Services Commission (FSC). www.mosf.go.kr

[24] The institutes include Samsung (www.seriworld.org), Daewoo (www.dweri.re.kr), LG (www.lgeri.com), POSCO (www.posri.re.kr), Hyundai (www.hri.co.kr), Kia (www.kiaeri.co.kr), Daishin (www.deri.co.kr) and much more. Their researches are publicly credited and published by their own affiliated publishers, including web journals. *The Korea Economic Daily* publishes the list every year and it includes the measurement of policy influence of the institute. (www.hankyung.com). As of 2012, *The Korea Economic Daily* reported that six corporate research institutes ranked within the top 25 economic policy think tanks. For another indicator of such influence, the SERI (Samsung Economic Research Institute) ranked in the first place in the top 100 of the Korea's think tanks for the four consecutive years, 2008-2011. Chart 1 illustrates the shifts in the makings of economic knowledge for the past three decades.

before various UN bodies including the UN Human Rights Council and the Security Council.[25] Both the corporate affiliated research institutes and NGO-run institutes continued to grow.

In implementing neo-liberal policy, the government opened domestic capital markets, which allowed *chaebols* to borrow from financial institutions domiciled in core Western countries. These externalized lending relationships made the *chaebols* subject to conditions set by the global financial system, thus compromising the hegemony of domestic banks of Korea. The balance of payment crisis in 1997 bankrupted some *chaebols* (including the Hanbo, Jinro, and Kia Groups) and forced others to alter key practices to satisfy WB and IMF conditions. These newly instituted constraints enacted a normative isomorphism[26] in which *chaebols* began emulating the MNCs domiciled in other countries.[27]

Meanwhile, the civil society grew as a strong counter-force to the capitalist class during the 1990s. Social movement organizations, including labour unions have been influential in the domestic political process. The experience of using militant action to oppose the authoritarian state empowered civil society to demand changes in the state bureaucracy and private sector. During the 1980s, the labour movements critiqued the Park, Chun, and Roh regimes for the authoritarian structures that hindered socioeconomic development. In a direct attack on the labour-repressive policies of these regimes, the labour movement targeted both the state and large employers. They enlisted the support of student movements, and thus became a rallying point for civil society. These early protests hardly had immediate success until the Great Workers' Struggle and the June Democratic Protest in 1987. The democratic trade union movement held a nation-wide May Day rally which led to organizing the Korean Trade Union Congress (KTUC, *Chun-no-hyup*). *Chun-no-hyup* mainly consisted of unions in the manufacturing sector and paved the way for a more consolidated democratic union movement in the 1990s. As a result of membership in the ILO (International Labor Organization), major national configurations came together as the Joint Committee for Ratification of ILO Basic Conventions and Labour Law Reform. The Committee mobilized the unions for the "1992 National Workers Rally" and tried building a consolidated national organization. The subsequent efforts led to the formation in June 1993 of the Korean Council of Trade Union Representatives (KCTUR, *Chun-no-dae*), which brought together leaders of the democratic trade unions into a unity. Founded on the preceding struggles of *Chun-no-dae*, the Korean Confederation of Trade Unions (KCTU, *Min-ju--noh-chong*) was established in

[25] www.peoplepower21.org

[26] According to Powell and DiMaggio (1991), major pressure for normative isomorphism usually comes from from professionalism, an expertise now vested in MNCs and global financial actors like IMF, World Bank.

[27] As for the behavioral pattern of these global actors, see Sklair (2001), chapter 5; Meyer, Boli, Thomas, and and Ramirez (1997).

1995 with 862 enterprise unions and a total membership of 418,000. The confederation has emerged as the representative organization of Korean workers and the trade union movements for democratization.[28] However, the union movement solidarity contributed to the growing friction between the state and the *chaebols*. These events were the prelude to dramatic changes in the tripartite relationship that occurred in the PDS era. In addition to labour solidarity, the new middle class emerged as significant actor in transforming social relations from authoritarian to democratic in various organizations in Korea (Chung 2005).[29]

Combined with the substantial pressure emanating from the integration of the economy into the global market, growing civil society brought important changes in the functioning of the Korean state— from a *controller* to a *coordinator.* Since the mid-1990s, Korean scholars (Kim 1994, Choi 2009, Im 1994, Lim 2007) reexamined whether the developmental dictatorship advanced or hindered the economy and disputed the myth that authoritarian structure yields economic growth. The coordinator state differs from its controlling predecessor because it no longer depends on political-economic coercion as the primary vehicle for enforcing state regulatory policies; it must instead negotiate mutually beneficial policies among key actors in domestic politics. Unlike regulatory states that seek to coordinate the diversified interests of domestic capital, this PDS implements global standards that in turn ironically reinforces transnational capitalist hegemony. While remaining as lender of last resort on the national capitalists' behalf, the PDS configures the form of political neutrality by allowing civil society to organize.

State Coordination and Financial Liberalization

The PDS model illustrates that the shifts in the state's political positions reciprocate with its role in the socio-economic relations. In the Korean context, the interrelatedness originates from the dirigiste inclination of *chaebol*-state patron relationship. The evolution from a DS controller to a PDS coordinator was accompanied by a parallel shift from a bureaucratic authoritarian state to a liberal democratic state.[30] The changed role of the state needs to be interpreted in both economic and socio-political terms and it is the financial function of the state that is central to both of these realms.

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[28] By 1997, the membership increased to over 526,300 in 1,144 unions and became the successor to a of struggle of Korean workers while committed to advancing workers' empowerment by building industrial unionism and workplace democracy. As of 2012, 143 solidarity organizations from civil society are to KCTU. See www.kctu.org and www.nodong.org.

[29] Chung (2005)'s research analyzed South Korean data from the World Values Survey 1995 which measures the general populations' political cultures and attitudes using a probability sample of 1253 men and women over 16 years of age.

[30] For more discussions on democratic consolidation processes in developing countries including Korea, see Ho-Kee Kim 2000a and 2000b and Sung-Hack Lim (2003).

Unlike most Western capitalist states, the Korean state itself was the leading actor of capital accumulation. This had a strong impact on the *chaebols*' political behavior, since they could not risk tampering with their economic standing by indulging in independent political action. As the state's financial monopoly began to erode, so did the political control that the state could exercise over the private sector. Meanwhile, capitalists had already become more directly influential in the households' economy through their dominant share in the production market and their political leverage in the labour market. Since the early 1980s, when the country was even nicknamed as the "*Chaebol* Republic", rapidly accumulating wealth and denser social networks have facilitated coordinated action among *chaebols*. During the 1990s, the capitalist class matured into a dominant political force.

One indicator of this new coordination appeared in the 1992 National Assembly Election, when the National Unity Party, based in the *Hyundai Group*, ran a strong third despite having been formed only two months before the election. This sudden rise reflected the newly unleashed energy among a disgruntled electorate no longer content to accept the traditional choices offered by the established parties, and therefore willing to support the corporate representatives in the National Unity Party as a possible alternative (Kang 1998). This, however, fails to explain *Hyundai's* willingness to challenge the established parties, when even a strong third place vote would leave it vulnerable to retribution by state managers loyal to the existing major parties. Since state regulation had been dissipating, *Hyundai's* managers (and other *chaebol* leaders) were emboldened; instead of ingratiating themselves with state managers by uncritically accepting government policy, they sought to form state policy congenial to their corporate plans. The Unity Party was one prong of a new activist approach among *chaebols* toward government policy formation.

The economic policy at the turn to PDS under the president Kim Young-Sam was crystalized in financial liberalization and a transparent financial transaction system. The Real Name Financial Transaction Act was legislated by the President's Commission on Finance and Economy Code 16 of 1993 with Congressional approval.[31] The mandatory usage of real names for financial transactions made it possible to track capital sources and flows. This transparency was aimed at discouraging informal/unfair transactions while facilitating sound development of the financial industry. This legal act paved the way for the Korean financial industry to become deeply involved in the global financial system.

Financial liberalization policies, meanwhile, yielded drastic changes, including interest rate liberalization, capital account liberalization, a competitive exchange rate and the

[31] This legal action was further reinforced by being legislated as *The Act on Real Name Financial Transactions and Guarantee of Secrecy* the Legal Act code number 5493 on December 31, 1997. (Korea Ministry of Government Legislation. www.law.go.kr)

liberalization of FDI.[32] Finance capitalism emerged in Korea as the government made vast efforts to increase the financial assets and financial interrelations ratio (FIR) (Table 1). Observing the global expansion of finance capitalism, the government strongly felt the urgency of restructuring and advancing the domestic financial industry. It is not a coincidence that FIR emerged as a crucial economic indicator of nation's cumulative financial assets in the central bank's documents. The FIR was 2.6-2.8% in the 1970s but continued to increase up to 4.92% by the end of 1993. The government in reference to the U.S. (6.55% in 1992), Japan (7.81% in 1992) made an effort to improve the ratio.[33] As a late developer, the government tried to benchmark the advanced capitalist system in reference to the FIR trends. This in turn, deeply integrated the Korean economy into the global financial system while the effort to restructure the financial industry affected corporate financial behaviours domestically. Moreover, as Charts 1 and 2 demonstrate, the Korean States transition from DS to PDS is marked by it withdrawal from the financial sector, particularly in regard to commercial lending.

Table 1. Financial Assets (unit: trillion KRW) and FIR (Total Financial Assets/Nominal GNI)

	1975	1980	1985	1990	1995	2000	2005	2010
Financial Assets Total	27	114	312	770	1852	3592	6199	10298
Financial Companies'* Assets	8	41	92	224	468	893	1474	2376
FIR	2.7	3.0	3.8	4.1	4.7	6.2	7.2	8.8

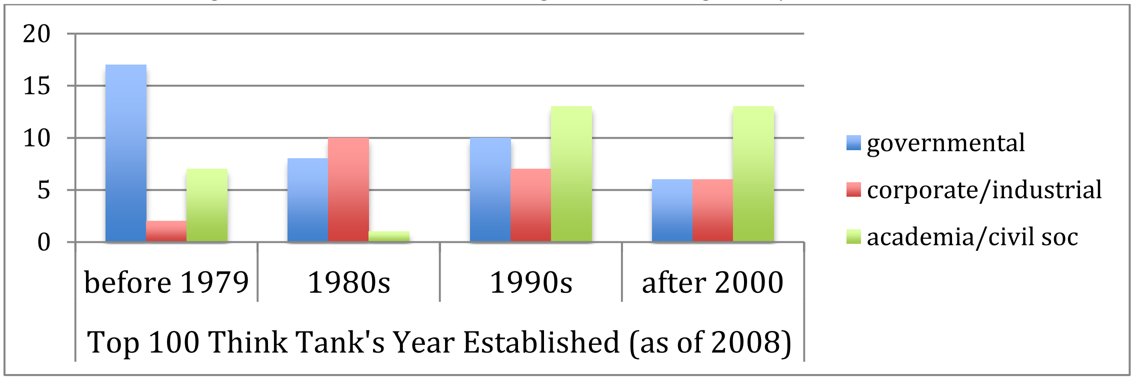
Source: Bank of Korea and Financial Supervisory Service

*Note: including banks, insurance company, securities company, brokerage and investment bank.

[32] As for the detailed legal measures and historical events in the financial industry of Korea, see www.fsc.go.kr

[33] FIR increases when: 1) the subjects of savings and investment are independent of each other; 2) the external financing of corporate investment increases; 3) the proportion of indirect financing within the external financing increases; 4) stocks and bonds are frequently issued among financial institutions, regenerating multiple transactions out of the issued stocks and bonds. For the calculation method of FIR, see the Bank of Korea (1996) *Economic Indicators*, p.124.

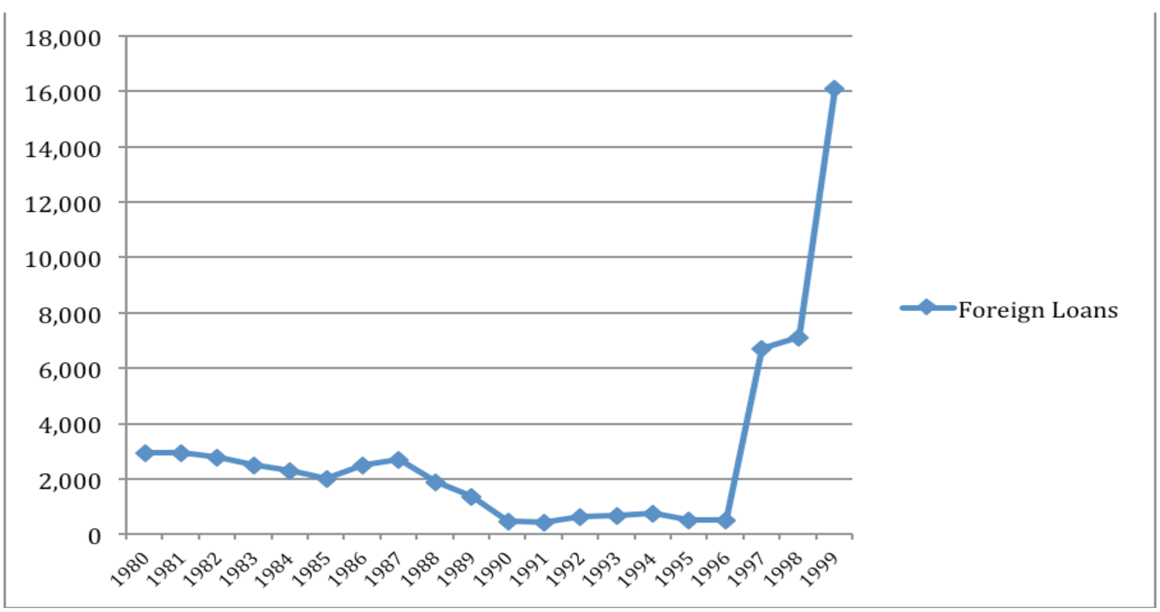
Chart 1. Makings of Economic Knowledge Producing Body*



Source: magazine.hankyung.com

*Note: *The Hankyung Business* conducted a survey research by recruiting 120 respondents from 4 organizational categories, i.e. governmental, corporate, NGO affiliations and research universities; and 6 professional fields, i.e. national security and diplomacy, politics, social welfare and education, economy and industry, women and labour, science and technology, and environment and energy. The survey was done between November 14 and 25, 2008 on behalf of *The Korea Economic Magazine, a* weekly economic professional magazine of Korea. The respondents listed top ten organizations in each field where they work as a profession; then the total frequency counted to come up with top 100 for total. Exceptionally, the organizations in science and technology field were measured by the size of funding for research.

Chart 2. Foreign Loans Arrivals Total (in Million USD)



Source: Ministry of Strategy and Finance, The Bank of Korea (http://ecos.bok.or.kr)

The shifts away from financial control by the state were embedded in larger processes of political turmoil, including a political impeachment and major economic initiatives, like the Roh Moo-Hyun administration's effort to stimulate "job growth and foreign investment" as part of a larger program designed to turn "Korea into a logistics and financial hub for Northeast Asia."[34] The explicit goal of Roh's program to stimulate foreign investment involved the directing of investment to certain chosen sectors with a minimal attempt to shape the impact of the investment—these choices were left to the global capitalists and to the markets that facilitated the investment process. Importantly, the PDS under the Roh administration also sought to create a peaceful labour environment, creating space for the autonomous associations of civil society. Union negotiations directly with government and business would have been unthinkable only two decades previous.

Direct Effects of Global Capitalism on Corporate Financial Behaviour

Korea's manufacturing industry for the past 60 years has grown from 7.4% (1953) to 30.6% (2010) of GDP (Cho, Park, and Kang 2012). Large firms[35] focusing on manufacturing have been leading companies in the industrial development and economic growth of Korea. During the DS era, *chaebols* had a low BIS capital adequacy ratio and a high debt-to-equity ratio. The major source of debts was the investment banks controlled by the state central bank. The developmental policy encouraged the central bank to lend more money to large firms than SMEs (Small Medium Enterprises).

By the mid-1990s, the profitability of the thirty largest chaebols continued falling (Chang 2003, 14). Many *chaebol* affiliates were inefficient and unable to cover their own financing costs. Their investments abroad, financed by loans from foreign capital, were unprofitable, at least in the short term. To qualify for loan restructuring in the global market, the *chaebols* were forced to undertake reforms in their business strategies.

In the aftermath of the 1997 crisis, the proportion of stockholders via direct financing stretched as the large firms improved their capital adequacy ratios. Corporations preferred direct financing to indirect financing. The crisis offered the Korean economy an opening to adopt global standards in finance and to open to a global capital market and foreign direct investment, fully orienting the economy toward the neoliberal economic order. The positive effect expected was the expansion of transparent market transactions, autonomy and

[34] http://www.koreaherald.co.kr/SITE/data/html_dir/2004/05/12/200405120020.asp

[35] The Small Medium Enterprise Basic Law in Korea defines any business entities hire more than 300 employees as large firms, otherwise SMEs (www.law.go.kr) while the Fair Trade Commission considers the total asset over 5,000 million in USD (www.ftc.go.kr)

openness of market. Nevertheless, its final outputs yielded a high unemployment rate and growing inequality.[36]

As the financial industry further liberalized, the international financial market became the preferred source for large borrowers with global reach for two important reasons. One can be found in the relative interest rates for corporate bonds and bank loans in force during the key transition period. Whereas corporate bond rates as of 1992 far exceeded the Korean bank prime rate (18.9% to 11.3%), the two rates converged in 1998, when the rising prime slightly exceeded the falling interest rate of corporate bonds (15.2% to 15.1%).[37] The two remained equal thereafter, meaning that large firms that could qualify for corporate bonds would pay no penalty for using them. Since corporate bonds carried less specific oversight of government institutions, they were far more attractive to both issuers and buyers who participate in the bond market. This option was therefore adopted by the major *chaebols*; and foreigners continued to rush to bond markets. Large foreign investments were attracted to Korean domestic bonds as the fiscal sustainability and low public debt continue.[38] Moreover, the financial independence of the largest *chaebols* trickled down to other Korean enterprises, since the intra-chaebol connections often gave them indirect access to these same global financial resources. These changes in the Korean lending profile demonstrate that the largest *chaebols* had become members of the TCC, with the option of transgressing national boundaries in pursuit of economic self-interest. While such membership also brought the *chaebols* under the discipline of the global financial system, this discipline was (perhaps ironically) much looser than that exercised by the Korean state.[39]

While the Korean economy recovered from the crisis, the proportion of foreign capital in the domestic financial industry increased sharply; the rescue operation created permanent changes in ownership arrangements. As the first evidence, the proportion of foreign stakeholders increased yielding irrevocable changes in the ownership arrangement. By 2004 three of the eight largest commercial banks (*Jeil Bank, Foreign Exchange Bank* and *Hanmi Bank*) became subsidiaries of global financial firms, and FDI held a preponderant proportion of stock in three of the remaining five (*Kookmin Bank* 77.8%, *Shinhan Finance* 64.3%, *Hana Bank* 65.5%)(Park 2004). The same trends operated throughout the upper reaches of the Korean business community: foreign ownership in the banking industry as a whole rose from 6.1% to 27% in a scant five years from 1999 to 2004; while the insurance industry recorded an increase from 4.6% to 15.6%. During the same five year period, foreign ownership among all publicly traded shares on the Korean stock exchange

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[36] The structural adjustment after crisis, for instance directly affected the unemployment rate which increased from 2.1% in 1995 to 9.6% in 2010 (Cho et al. 2012, pp. 25f).

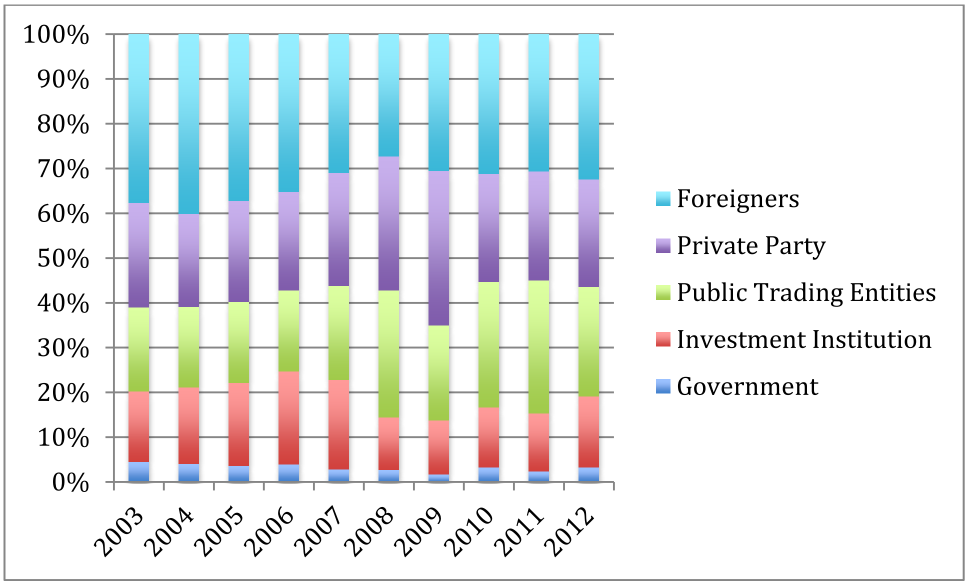
[37] www.ecos.bok.or.kr. The Bank of Korea, Economic Statistics System.

[38] www.iif.com/emr/ap/korea Institute of International Finance.

[39] For a careful distinction between hegemony and control, see Mintz and Schwartz, 1985.

increased from 6.5% to 25.5%.[40] Foreign shareholdings in commercial banking industry have expanded since the post-crisis period: 16.4% in 1997, 50.2% in 2003, 59.7% in 2004 and 57.8% in 2007.[41] According to the BIS (Bank for International Settlements) report[42], foreign equity funds, often private, had acquired controlling interests in Korean domestic banks after the crisis. The foreign capital in the Korean financial industry and in the stock market has remarkably increased (Chart 3).

Chart 3. Stock Market Shares by Shareholders (%)



Source: Korea Exchange, chart reproduced form Economic Statistics System (ecos.bok.or.kr)

The increases of foreign capital indicate that the integration of the Korean economy into the global financial system had gained irreversible momentum during this post-crisis period. Foreign-owned banks particularly focus on expanding commercial banking or household lending rather than offering a wide range of financial services to other industrial sectors. Secondly, foreign banks emphasized *standardized credit evaluation* over local information and long-term customer relationships. By April 2004 foreign debt among the largest Korean businesses had reached $44.3 billion,[43] and the

[40] The market occupancy ratio for each sector is measured by total assets in 2003 on average for banks; total amounts of stock exchanges during January 2004 to July 2004 for stock market, total incomes from insurance policy sales of life insurance companies during April 2004 to June 2004. Source: Financial Supervisory Service, Korea Stock Exchange, Korea Life Insurance Association.

[41] Percent calculated based on stock market prices in Kyungsoo Kim, Byoung-Ki Kim and Young Kyoung Suh, "Opening Capital Flows and Implications from Korea" Economic Papers Vol. 12 No. 1 published by the Bank of Korea. www.bok.or.kr

[42] http://www.bis.org/pub/cgfs22.htm.

[43] www.fnnews.com reported on April 12, 2004

chaebols faced pressure to conform to global standards of business conduct. This included adjusting to global accounting standards, implying or requiring new approaches to the generation and disposition of profits, and many of these are in stark contrast to longstanding Korean government practices. Similarly, shareholder activism, which originated in the United States, had become a global phenomenon as institutional investors diversified their portfolios internationally.[44] This resulted in direct negotiations over corporate policy between Korean CEOs and highly opinionated representatives of foreign stockholders, and this became another source of friction in which *chaebol* leadership was forced to counter Korean government policies.

The drift of corporate finance outward into global markets for commercial bonds and stocks or international loans, complemented by the Korean banks' migration into security underwriting, created a corporate network within the country largely outside of government control or influence. The banks are no longer the central location attached to state control where the overarching knowledge of the economy was collected, and decision-making over bank loans had once been the moment for state strategizing and implementing plans for economic development. Beyond this, the changes left a power competition among knowledge producers, since no single institution held this central place within the Korean economy. Instead, these changes can be seen as part of a general trend toward disorganized capitalism. Once the power of the domestic bank declined, "the social ties among firms [became] dispersed" and the capacity to coordinate their actions dissipated (Davis and Mizruchi 1999, 236).

Because of the concentration of capital, a few large foreign banks began exerting a different, but nonetheless tangible, form of control over Korea's largest firms, beginning with the balance of payment crisis in 1997 and deepened by the rapid recovery from the crisis. This influence resembled that described by Lenin as the central element in modern imperialism: the banks are able to "*ascertain exactly* the financial position of the various capitalists, then to *control* them, to influence them by restricting or enlarging, facilitating or hindering credits, and finally *entirely determine* their fate (Lenin 1990 [1914], 37)." Though the current forms of financial control, mediated through loosely organized markets (like the increasingly important stock and bond market), are less programmatic than those described by Lenin and less directed than those controlled by the Korean DS, the hegemonic global financial system is nevertheless the key legislative and executive force in the new global economy.[45]

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[44] Useem (1996) cited in Chang (Chang 2003, 31)

[45] Chang (2003) offers a persuasive argument for the vision of global capitalism as hegemony while the current practices of the CGFS (Committee on Global Financial System) confirm such argument.

Conclusion

In the 1970s and 1980s the Korean government was the prototypical DS, acting as a *controller* over economic trajectories and authoritarian control over civil society. But by the late 1990s, the state apparatus had been reconfigured as a *coordinator* to accommodate the diverse demands from global financial system, local business groups, and from an increasingly autonomous civil society. This decline in state autonomy also needs to be considered as a consequence of political democratization. The rise of civil society in the 1980s paved the way for contested democratic elections of the 1990s, peaceful regime change, and a growing responsiveness of government institutions to public opinion. Yet, as the PDS became more responsive to both private economic sector and civil society, it faltered in providing economic guidance. Transforming itself from a proactive force for development into a *coordinator* to enforce the structural constraints of global capitalism which ironically led the Korean state to promote global *financial hegemony* over domestic Korean enterprise *and* civil society. The state took the position of neutral third party to find middle ground among contending actors, most notably domestic and transnational capitalists and organized forces of civil society. Ultimately, the leverage of transnational financial institutions is, in most instances, predominant, outweighing even the cumulative force of other actors in the system. Indeed, the recent history of the Korean political economy suggests that the administrative capacity of states in the late developers seem to be focused on facilitating the continued functioning of the global financial system. The state in the post-developmental context is destined for the role of coordinating and striving to leash the finance capital that revives and expands despite the global financial crisis. The process of finance capitalism demands our attention to uncover the mechanism through which the profit of finance capital is privately enjoyed while the cost socialized.

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