THE POLITICS OF FINANCIAL REFORM IN KOREA, MALAYSIA, AND THAILAND: WHEN, WHY, AND HOW DEMOCRACY MATTERS?*

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This article analyzes the impact of political regime and state bureaucracy on policy responses to the 1997 financial crisis in Korea, Malaysia, and Thailand. The political regime type — classified broadly into democracy and authoritarianism — is found to shape the direction of policy responses by influencing the political elites’ understanding on causes, processes, and consequences of the crisis, whereas the state bureaucracy — classified into hybrid and Weberian types — decides the implementation of reform plans by determining the power of big business to resist policy change, as well as the state’s organizational capacity to counter that resistance. The article argues that only when the political regime is democratic and the state Weberian will comprehensive — as opposed to partial — reform succeed.
1. PUZZLE

The year 1997 marked a watershed for East Asia’s newly industrializing countries. After months of futile efforts to defend its faltering currency, Thailand rushed for an International Monetary Fund (IMF) bailout on July 2 and, within a month, accepted a very painful adjustment and structural reform. The turmoil then spread northward, forcing on Korea what its media called an “IMF trusteeship” on December 2. Even financially stronger Malaysia faltered and endorsed structural reform, albeit without as high interest rates as in Korea and Thailand, after a year long struggle over policy ideas and political power within its ruling power elite. The crisis had a high toll. When each country successfully stabilized and even boasted a recovery in its real sector during 1999, financial systems were in utter shatters. By July 1999 only eleven among Korea’s original thirty merchant banks survived, while an extensive program of closures and mergers consolidated 26 commercial banks into twelve and eight investment trust companies into four. Likewise, of its 91 finance companies, Thailand closed down 56. Malaysia joined in by launching a merger program with state money. The public cost was staggering: Korea disbursed $60 billion, Thailand $34 billion, and Malaysia $4 billion. All three nations registered negative real GDP growth rates in 1998, with Thailand at top with minus 9.4 percent and Korea at bottom with negative 5.8 percent.

Such an “Asian” crisis could only foster beliefs in financial globalization, especially in its irresistible, irreversible homogenizing influences on macroeconomic policy. With it, many observers argued, states become not “decision makers” but “decision takers” (Kim, S. 2000:3), duly adopting what is dictated by market competition rules — neoliberal policy norms — in spite of vast differences in culture, politics, and society. The Thai “disease” became its neighbors’ as anxious investors and dealers sought safety in dollars and yen. Once
foreign reserves dried up and options narrowed down visibly in Bangkok and Seoul, moreover, “globalization” became not only a structural constraint but also a distinctive set of norms, rules, and principles propagated by a purposive agent: IMF representatives. The homogenizing power of globalization was even visible in Kuala Lumpur whose political authorities depicted capital flight as a foreign conspiracy and opted to go alone without any IMF support. Like Seoul and Bangkok under IMF leadership, it put in place — albeit with a greater time lag and a less internal consistency — a triple strategy of stabilization, financial restructuring and structural reform. While vehemently assailing “Western imperialism,” Mahathir Mohamad’s Malaysia tightened its regulatory regime along the “best international practices” throughout 1998 (Dekle and Kletzer 2001:27, 33, 35).

Despite such a triple reform strategy emerging from all crisis situations, it would be wrong to see globalization as leaving no room for politics to intervene and place nations on a different policy track. The similarity or dissimilarity an analyst observes, in fact, is partly a product of where she chooses to locate her level of analysis. At a high level of conceptualization as IMF’s triple reform, Korea, Malaysia, and Thailand look similar. The economics of financial crisis compels policy authorities to stabilize, restructure, and reform, if they are to avoid a politically paralyzing and socially damaging default on foreign loans. There, however, exist different ways to do so, with often profound consequences on distributive structures, power relations, and international linkages. A crisis nation can stabilize with an easier monetary policy if it is able to delink foreign exchange rate movements from interest rate changes through capital control measures. The state similarly faces a bundle of choices when restructuring banks: it can rely on a private or public asset management company, with tougher or softer conditions on loss sharing, equity write downs, and management changes for problem banks, as well as link bank recapitalization more tightly or loosely with corporate restructuring, which itself can be pursued under stringent or lenient conditions.
Likewise, policymakers have a choice of how tightly to set prudential regulations while pursuing structural reform. The triple reforms which look similar may look very different, with dissimilar internal policy mixes and qualities, at a lower level of analysis. Politics intervenes here, subtly deciding what kind of stabilization, financial restructuring and structural reform a crisis country pursues.

Even if any two crisis nations formulate an internally similar triple reform, moreover, it is still too early to discard politics as irrelevant, because implementation is different from policy formulation. The political authorities may endorse IMF’s conditionalities in principle, but can untangle it into parts and selectively implement only some measures. This is a real possibility, because compared to Latin America’s more typical current account crises, IMF’s 1997 task in East Asia necessarily provided local authorities with a greater room for discretion in implementation. The Fund could not sort out temporarily illiquid and hence salvageable banks from nonviable ones during its initial intervention days, because bank illiquidity critically depended on macroeconomic conditions. To establish a quantitative goal and a strict timetable for bank closures, mergers, and recapitalization in crisis situations was to risk closing down what could have been liquid institutions in a stable market condition. Also bank restructuring required changes in a crisis country’s legal codes and profoundly affected private property rights, which barred IMF’s habitual intervention. The Fund restrained itself from deciding which bank to close down, merge or recapitalize with public money. When it could set quantitative performance criteria, as in on foreign reserves and credit aggregates, it made many not binding (Boorman et al. 2000:8; Bongini et al. 2000:5; and Lindgren et al. 1999:46). These more qualitative conditionalities inevitably allowed Korea and Thailand to choose what to include in implementation, especially among IMF’s recommended bank restructuring policies, to satisfy requirements of one’s political regime, to reproduce its ideological preferences on economic strategy, and to tap on its limited pool of policy instruments, with profound
implications on distributive structures, power relationships as well as its future prospect for avoiding another crisis.

As critical as conceptually disaggregating stabilization, financial restructuring and structural reform into a bundle of policy measures is to climb back to a higher level of analysis and draw up a typology for stabilization, financial restructuring, and structural reform. Only then can an analyst see how a crisis nation’s three policy bundles relate to each other and add up to an integral strategy. The interrelationship is important because a crisis country’s choice and success in one issue area seriously shape its chance for choice and success in another area. Given massive nonperforming loans, surpassing 35 percent of total bank loans in Thailand by August 1998 and registering 7.6 percent in Korea and 18.9 percent in Malaysia in December (IMF February 2000a:38, February 2000b:88, and October 2000c:34), stabilization rested on successful financial restructuring and vice versa. Only when political authorities reduce bad loans significantly with public money could banks resume new lending and rollover existing loans; investors regain trust in local markets and reverse capital flight; and a momentum for recovery builds up (Lindgren et al. 1999:17). The recovery, in turn, helps make financial restructuring more manageable by reducing bad loans. To make coordination among IMF’s three targeted issue areas even more critical and politics even more relevant for success, moreover, bank restructuring could progress rapidly only if corporate restructuring followed it, and by extension, only if labor reform cleared away political and legal obstacles against layoffs, flexible work hours, and temporary employment of outside workers.
Figure 1 diagrammatically summarizes our discussion on IMF’s recommended triple reform. Axis X, Y, and Z respectively traces how comprehensively and systematically policymakers pursue stabilization, financial restructuring, and structural reform. The distance from Figure 1’s origin on Axes X, Y, and Z shows how comprehensively a crisis country adopted IMF’s recommended policy bundle in each issue area. The line connecting a crisis country’s position on Axis X with its other positions on Axes Y and Z, by contrast, measures how comprehensively stabilization, financial restructuring, and structural reform are consciously linked with each other. As drawn in Figure 1, Country A has structural reform designed only very partially and lagging considerably behind stabilization and financial restructuring in scope as well as speed. The gap is smaller in Country B although it, too, has progressed furthest in stabilization and least in structural reform. Country C shows a third pattern, stabilizing as successfully as and even going further in financial restructuring than Country A, but without much structural reform.

The three country types in Figure 1 diagrammatically represent policy
responses in Korea, Thailand and Malaysia. Faced with a dangerously leveraged corporate sector with large unhedged foreign currency debt as well as local bank borrowing, and caught in between a fatal maturity mismatch in bank portfolios and an equally lethal currency mismatch in corporate balance sheets, Korea followed Country B’s path in Figure 1 and stabilized by aggressively going beyond stabilization policy, into financial restructuring, corporate workout, and even labor reform, which aggregated into a systemic change. Kim Dae Jung did so because, like his IMF advisors, he diagnosed the crisis as originating from Korea’s bureaucratically run bank system, opaque chaebol corporate governance structure, and fragmented but contentious labor organization (Kim, B. 2000a:40-41). Thailand, too, formally endorsed IMF’s comprehensive triple reform and set up an institutional mechanism for financial and corporate debt restructuring with stringent prudential regulations, but in its implementation phase, it backtracked on its words. Thailand ended up in Country A’s partial reform route in Figure 1, especially after Chuan performed a radical surgery of closures and mergers on finance companies (Overholt 1999:1021). Malaysia showed still a third possibility, reflating rather than deflating its economy while countering financial market instability with capital control measures, and restructuring financial agencies partly through tighter prudential rules but more generally through bureaucratically funded mergers (Haggard 2000a:59-64, 107-114, and 162-171). C in Figure 1 represents Malaysia’s policy combination.

The question of policy comprehensiveness is partly decided by how rapidly a reform package is assembled and implemented. The speed is all critical because investors and depositors look at it as a clear indicator of political commitment behind reform. Only investor trust in state policy can reverse capital flight. The speed matters also because prolonged market uncertainty and instability only produce more bad loans and force on an upward spiral of bank as well as corporate restructuring costs. Without stabilizing rapidly, economic recovery remains a mere wish; if markets remain fragile, bad loans can only
increase, forcing already hard pressed banks to raise even more money to meet tighter capital adequacy requirements. Conversely, if a crisis country fails to resolve key bank and corporate failures while stabilizing markets through a tighter money supply, what it gets is only a distorted kind of stabilization which worsens moral hazards and delays recovery by driving smaller but more viable banks and businesses into a credit crunch. To stabilize swiftly, policy authorities need to restructure as quickly banks and corporations (Lindgren et al. 1999:32, 51). The speed also matters because once an economic recovery sets in, with a favorable turn in global export markets, banks and corporations no longer become interested in restructuring as they can replenish liquidity through larger sales volume, burgeoning capital markets, and easier bank credits. The crisis nation accordingly has to move rapidly in all three issue areas before market conditions improve.

This problem of speed was endemic especially in Thailand after November 1997 but was serious in Malaysia. More comprehensively and rapidly restructuring Korea, too, endangered its entire triple reform package when it tried to deal with the financial trouble of its largest conglomerates or chaebol through a voluntary business swap among two or three chaebol. Only after wasting a year and a half on his futile Big Deal program and facing profound stock market instability in July 1999, which even threatened his hitherto accomplishment in bank restructuring and structural reform, Kim Dae Jung grudgingly expanded his statist strategy into Korea’s largest chaebol, dismantling Daewoo and dividing up Hyundai. The case of large banks in Thailand was even worse. They escaped entirely from Chuan’s December 1997 public restructuring program and were privileged to recapitalize and restructure on their terms. Hardly surprising, bank reform bogged down, as policymakers lacked an instrument to force large banks to devise a restructuring program with attractive provisions on equity write downs and management change for foreign investors. The speed problem Malaysia encountered was still another kind. Mahathir orchestrated a rapid infusion of public money for bank restructuring, but he did so
without moving equally rapid and extensively on prudential regulations and stabilization. The strategy he pursued worsened rather than ameliorated moral hazards, which helped precipitate the crisis in 1997.

Figure 2 builds a typology of policy responses by distinguishing two dimensions: scope and speed. Korea under Kim Dae Jung moved within Q1, while Chuan Leekpai’s Thailand ended up with Mahathir’s Malaysia in Q4 in spite of its comprehensively designed formal program, because being a privately led slow reform, Chuan’s program empowered its very target of restructuring, large banks, to resist restructuring through obstructing equity write downs and management change, without which no privately led recapitalization policy could raise investor interests. Thailand planned to be in Figure 2’s Q3, but actually ended up in Q4. What accounts for such a divergence in scope and speed among Korea, Malaysia, and Thailand? To answer, an analyst needs go beyond a narrowly economic analytic framework. Even among leading economists, diagnosis and hence prescription varied. Steven Radelet and Jeffrey Sachs interpreted East Asia’s crisis as a liquidity panic precipitated by foreign currency exposures and loan maturity mismatches, which made IMF’s structural reform counterproductive (Radelet and Sachs 1998:1-90), whereas Paul Krugman traced causes to a deeper systemic fault: East Asia’s states which bred moral hazard
by engaging in financial excesses and intervening in markets too much with too little prudential rules. Unlike IMF, however, Krugman (1998, 1999) criticized structural reform as hurting rather than helping our three crisis countries and advocated putting in place a “curfew on capital flight” via capital control measures to shore up market confidence. Obviously, economic ideas pointed toward not one direction; in fact, what East Asia’s crisis was and how it could be overcome remained theoretically as well as politically contentious issues throughout 1998.

That it was IMF, not its professional critics, who wielded power over policy, certainly helps explain why Korea and Thailand acted as they did in 1998. As the foreign reserves depleted, they had no choice but to endorse reform as IMF’s conditionalities for bailout. By contrast, Malaysia’s less vulnerable economy, with firms relying more on equity capital than bank loans to raise funds and policymakers preferring direct investment over commercial loans and technology licensing as a mode of transnational economic cooperation, could opt to go alone and assemble a heterodox policy. The Malaysian economy was stronger financially and could control crisis without knocking on IMF’s door for bailout. Yet, it is wrong to see a given nation’s economic condition before crisis as unilaterally and mechanistically determining its policy response after crisis. The most financially vulnerable country, Thailand, saw its reform get helplessly bogged down even with IMF leadership. Malaysia’s economic condition explains its greater bargaining power vis-a-vis IMF representatives in 1997, but not what Mahathir did with such power. Presumably, his task for stabilization, financial restructuring, and structural reform was economically less intractable than his neighbors’, but it was he who opted for capital control measures in spite of profoundly adverse consequences on market stability and, through it, on bank and corporate restructuring.

This paper picks up Figure 1’s and 2’s puzzle by analyzing an interactive political variable. The scope and speed by which Korea, Malaysia, and Thailand each countered financial troubles rested jointly on what kind of political regime and state bureaucracy existed in 1997.
Focusing only on regime type or state characteristics cannot explain why Thailand joined Korea in endorsing IMF’s triple reform, but ended up in pursuing partial reform like Malaysia. Conversely, Malaysia’s choice of going alone without IMF assistance in spite of its state capacity to absorb bad loans and force mergers, much like Korea, cannot be adequately explained unless one brings in its political regime type as a second explanatory variable. To adequately explain the three countries’ diverging policy trajectories, we focus on how political regime and state characteristics jointly determine policymakers’ interpretation of political meanings of any given crisis. Depending on one’s regime type, conceptualized dichotomously as democratic or authoritarian, a crisis is judged by top political leaders as either an opportunity for consolidating their political rule, or as a threat to their survival. The state bureaucracy, too, joins in to influence this process of interpreting what political meanings a crisis has for political leaders as well as societal actors. Depending on what kind of power relationships bureaucrats have with politicians and businesspeople, political leaders see comprehensive reform as menacing their own class, or as only rearranging their relationship with bureaucrats and business leaders. The policy response obviously changes with interpretations.

The two variables, moreover, jointly shape policy outcomes by establishing what G. John Ikenberry (1986:105-137) once called an “opportunity structure” for policymakers. Democracy enables policymakers to experiment with IMF’s triple reform, because it helps prevent business failures and worker layoffs from escalating into a political regime’s ideological crisis. Society may criticize a particular political group in power for its incompetence, but it does not its regime’s legitimacy. Besides, elections periodically provide an outlet for political tension as well as hold out possibilities for orderly government change. In doing so, they persuade critics and oppositions to remain inside legislative arenas and to think twice before resorting to a politically destabilizing mobilization tactics. The result is a greater room for policymakers to maneuver and experiment with new policy ideas. Once
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democracy enables political leaders to endorse IMF’s neoliberal ideas on “good governance,” moreover, it can give reform an added momentum by tightly constraining political leaders to abide by their initial policy pledges. The governing coalition does not have an exclusive copyright to neoliberal ideas. When it bends prudential rules and opts for liquidity support without any meaningful debt and industrial restructuring to pay back political debts or simply avoid a major bank and corporate trouble, opposition leaders can turn its “good governance” discourse against government policy and charge it as compromising transparency and accountability. Fearing possible public discontent over rule bending, policymakers may revert back to their neoliberal policy position.

The state bureaucracy, too, shapes policymakers’ opportunity structure. Depending on what kind of policy ideas and experiences are stored in its institutional memory and whether it enjoys autonomy from big business and political parties, crisis can look very different in its eyes, either as a narrowly bank problem, or as a systemic issue requiring a concerted reform drive on multiple fronts. The professional Weberian bureaucracy, recruiting its elite from within organization through highly developed rules on personnel policy, may endorse IMF’s triple reform but give it a distinctive — maybe even illiberal — ideological color by adding on one’s own policy ideas accumulated through years, or by achieving IMF’s reform goals through predominantly bureaucratic rather than market instruments. By contrast, a “hybrid” state bureaucracy, with its leadership generically undifferentiated and indistinguishable from big business and political party interests, has class interests constantly interfere with its decision on reform. Moreover, lacking professionalism, hybrid bureaucrats possess neither a long institutional memory nor a wide range of policy instruments with which to intervene in markets and shape business preferences. The limited availability of policy tools constrains political leaders’ ability to put in place experimental policy ideas, even if they wished so.
To trace when, why and how regime and state characteristics matter in financial crisis management, we focus on Korean, Malaysian, and Thai policy between December 1997 and August 2001. The paper excludes Indonesia from comparison because, in spite of its rupiah’s similar trials, the country is a qualitatively dissimilar case. The crisis it faced transcended even Thailand’s seemingly intractable problems. What started as a currency crisis rapidly developed into an explosive political and social crisis even before Suharto reluctantly stepped down in May 1998. Moreover, unlike Thailand, Indonesia saw its national identity seriously threatened by ethnic conflicts. This transformation of crisis profoundly altered its political regime as well. Indonesia fell into an abyss of regime instability, which made consistent policy responses impossible for any political regime type. As Samuel P. Huntington (1968) eloquently argued more than three decades ago, political order wields a greater power over policy performance than any regime characteristics; without it, no political regime — whether democratic or authoritarian — can function properly. Like Korea and Thailand, Indonesia may be a transitional democracy, with elections slowly becoming its “only possible game in town” to resolve conflicts over power, but it has been a profoundly unstable polity where authoritarian Suharto or democratic Habibie could not assure policy consistency, certainty and flexibility. To include either is to risk confusing the effects of political instability with those of political regime characteristics. The three cases included in our analysis, by contrast, all enjoy political order in spite of their dissimilar forms of political regime.

This article is organized into two parts. Section II contrasts democratic Korea and Thailand with authoritarian Malaysia, and identifies policy direction as where political regimes make a powerful impact, but only after foreign exchange reserves are depleted and crisis deteriorated to threaten a default on foreign loans. The two democracies endorsed IMF’s comprehensive triple reform while authoritarian Malaysia assembled a heterodox bailout program. The forms of political
regime mattered much less before December 1997, with all three nations trying to avoid or delay hard policy choices until too late. Section III, on the other hand, contrasts policy implementation in Korea and Thailand, and explains its dissimilar speed and scope in terms of state bureaucrats’ relationship with politicians and business leaders. Putting together Section II and III, we shall argue that only when an emerging democracy possesses a Weberian state bureaucracy, it will be able to manage financial crisis and even use it to further transparency and accountability without which democracy cannot flourish.

2. DEMOCRACY MATTERS

Theorists differ vastly on whether and how democracy shapes economic performance. Some find it as a propellant of prosperity by providing a set of norms, principles and rules, which assures individual rights and responsibilities (Hayek 1944; Friedman 1962). Only with strong property rights and contract laws can transaction costs fall, information flows smoothly, and trust increases among market participants (North 1990). Democracy also builds markets by cutting down moral hazard through empowering societal actors to monitor public policy and demand political accountability (Bates 1981). The opposite view is, however, equally widespread. Some observers identify authoritarianism as a prerequisite of political stability, without which a developing economy cannot grow (Huntington 1968); others view democracy to be plagued with very dysfunctional distributive political struggles (Olson 1982); and still others zoom on East Asia’s past authoritarian developmental state as a technocratic actor who engineered growth by safeguarding policy rationality from societal conflicts and imposing adjustment costs on society (Johnson 1987:136-164; Haggard 1990).

The three East Asian crisis countries give a much more complex relationship between regime type and economic performance. Neither
authoritarian Malaysia nor democratic Korea and Thailand assembled a “right” policy package to prevent financial instability from deteriorating into a crisis of confidence in 1997. The policy chosen during earlier days of instability, in fact, fed on market uncertainty in all three countries. Squeezed in between massive unhedged foreign loans, festering nonperforming loans in local banks, extremely volatile real estate and equity prices, and dangerously high debt equity ratios in leading corporations, Thailand’s central bank believed it could not but defend its currency basket peg by drawing on foreign reserves in 1997. The technocrats calling for policy reform encountered defeat after defeat, with Finance Minister Amnuay Viruwan resigning in June and Thanong Bidaya, his successor, quitting in October, after trying to impose budget cuts, raise taxes, strengthen prudential rules, and close down finance companies. The IMF came in to back up Thanong with a long list of conditionalities in August, but even this did not prompt Prime Minister Chavalit Yongchaiyudh to side unambiguously with adjustment. Chart Pattana, a strategic member of his multiparty ruling coalition, had its leaders controlling many failing financial institutions (Haggard 2000a:52-53, 132). The military also presided over a vast but faltering business empire it had formed through monopoly licenses and bank subsidies. Like Chart Pattana, moreover, it had political muscles to impose its preferences and interests on Chavalit and obstruct Thanong, albeit until Thailand’s economy collapsed entirely. The military had secured an institutional representation in Thailand’s appointed upper house through a constitutional amendment in 1992 (King and LoGerfo 1996:106), and had built a network of political patrons, allies and clients within its lower house by having generals enter politics after democratization in 1992, with personal fortunes accumulated during Prime Minister Chatichai Choohavan’s extremely corrupt rule (Overholt 1999:1029-1032). Democracy, by giving such a “hybird” elite with densely overlapping military, political and business careers multiple veto points, helped bog down reform for eight months in 1997.

Korea’s democracy, too, obstructed an early stabilization, but for
different reasons. Hanbo Steel went under in January 1997, followed by Kia Motors in July, and Halla Heavy Machinery in December, burdening Korea’s already exposed banks with even more bad loans. The political society, however, worked only to hurt market confidence even more. Caught in a fiercely competitive presidential election, but also discredited profoundly by his own moral faults and incompetence, Kim Young Sam became a lame duck by January, but no one filled in his leadership function. Kim Dae Jung, his lifelong rival, forced on Kim Young Sam a compromise labor bill in March, which only deferred indefinitely labor reform (Kim and Lim 2000:127-135). Then, from July on, with their eyes focused on votes, two front runners in Korea’s race for presidential power — Lee Hoi Chang and Kim Dae Jung — both opposed placing Kia Motors under a workout program and inadvertently allowed its top management to hold out in its war of brinkmanship with creditors until October (Kim B. 2000b:178-179).

Financial reform similarly faded away, with the chaebol blocking a newly formed presidential commission from including debt restructuring and ownership change from its agenda by May 1997. The commission focused only on building a new centralized state organization for prudential supervision without any plan for nonperforming loans, only to see Finance and Economy Minister Kang Kyong Sik intervene in July to nullify even this limited effort and to bring back monetary policy into his ministry’s purview. Finally, both governing and opposition political parties let even Kang’s revised state reorganization bills lie idle in National Assembly’s floor until late December. Their presidential candidates promised assistance for faltering corporations, while Korea’s foreign reserves dried up and banks were thrown into a liquidity trap (Suh and Kim 1999:49-52). On December 7, only three days after Korea completed negotiation with the IMF, Kim Dae Jung announced in a nationally televised debate his intention to “renegotiate” IMF’s conditionalities, if he won, only to retrogress in a few days.

More importantly, however, authoritarian Malaysia was no better than Thailand and Korea in putting together an emergency stabilization
package early on in crisis. On the contrary, despite fewer veto points in its decisionmaking process, policy debate quickly escalated into power struggles in Malaysia, too. The number of power contenders were fewer, their style of waging political struggles more factional, and their arena of struggle more closed and secretive, because its United Malays National Organization (UMNO) had built a stable authoritarian regime by transforming itself into a guarantor of Malay privileges; by bringing Malay Chinese Association (MCA) and Malay Indian Congress (MIC) into a hegemonic “consociational” Barisan Nacional; by placing myriad business entities under state or party ownership; and by practicing “soft authoritarianism,” which allowed electoral politics, but used it only as a “safety valve” on public discontent rather than a mechanism for peaceful changes of power (Case 2001:7). The primary line of struggle was drawn inside UMNO, as a power contest between Mahathir and Anwar Ibrahim, who as Deputy Prime Minister, Finance Minister, and UMNO’s Deputy President was as much implicated as Mahathir in Malaysia’s financial troubles (Emmerson 1999:50). To protect his vulnerable position, Anwar attacked: he blamed Malaysia’s, and indirectly Mahathir’s, “corrupt” and “nepotistic” way of doing business for financial troubles, and called for an orthodox reform package more or less modeled after Thailand’s IMF program. Mahathir adopted a more sophisticated strategy, sabotaging Anwar’s finance ministry by placing it under a newly established National Economic Action Council, with his protégé Daim Zainuddin as its chairperson, in November 1997. Until Daim acquired a cabinet portfolio in June 1998 and Mahathir purged Anwar in September, policy “see-sawed” between adjustment and reflation (Haggard 2000b:134).

Once foreign reserves were depleted in Korea and Thailand and market confidence deteriorated in financially stronger but politically seesawing Malaysia, forcing each crisis nation hard choices on economic policy, one’s political regime type began to have a visible impact. As persuasively argued by Stephan Haggard (2000a:87-125) in a rare political analysis on East Asia’s financial crisis and its aftermath, a
subject hitherto attracting mostly economists, democracy helped Korea and Thailand enjoy a “second chance” to correct policy mistakes without serious political instability by institutionalizing a mechanism for power change. Kim Dae Jung won a close presidential race in December 1997 and Chuan replaced Chavalit a month earlier through absorbing parts of Chavalit’s rapidly disintegrating coalition into a new cabinet. Each opposition victory — however fragile and marginal — freed society from a political leadership whose moral faults, policy blunders, and narrow factional bases obstructed crisis management. The outgoing Kim Young Sam and Chavalit were, in fact, a very cause of each polity’s “crisis,” alienating society, breeding public disillusion and cynicism on national political institutions, and fragmenting party politics (Suh and Kim 1999; Kim B. 2000b; and Overholt 1999:1029, 1032). The two had to go, and it was democracy which facilitated their orderly exit, albeit after a long political and policy drift. Kim Dae Jung and Chuan each readied society to break away from its past policy by putting in place IMF’s policy prescriptions.

But many — including Haggard — also emphasize democracy’s generic weaknesses in pushing through reform. Because economic reform produces an asymmetric payoff matrix, with its costs immediately concentrated in a few vested interests and its benefits reaped only after a long time lag by widely dispersed groups, reform allegedly provokes a highly lopsided political contest between fewer but better organized “losers” and more numerous but silent “winners.” Democracy, it is argued, is a regime type ill-equipped to fine tune such temporal and distributional mismatches of costs and benefits, because it, compared to authoritarian regimes, empowers losers more by decentralizing political authority, by regularly holding competitive elections, and by institutionalizing multiple lobbying channels (Haggard 2000a:99-100,104-107; Haggard and Kaufman 1995). This thesis has a logical clarity, but does not adequately explain policy paths in Korea and Thailand. Certainly, even Kim Dae Jung and Chuan fudged, omitted, or delayed arduous policy decisions for fears against a political
backlash. In spite of such policy setbacks or delays at any one moment of time, however, reform constituted a clear trend under Kim Dae Jung and Chuan. As shown by post-communist Eastern Europe, where more aggressively reforming countries tended to have a more frequent executive turnover (Hellman 1998:214-215), regular electoral constraints in Korea and Thailand, too, did not produce a cycle of reform drives and political backlashes. The reverse was more true. When Chuan’s strategy to rely on private banks’ “voluntary” leadership for debt restructuring showed visible signs of failure by 2000, a newly organized Thairakthai’s Thaksin Shinawatra pledged to establish a public asset management company and inject state money into restructuring, with a possible ownership structure change in intervened banks. Thaksin won a landslide electoral victory in February 2001. Three weeks later, Thaksin made public his plan to buy up bad loans worth 1.2 trillion baht (Bangkok Post, February 8 and 24, 2001). Similarly, after futile attempts to bring a voluntary “Big Deal” among the chaebol in corporate restructuring, Kim Dae Jung dismantled Daewoo in August 1999, divided up Hyundai into three independent groups beginning August 2000, and placed Hyundai Electronics and Construction under a public workout program in March 2001.6

To explain such an enduring trend in spite of many episodes of setbacks and delays, one needs to look at both Thai and Korean policy responses as an extension of a much larger political trend: democratization. When financial crisis struck, democratization had already progressed for a decade in Korea and for five years in Thailand. This shaped each country’s interpretation of political meanings and implications of financial crisis. Since General Prem Tinsulanond initiated a military withdrawal from national politics in 1988, corruption progressively replaced authoritarianism as Thailand’s “privileged issue”7 and influenced voter choice. The harsh reality of corruption gestated a fervent desire for moral renewal, which precipitated serious cabinet instability until 1997, with successive waves of politicians seizing power through exposing their rivals’ moral limitations, only to be judged as
equally unethical by society and displaced from power by old foes and new faces. The military overthrew Chatichai Choohavan’s shady cabinet in 1991, but it itself lost power in 1992 after violent urban protests against General Suchinda Kraprayoon’s political ascendancy through money politics, electoral frauds, and organized military support. The 1992 popular revolution’s direct beneficiary, Chuan’s Democratic Party, too, collapsed under a corruption charge in 1995. The succeeding Banharn Silpa-archa cabinet fell apart even sooner, barely a year after its 1995 electoral victory, under an intense public criticism on its vote buying. Then came Chavalit who was undercut by incessant political “scandals” and “rumors” until he resigned in 1997 amidst financial crisis (Bunbongkarn 1996; Samudavanija and Chotiya 1998:157-167).

This desire for a moral renewal also unleashed a more positive political dynamics. In 1996, Thai society pressured its national assembly to establish a Constitution Drafting Assembly (CDA). Empowered to submit a new constitution for a referendum within eight months, if it failed to win a legislative approval, CDA was formed by its architect as a forum through which to transform Thailand’s anticorruption fervor into a concrete institutional reform package. When financial crisis struck in 1997, CDA gained an even greater political strength, because it only validated CDA’s reasons for existence. The public saw money politics as primarily responsible for crisis by undermining Thailand’s moral fabric, economic competitiveness, and cabinet stability. The CDA quickly seized this change in public mood to alter power structures.

To prevent national assembly members, frequently with control interests in major businesses, from meddling in with economic policy, CDA adopted an “incompatibility principle” whereby parliamentarians were required to resign their seats if they took a cabinet portfolio. To free Thailand’s Senate from plutocrats and military bosses, who vetoed key reform measures in 1997 and before, CDA sided with making it a popularly elected representative institution; adopted a single nonrenewable term for its members; and barred senators from holding
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party membership as well as campaigning in elections. In CDA’s plan, senators will be a moral “whip,” with new powers to impeach elected politicians (Bunbongkarn 1999:59-60). To back up its moral crusade with strong institutional supports, moreover, CDA called for setting up an anticorruption commission less dependent on Thailand’s politicized police and state prosecutors; entrusting it with reviewing all public figures’ new mandatory report on personal assets and liabilities; and allowing a newly organized Constitutional Court to bar politicians from public posts for five years if false reports were discovered. To assure greater checks on political leaders, CDA also proposed to establish an ombudsman and an Administrative Court (Bunbongkarn 2001). Against Thailand’s politicized interior ministry, a crucial link in vote buying, it proposed to set up a new commission for election administration (Overholt 1999:1033).

Without Thailand’s democratization since 1992, it is hard to explain its 1997 political trajectory. The national assembly ratified CDA’s draft constitution on September 27 in spite of Chavalit’s scarcely hidden hostility, voted in Chuan’s cabinet on November 3, and backed his decision to close down 56 finance companies on December 8. The three were driven by democratization, which in Thailand’s historical context translated into a war against money politics. Interpreting financial troubles through a set of ideas and beliefs developed in earlier democratizing years, including \textit{lokanuwat} or globalization, which became a “buzzword” for “tuning in with” global standards in both politics and economics (Hamilton-Hart 2000:190-191, 200), Thailand saw its 1997 crisis as originating from corruption and ratified CDA’s draft constitution. Chuan followed with adopting “good governance” as his top priority and pushed for reform. The newly established Financial Restructuring Agency (FRA) closed down 56 finance companies in December 1997, while his central bank with dramatically strengthened powers seized three midsize banks by February after writing down equity, replacing management, and recapitalizing with another recently formed Financial Institutional Development Fund (FDIF). The monetary
authority also tightened prudential regulations, raising its capital adequacy ratio to twelve percent in October 1997, adopting a stricter classification rule for bad loans in January 1998, and increasing loan loss provisions in March. The central bank also held onto high interest rates to win back market confidence.

The restructuring of large commercial banks, by contrast, proceeded problematically. Enjoying oligopolistic market power, empowered by a dense network of political allies and clients in both state ministries and political parties, and in some cases, personally holding national assembly seats, Thailand’s large bankers were too powerful for Chuan to include in FRA’s restructuring program, whereby public money was injected in return for equity write downs, downsizing, and management change. Consequently, Chuan had most large banks restructure voluntarily through setting up private asset management companies. Only after their private program utterly failed to produce a result did Chuan seriously consider establishing a publicly led restructuring program. Even then, he left a room for choice. In August 1998 Chuan promised public funds for any large bank accepting stringent conditions on loss sharing. To link bank restructuring with corporate reform, he also set up a Corporate Debt Restructuring Advisory Committee (CDRAC) as a forum through which creditors mend differences and bring collective pressures on debtors (Haggard 2001:140). The large bankers hardly responded positively, however. Fearing a loss of management control as well as hoping for an economic recovery, which will bring down nonperforming loans, most banks stayed outside Chuan’s public restructuring program. The Chuan cabinet could only plea because with Thailand’s very weak bankruptcy and foreclosure laws, it could not threaten faltering banks and corporations with a speedy exit. Only in March 1999, after two unsuccessful legislative bids, was Chuan’s coalition able to revise Thailand’s bankruptcy and foreclosure laws to strengthen creditor rights, create a new legal provision for corporate rehabilitation, and speed up debt settlements outside its unwieldy court system (IMF 2000a:17-18; Overholt 1999:1018). Bank reform progressed
painfully slowly, but it nevertheless moved forward, with IMF’s “good governance” as its endpoint. This was because democratization had made corruption a privileged issue and transparency a top policy goal in Thailand even before financial crisis struck in 1997. Chuan diagnosed the causes and remedies of the 1997 crisis through a reformist discourse Thailand developed since 1992.

The same was even truer in Korea, where democratization had proceeded faster, further, deeper, and broader. Here, too, globalization or segyehwa had acquired a very confusing but also powerful triple meaning before 1997: as an irreversible “process” against which Korea could only accommodate; as an explicit goal after which political leaders should design economic policy (Gills and Gills 2000:81-100); and as a political instrument for newly elected presidents to criticize opaque “ancien régime” in both moral and pragmatic terms, discredit political rivals, and consolidate their personal power bases (Suh and Kim 1999:17-53). In fact, even before Kim Young Sam launched his segyehwa presidency, Korea’s statist development model had long been weakened by partial contradictory reform measures on all possible fronts. The dissident chaeya intelligentsia posed a powerful moral critique on the chaebol by depicting Korea’s big business as a rentier class surviving on bank subsidies, causing moral decay and corrupting politics with money. Drawing power from such a moral critique, labor unions pushed up real wages continuously since the so called “Great Workers’ Strike” loosened state control mechanisms in 1987. The chaebol too had a new agenda for Korea’s democratizing era. To acquire an internal source of subsidies for industrial ventures (Kim and Im 2001:5-42; Laeven 1999:11-12; Maxfield 2000:99), conglomerates pushed for partial financial liberalization, removing entry barriers in financial sectors to establish subsidiaries while opposing any move to tighten prudential supervisions and regulations.

Against such chaeya, labor, and chaebol challenges, democratic Korea’s political leaders struggled very hard to devise a viable strategy for reform. The top agenda was stabilization, a familiar topic for Koreans
who had repeatedly seen banks threatened by bad loans in 1971, 1979, and 1985. The ways to achieve stabilization, however, had to change, given Korea’s vastly altered political condition. Rather than repressing labor, political leaders had to secure its consent for a new system of interest intermediation which could tie real wages with labor productivity. They also had to develop new ways to limit the expansion of conglomerates and control Korea’s money supply as the chaebol diversified into financial markets and went abroad to directly mobilize foreign capital. The 1990s saw Korea’s policy discourse profoundly widened and deepened, with both policymakers and academics debating on ways to draw up a binding social contract for wage stability, restructure nonperforming loans, reduce cross loan guarantees and cross shareholding among the chaebol’s subsidiaries, and institutionalize transparent and accountable corporate governance structures. And it was through this locally generated policy discourse that Korea interpreted the meaning of its 1997 crisis.

The availability of such a discourse explains how, within only two months after Kim Dae Jung’s election and with “lame duck” Kim Young Sam still in power, Korea was able to draw up and implement a viable institutional framework as well as a strategy for reform. Whereas Chuan considered expanding his publicly managed equity write-down, recapitalization, and management change program into Thailand’s politically powerful banking sector only in August 1998 and linked it with corporate reform by legislating new bankruptcy and foreclosure laws in March 1999, Kim Dae Jung simultaneously embarked on stabilization, financial restructuring, and structural reform as an integral package even before he was inaugurated in February 1998. This was possible because there existed concrete ideas and instruments for reform within state ministries. Kim Dae Jung, moreover, established a state machinery far more powerful than Thailand’s FRA by endorsing Kim Young Sam’s hitherto unlegislated state reorganization bills, albeit with his own innovations. At its apex sat a new Finance Supervisory Commission (FSC), wielding sweeping license powers over all financial
institutions, not just failing finance companies as in Thailand’s FRA case. Below it stood a publicly chartered Korea Asset Management Corporation (KAMCO), buying up bad loans with a public fund acquired in November 1997, and redefining its function as a “bad bank” by August 1998 to shore up its asset management and disposition capability. A public “bridge bank” was also established in December 1997 to conduct purchase and assumption operations on failing merchant banks (Lindgren et al. 1999:31, 71-72). The same month saw Kim Young Sam suspending nine merchant banks and recapitalizing two large commercial banks with public money, equity write-downs, management replacement, and KAMCO’s asset purchase.

To allow FSC develop a viable, persuasive exit policy on failing financial institutions and industrial conglomerates, moreover, Kim Dae Jung removed legal obstacles against hostile mergers and acquisitions; lifted legal ceilings on foreign investment in equity, bond, and money markets in December 1997; and revised Korea’s bankruptcy laws in February 1998, whose provisions for a tighter time limit on reorganization process, a creditors’ mandatory participation in debt restructuring committees, and an automatic declaration of liquidation, if creditors rejected debtors’ reorganization plans, enhanced FSC’s bargaining power vis-a-vis both banks and the chaebol. With foreign capital looking for “bargains” and creditors forming a united front against corporate debtors, FSC made its exit policy far more persuasive and threatening than any Thailand could assemble even after March 1999 (IMF 2000b:96, 101). From this position of preponderance, it closed down five small banks and two merchant banks in June 1998; merged, with an eight trillion won state fund, four large banks into “superbanks” in January and April 1999; began a surgery on life insurance companies, closing down four in 1998 and putting six others for sale in 1999; and expanded its restructuring policy into other sectors, closing down two investment trust companies, ten leasing companies, nineteen mutual savings, and forty credit unions by January 1999 (Lindgren et al. 1999:73-75; IMF 2000b:73).
To prevent financial restructuring from losing its momentum, moreover, FSC became a pilot agency to implement Kim Dae Jung’s “Five Principles of Chaebol Reform,” announced in January 1998 to transform big business into competitive producers. The commission progressively tightened prudential regulations on the chaebol’s myriad mechanisms for diversifying into unrelated sectors and keeping losing ventures afloat. In October 1998, FSC called for ending cross loan guarantees in unrelated industries by December and all remaining guarantees by March 2000, and imposed a prudential limit on financial institutions’ holding of any one chaebol’s commercial papers and corporate bonds. When its August 1998 Corporate Restructuring Agreements involving over two hundred financial institutions produced meager corporate restructuring among midsize chaebol and its plan for a “Big Deal” even more discouraging results among large conglomerates, FSC had each chaebol submit a new Capital Structure Improvement Plan (CSIP) in December 1998, with quantified target goals on asset sales, divestitures, foreign capital inducement, and debt reduction. When this too failed and ended up in an investor panic, FSC put Daewoo under a workout program in August 1999 and brought a loss sharing agreement with both domestic and foreign financial institutions. Then, in 2000, it began breaking up Hyundai into three independent groups.

By contrast, authoritarian Malaysia’s Mahathir saw financial crisis as threatening not only his personal leadership but also UMNO’s political hegemony. Whereas Chuan and Kim Dae Jung endured exorbitantly high interest rates in 1998 to pressure restructuring on financial institutions and industrial conglomerates, Mahathir moved to reflate by delinking interest rates from foreign exchange rate movements through capital controls in September 1998. To do so, Mahathir had to sack Anwar, fire Bank Negara Malaysia’s governor, and personally take over monetary policy as Finance Minister (Haggard 2000a:134). The both policy and political acts clearly signaled Mahathir’s intention not to let bank closures, a catalyst for reform. In spite of this, UMNO
led its Barisan Nacional into a victory in Malaysia’s hotly contested November 1999 election, albeit with a loss in its share of ethnic Malay votes as well as its share of seats within Barisan Nacional. Then, in 2000, Mahathir blocked Tengku Razaleigh from even contesting UMNO’s Deputy Presidency, Anwar’s previous post.11 As Donald K. Emmerson (1999:35-52) argues, East Asia’s 1997 financial crisis made democratizing Thailand more democratic and authoritarian Malaysia more authoritarian. To explain why Malaysia followed Mahathir—however grudgingly—into capital controls and political crackdowns, we need to look into a longer systemic trend, which made its political preferences diverge from Korea’s and Thailand’s.

The most critical constraint on interest rate policy and, through it, foreign exchange rate policy arose from three closely interrelated political factors: UMNO’s coalitional base, ruling strategy, and financial structure. Historically born as a champion of ethnic Malay’s political hegemony, UMNO embarked on redistribution toward Malay’s after bloody riots broke out against ethnic Chinese in 1969. The ruling party pledged to bring up Bumiputera’s share of ownership in Malaysia’s corporate sector from less than two percent in 1970 to thirty percent by 1990. To put its rule on a stronger class and ethnic footing, moreover, it strove to build a Malay bourgeoisie by showering its “cronies” and “confidantes” with rents. The UMNO also set up trust agencies to purchase and hold shares on behalf of Bumiputera communities in order to give its ethnic constituency a cohesive ethnic identity. By assisting individual shareholding by Bumiputera’s as well as promoting collective Bumiputera ownership through trusts, holding companies and cooperatives, its leadership brought up ethnic Malays’ share of equity capital to 20.6 percent by 1995—far below its original 1970 target, but still a very impressive achievement.

The junior allies in Barisan Nacional, MCA and MIC, too emulated UNMO and secured interests in myriad businesses (Gomez and Jomo 1999; Jesudason 1989:1-23). By 1997, then, Mahathir sat on a vast business empire whose financial health directly affected Bumiputera
interests. To guarantee a lucrative rate of return, his political regime aggressively developed Malaysia’s stock market from very early on in its economic development processes, ending up with a capitalization three times larger than GDP by December 1996, when Korea’s stock market capitalization reached meager thirty percent and Thailand’s only 56 percent (Lindgren et al. 1999:11). Moreover, corporate mergers and acquisitions, which were legally permitted in Korea only after 1997, were an everyday occurrence in Malaysia especially after Mahathir launched a privatization drive in 1991, with Bumiputera individuals and institutions cashing in on discounted sales as buyers or on inflated buyouts as sellers (Gomez and Jomo 1999:53-72, 91-116, 138-165).

Consequently, letting loose interest rates threatened regime stability by more than simply causing unemployment. Between July 1997 and February 1998, Malaysia saw its exchange rate almost double and its composite stock market index lose four fifths of its value. High interest rates in such a context only threatened Malaysia with a deeper and longer stock market depression and, through it, political crisis. With 45 percent of its bank loans disbursed to individuals for stock purchase, a further plunge of stock prices could not only drive Malaysia’s middle class into bankruptcy but also its bank system into massive loan defaults (Gomez and Jomo 1999:188, 193). This prompted Mahathir to reflate, with capital controls. Although its banks had a less foreign loan exposure and its corporate sector a lower debt equity ratio than Korea’s and Thailand’s, Mahathir judged Malaysia to be in a political crisis serious enough to justify an economic policy as drastic and risky as capital control measures. The controls prevented Mahathir from reversing capital flights, but it gave him an opportunity to patch up UMNO’s faltering coalitional base, ruling strategy, and financial structure. In doing so, he was repeating what he had done previously when facing an economic trouble: “spend his way out of a recession,” with state money (Gomez and Jomo 1999:78) and — if necessary — even controls on portfolio outflows. In 1993 and before, Mahathir imposed capital controls in spite of their causing a sharp drop
in foreign investment (Dekle and Kletzer 2001:25, 29). Then in 1996, sensing his eroding control over monetary policy instruments, he began to lash out against globalization as “exploitative” and ideologically opened a way for a greater state intervention in markets (Welsh 2000:242).

Certainly, Bank Negara strengthened prudential rules between April 1997 and August 1998, but unlike in Korea and Thailand, where high interest rates backed stringent prudential regulations in keeping up pressures on restructuring, Malaysia’s new rules lacked credibility. The capital control measures only revealed Mahathir’s intention to bail out ailing banks and businesses. Reading his intention, all key players waited for public money rather than restructuring bad debts, forcing Mahathir to rely even more on state leadership than Kim Dae Jung, who had IMF and foreign capital as partners for reform. During August 1998, Mahathir set up Danaharta Nasional Berhad as a public asset management company to purchase nonperforming loans, and Danamodal as a limited liability company wholly owned by Bank Negara to inject new public money into faltering banks after a due diligence. Mahathir also established a Corporate Debt Restructuring Committee as an informal broker between debtors and creditors. To bring a better coordination, he brought all three newly established actors into an overarching steering committee chaired by Bank Negara’s governor (Lindgren et al. 1999:31, 83-84). Unlike Thailand’s voluntary bank restructuring package, Malaysia’s publicly led program progressed visibly with fifteen bank and finance company mergers between June 1997 and June 1999. But unlike Korea pursuing restructuring within open capital markets under IMF’s de facto tutelage, Malaysia restructured without closing down any institution (Lindgren et al. 1999:36). The stabilization the latter achieved was one with serious moral hazards, failing to hold bankers and corporate executives accountable for their action by making ownership and management change a precondition for public money.

The late nineties, then, saw Thailand and Malaysia start with
dissimilar policy mixes, but end up in a strikingly similar partial and slow reform, albeit for dissimilar political reasons. Thailand endorsed slow but comprehensive policy change — Q3 in Figure 2 — under IMF’s initiative, but implementation became only partial because its voluntary bank restructuring program without public money encouraged Thai commercial bankers to wait for an economic upswing. By contrast, with his eyes on safeguarding UMNO’s coalitional base, ruling political strategy and financial structure, Mahathir advocated partial reform. Only Kim Dae Jung stayed within Figure 2’s Q1 in spite of powerful chaebol resistances against corporate restructuring and numerous policy setbacks, and implemented rapid and comprehensive reform as he had planned in late 1997.

The real puzzle, then, is Thailand. The Malaysian case is explainable by focusing on its form of political regime. The authoritarian UMNO based on an ethnic coalition with extensive stakes in Malaysia’s faltering stock market had a political interest as well as a state capacity for reflating via capital controls. Thailand is a more perplexing case, with Chuan’s preferences inadequately mirrored in policy results. Why did Chuan endorse IMF’s call for comprehensive reform, but in a way which reduced his chance for success? Why could he not make comprehensive reform more likely by speeding it up, like Kim Dae Jung in Korea? Why did it take so long for Chuan to clear away legal obstacles against bankruptcies and foreclosures and to set aside a public fund for large banks’ restructuring? To explain Thailand’s divergence from Korea in implementation, it is vital to bring the state back in and analyze what Peter Evans (1995) once called “embedded autonomy.”

3. THE STATE STILL MATTERS

The Korean and Thai states look very similar in simple quantitative terms. Controlled top down by a ruling political coalition which
depended on money politics for survival, Korea’s and Thailand’s state bureaucracy could hardly insulate policymaking processes from big business. The state constituted an arena through which party bosses exchanged lucrative licenses and subsidies for political funds from business leaders. However, in spite of such a similarly close relationship developed between political leaders and big business, Korea was qualitatively dissimilar from Thailand in possessing a more or less clear boundary separating political power from both economic and bureaucratic power. The Korean political elite reached deep down state ministries for control and leaned on big business for resources, but without becoming a new hybrid elite with a monopoly over political, economic and bureaucratic powers. The state guarded its Weberian esprit de corps, with bureaucrats enjoying a very secure job tenure (Kim, B. 1994), even as party politicians became their masters and, through it, the chaebol a mighty pressure group. The chaebol, too, remained under control of the immediate family members of the founder despite party politicians’ insatiable appetite for political funds and incessant meddling in business affairs (Kim, D. 1999:65-104). Certainly, democratic Korea was plagued with seemingly endless graft and bribery scandals, one of which even resulted in prosecutions against former presidents Chun Doo Hwan and Roh Tae Woo in December 1995, with some forty chaebol owners testifying as “references” and morally chastised as “accomplices” (Joongang Ilbo, November 1 and 4, December 6 and 13, 1995). However, Korea’s party politicians — especially, daekwon juja, gasin, and silsae — remained generically distinct from bureaucrats and business owners in career paths. There certainly was Chung Joo Young, Hyundai Group’s owner, who used his business empire as a springboard to launch a presidential candidacy in early 1992, but he was more of an exception (Kim, S. J. 1996:16-34). The political elite recruited its next generation of leaders from rising stars, popular names, and notables from Korea’s chaeya, press, and academia as well as political parties and state ministries, but not from chaebol families.

Such rather clear lines of boundary drawn among Korea’s political,
economic and bureaucratic elites helped immensely the country’s pursuit of rapid comprehensive reform after 1997 by giving its state a potential for autonomous action. As Haggard argued, Kim Dae Jung’s electoral victory cleared a way for reform. As a political outcast totally excluded from policymaking before 1997, and hence free of political debts to big business, he could break with Korea’s dirigiste development strategy (Haggard 2000a:100-104, 150; Kim, B. 2000a:42-46). This rare moment of “state autonomy” was, however, a product of not only Kim Dae Jung’s distinctive personal leadership characteristics but also Korea’s internally professionalized ruling elite. Had Lee Hoi Chang succeeded in his bid for presidential power in 1997, he too would have implemented IMF’s conditionalities for rapid and comprehensive reform, albeit with a greater resistance from dissident labor unions whose leadership historically backed Kim Dae Jung. Lee had made his public career on a highly moralistic reformist platform, dissenting from key Supreme Court rulings on civil rights cases as a justice before 1987; leading an increasingly activist Audit and Inspection Board in a crusade against corruption during 1993; and resigning from his prime ministerial post in 1994 to protest President Kim Young Sam’s “unconstitutional usurpation of power.” Moreover, in a desperate move to save his 1997 election campaign, Lee attacked his party’s founder, Kim Young Sam. Lee took away Kim Young Sam’s party membership and even pledged an investigation into his economic mismanagement if Lee won presidential power (Joongang Ilbo, November 6-7 and 22-23, 1997). Moreover, Lee unambiguously endorsed IMF’s conditionalities on December 7, eleven days before Korea’s election day, whereas Kim Dae Jung claimed his right to “review” and “renegotiate” specific terms if elected (Joongang Ilbo, December 8-9, 1997).

Lee Hoi Chang was as “reformist” as Kim Dae Jung. Like his rival, but for different reasons, Lee owed very little to the chaebol: he was a political novice. Likewise, Lee personified a set of ideas as critical as Kim Dae Jung’s populism on Korea’s ways of mixing politics with business. Whereas his foe earned a place in politics by holding
progressive ideas on distributive justice and national unification, Lee Hoi Chang made his name by pledging clean politics. Either way, Korea’s existing economic strategy — particularly, its privileging of conglomerates in a bureaucratically driven credit allocation system — became a target of reform from above. That Lee Hoi Chang and his opposition Hannara Party shared Kim Dae Jung’s reformist ethos was fully borne out after February 1998. The two never lacked a cause for partisan war, but more critically, most wars were fought over “political” issues which did not substantively touch on Kim Dae Jung’s reform program. Typically, Lee Hoi Chang delayed legislating economic reform bills to extract a concession on partisan issues, but not for long. Time after time, Lee Hoi Chang joined Kim Dae Jung in hurriedly ratifying bureaucratically prepared bills without a close review of their content, as public opinion swiftly turned against partisan struggles. When Hannara Party spoke on economic policy, which was rare, it was supportive of IMF’s guidelines by criticizing Kim Dae Jung for delaying decision on financial and corporate restructuring until too late; for relying too heavily on public funds for bank recapitalization, and for bending regulatory rules to keep Chung Mong Heon’s Hyundai Electronics Group afloat as a reward for its underwriting Kim Dae Jung’s Sunshine Policy through financing an unprofitable Keumkang Mountain Tour since 1998. With Hannara Party’s Lee Hoi Chang as free as Kim Dae Jung from chaebol interests, dirigiste economic ideas and political debts, a window of opportunity opened up for fundamental reform. The political actor who actually seized it, however, came from Korea’s state bureaucracy who ironically had a hand in bringing its 1997 catastrophe by dangerously pursuing money and capital market liberalization under fixed exchange rates, implicit state guarantees on loans, and very weak prudential regulations. The culprit joined in Kim Dae Jung’s
neoliberal reform because it saw his reform package as not threatening its interests. The economic authorities — reorganized in early 1998 into a “policymaking” FSC, a “regulatory” Financial Supervisory Service, a “strategic” Planning and Budget Commission (PBC), and a “coordinating” Finance and Economy Ministry (MOFE) — in fact saw its power drastically enlarged, with comprehensive reform, because more stringent prudential regulations and supervisions over financial institutions prevented planning bureaucrats and party politicians from aggressively backing industrial policy through subsidized policy loans. Even recapitalization with public money strengthened FSC and MOFE by driving out conglomerates from financial institutions. The state filled in as a shareholder, acquiring by May 1999 over 90 percent of shares in Korea’s top four commercial banks, and between 20.1 and 46.2 percent in seven others (Lindgren et al. 1999:75).

Once Kim Dae Jung and Lee Hoi Chang signed in on IMF’s program and opened a way for insolvent businesses to exit from markets by legally allowing hostile mergers and acquisitions as well as speeding up bankruptcy procedures, Korea’s state ministries showed their potential as a Weberian institution. Despite its young age, FSC had a long institutional memory. The dismantled Finance Ministry (MOF) being its predecessor, FSC had at its disposal myriad ideas and tools for reform already in early 1998. These ideas and tools had been developed but only partially implemented by MOF before 1997, because MOF refused to force a faltering DIBFCP to exit from markets. Previously having underwritten investment, MOF could go only a half way in its reform before 1997. The ministry announced an interest rate decontrol in 1988, only to give it up six months later for fears against a massive business failure (Park 1994:150). The MOF established “main banks” to place prudential supervision over the chaebol as early as 1979, but always backed down from enforcing regulations, lest banks plunged into a severe credit squeeze (Patrick 1994:369). The MOF also sided with capital market liberalization since 1991, but failed to restructure nonperforming loans for its fear of driving investors and
depositors into a panic. The Economic Planning Board (EPB), likewise, brought in cross shareholding, cross loan guarantee, and inside trading among chaebol subsidiaries under its regulatory purview between 1981 and 1997, but did not back up these regulatory guidelines with real sanctions. Going too fast and too deeply on monopoly regulation risked a massive business failure by cutting off the chaebol abruptly from its traditional sources of direct and indirect financial subsidy.17

What financial crisis did after 1997 was, then, clearing away any rationale there was to stop reform at a half way. With seven chaebol going under in 1997 alone and two nationwide commercial banks receiving public funds worth one and a half trillion won in January 1998 after massive equity write-downs, impaired loan purchases, and management change, Korea’s financial authorities — organizationally separated from more expansionary budget and planning bureaucrats by a split of Kim Young Sam’s “super” Finance and Economic Board into FSC and PBC in April 1998 — were at last freed from the seemingly impossible historic goal of reforming banks and conglomerates without a credible exit strategy. The FSC put in place what its predecessor had toned down, abandoned, or distorted before December 1997.18 Like MOF and EPB before it, FSC tried to trigger corporate restructuring through regulations on cross shareholding, inside trading, and cross loan guarantee as well as equity debt ratio, but much more actively by setting a tough quantified target goal and specifying a tight timetable, which in turn justified FSC’s extracting a detailed plan for divestitures and asset sales from the chaebol (IMF 2000b:105-106). To make these goals, deadlines, and plans for corporate restructuring credible, FSC simultaneously brought up prudential regulations on banks’ loan classifications and loan loss provisions to “international best practices” (Lindgren et al. 1999:44-45; IMF 2000b:70-71, 76). Themselves threatened with a financial squeeze and disciplined by stringent prudential rules, banks could not but put pressures on corporate restructuring as a way to cut losses and meet regulatory rules.

The policy legacy inherited from Korea’s developmental state era,
however, did not always help Kim Dae Jung. The ready availability of industrial policy ideas, in fact, got him caught up with a dubious idea of “Big Deals” and wasted valuable resources during his initial two presidential years. The top five chaebol were then judged as simply too big to be left to uncertain market forces. The state bureaucracy had also worked on industrial rationalization for seven long years, with MOF designing a “main company policy” in 1990, only to sidestep for Trade, Industry and Resource’s more expansionary “leading company policy” in 1993. The two policies were similar in spirit, striving to force the chaebol to exit from unrelated businesses and concentrate on a few core sectors through engineering a business swap between one another (Bedeski 1994:86-88; Ministry of Trade, Industry, and Resources 1993). This swap idea got its third chance when Kim Dae Jung coined it a Big Deal in February 1998. Like its predecessors, however, it too failed because the chaebol could rarely agree on asset valuation, management control, and labor issues. When an accord did form between chaebol combines, FSC more often gave a cold shrug because its implementation rested on highly concessionary debt rescheduling.

While most Big Deal talks dragged on without a result for two years, FSC’s other instruments for chaebol policy — corporate governance structure reform and prudential regulations — too failed in restructuring Hyundai and Daewoo. When FSC tightened its regulatory limit on bank credits, each group had weaker subsidiaries issue commercial papers and corporate bonds throughout 1998, predictably with its nonbank financial agencies waiting in line as eager buyers. When FSC tightened its regulation over cross loan guarantees, Hyundai and Daewoo turned to cross shareholding to inject money into faltering subsidiaries. When FSC countered by setting a 200 percent limit on debt equity ratio, they — like many other smaller chaebol — preferred asset revaluation than debt reduction to meet FSC’s new requirement (IMF 2000b:102-107).

Even with Korea’s increasingly hegemonic democratic discourse
emphasizing clean politics, corporate transparency, and financial accountability, and in spite of its cohesive Weberian state bureaucracy’s formidable policy archives and technocratic manpower, many of which could and did provide bureaucratic rationales as well as instruments for comprehensive reform, Kim Dae Jung encountered profound obstacles against linking financial with corporate reform. Restructuring progressed slowly especially among Korea’s top two chaebol, which had market power to find loopholes in FSC’s regulations and directly raise money even in Korea’s depressed commercial papers and corporate bonds markets throughout 1998. The state was a loser in this game, usually outsmarted by Hyundai and Daewoo. However, in a longer time frame, it was Hyundai and Daewoo who bore even greater economic losses. Daewoo, with its debt equity ratio increased to 527 percent in December 1998 from 474 percent a year ago, lost investor trust by August 1999. This time Kim Dae Jung could not but dismantle its business empire, lest Daewoo threaten all he had achieved since December 1997. Hyundai saw itself split into three by August 2000, but this only exposed its weaker electronics and construction splinter group to even worse market attacks. Although Kim Dae Jung repeatedly aided it with loan rollovers to pay back his political debts to its owner’s subsidization of his Sunshine Policy through Keumkang Mountains Tour, Kim Dae Jung progressively tightened his conditions for assistance until it lost control over three core holding companies. Kim Dae Jung could not do otherwise, because he was under intense political criticisms for bending FSC’s rules to “save” his Sunshine Policy.

By contrast, Thailand was preempted from pursuing comprehensive and rapid reform by its more hybrid political elite. Unlike egalitarian Korea, it had a “ruling class,” with its genealogical roots traced to Thailand’s royal house and aristocracy but very flexibly extending into newly rising elite groups in society, as modernization proceeded after a military coup d’état in 1932. The military itself was part of this class, in sharp contrast to Korea’s armed forces which served as a
channel for social mobility for lower classes. The Thai polity experienced chronic military coups between 1932 and 1991 (Cooper 1995; Girling 1981; Morell and Samudavanija 1981; Bunbongkarn 1991:131-139), but none threatened its elitist political culture because all were power struggles among warring factions within Thailand’s inclusionary ruling class. Modernization strengthened rather than weakened this traditional elite because it was Thailand’s modernizer, instituting a new constitutional monarchical order in 1932, participating in modern business ventures as shareholders and managers, and incorporating newly emerging bourgeois and professional groups into its cultural milieus through marriages and educational ties (Mackie 1988:301-304). The Thai state bureaucracy, too, historically emerged undifferentiated from this larger ruling class, even reproducing its internal factional divisions within and between state agencies. As Richard F. Doner and Ansil Ramsay (1997) once argued, it was a state organized by “competitive clientelism” even during authoritarian historical periods, with rival factions of Thailand’s ruling class each capturing one or another state institution and, from it, weaving out a clientelistic network with both business interests and military cliques.

Long before democratization became an enduring trend in 1992, Thailand did not have clear lines of boundary between political, bureaucratic, and business elites. On the contrary, it was caught in an “institutional limbo,” “neither traditional nor modern,” with a “parasitical” state bureaucracy ruling uncontested over society (McVey 1992:16) and Chinese “pariah entrepreneurs” living as a second class citizen in political arenas in return for economic rents (Riggs 1996). The military cliques shared in business fortunes and paid back by bringing in entrepreneurs into power circles as a junior partner. Between 1946 and 1957, businesspeople made up 23 percent of Thai legislators. The authoritarian but allegedly developmentalist Thanom Kittikachorn cabinet filled up its national assembly with even a larger 46 percent business presence, when it prepared for limited electoral competition in 1969. The entrepreneurs’ share in cabinet portfolios showed much
more volatility, going up and down between 5 and 29 percent before it averaged 43 percent during Prem’s three cabinets in Thailand’s “reformist” but authoritarian eighties (Laothamatas 1988:399-401). In a similar spirit of rent seeking, its military institutionally took over public utilities companies and monopolies involved in social infrastructures during Pleak Pibulsongkharm’s long but intermittent fifteen years of premiership between 1932 and 1957, and held onto this business empire through sharing rents with public enterprise employees (Phongpaichit and Baker 1996:101) and securing state guarantees on loans (Christensen and Siamwalla 1993:5), while generals individually bought up shares and entered business ventures as board directors. Even when Sarit Dhanarajata purged Plaek in 1957 and launched Thailand’s “softer” version of authoritarian developmentalism by cutting down on state intervention and divesting state companies, he left these military interests untouched.

The 1992 democratic breakthrough hardly forced Thailand’s ruling class to regroup and to specialize — if not split — into three generically distinct but complementary political, business, and bureaucratic elites. Certainly, its armed forces stopped trying to hold onto power by directly organizing a ruling political party, as Suchinda did with Righteous Unity Party in 1992. But it still managed to protect its political power from democratization by leaving an appointed Senate with a large military representation as part of its condition for democratic transition (King and Logerfo 1996:106), and through having many generals, including Chavalit, enter politics with vast fortunes they amassed during Chatichai’s corrupt rule between 1988 and 1991 (Overholt 1999:1029).

When Thailand began privatizing its twelve most lucrative public monopolies and utilities companies in 1991, generals and military factions shared in on rents through allying with party bosses and business leaders (Vongvipanond 1990:180; Bungbongkarn 1996:83-84). Unlike Korea’s chaebol, its functional equivalent in terms of both market power and political function in money politics, moreover, Thailand’s strategic financial community had its stakes well insured
politically through democratic transition by not only buying up politicians but also directly filling in leading key party posts with its members. The failing Bangkok Bank of Commerce lent massive loans to Prime Minister Banharn’s Chart Thai Party politicians, who helped it afloat with liquidity support for seven years since its financial irregularities became known public in 1991 (Phongpaichit and Baker 1996:105-110). Similarly, in 1997, many faltering finance companies and banks, with several major shareholders serving as Chart Pattana’s senior members, barred Finance Minister Amnuay — and his successor, Thanong — from suspending operations (Haggard 2000a:53-54). The central bank, mostly unchecked by Thailand’s weak planning and industrial policy apparatus (Crone 1988:252-268; Jomo et al. 1997:72-79; Phongpaichit 1992:418; Phongpaichit 1980:449-454), moreover, assured large banks a privileged status in state developmental policies by maintaining high interest rates since Sarit’s time (Siamwalla 1997:70; Christensen 1993:4) and bringing in Thai Bankers’ Association into a Joint Public and Private Sector Consultative Committee for policy coordination since 1981 (Laothamatas 1992).

Herein laid a crucial divergence, which more than counterbalanced many similarities existing between Korea and Thailand after 1998. Chuan resembled Kim Dae Jung by heading a reformist force, Democratic Party, which contrasted with Thailand’s other profoundly factionalist and personalistic political parties by being less unorganized, more policy oriented, and less compromised by irregular business deals (Overholt 1999:1024). Like Kim Dae Jung, who headed a minority political party with only 78 followers in Korea’s 299-member National Assembly in February 1998,20 Chuan brought in six parties into a barely majority coalition during his first year of rule, with his Democratic Party controlling only 60 percent of coalition seats. The power situation was fragile in both Korea and Thailand, with Kim Dae Jung more comfortable in intracoalitional politics since he had only one political partner — Kim Jong Pil’s United Liberal Democrats — but much more disadvantaged in intercoalitional politics because he faced a unified
opposition Hannara Party. The divisions among Thailand’s opposition parties, numbering five or seven at any time between November 1997 and January 2000, barred any success in a censure motion against Chuan (Haggard 2000a:99-100). The number of legislative seats alone, in other words, cannot adequately explain why Chuan could not follow Kim Dae Jung in adopting rapid and comprehensive reform in November 1997. Only by distinguishing Thailand’s political elite as a hybrid with an extensive business interest and an intricate network within state ministries can one understand Chuan’s policy choice. Simply stated, Chuan’s coalition partners and opposition parties qualitatively differed from Kim Dae Jung’s generically more differentiated and specialized political partners and foes.

Chuan chose slow reform once he closed down 56 finance companies in December 1997, because he could not threaten Thailand’s entire hybrid ruling class, especially its core member, i.e., large commercial bankers. The most critical choice was his decision to stick with Chavalit’s August and October 1997 policy formula, which set aside FRA’s public money only for suspended finance companies. For large banks, Chuan opted to induce recapitalization through enforcing prudential rules on capital adequacy and loan loss provisions, and by persuading bank managers to set up private asset management companies (Klingebiel et al. 2001:3-4). The persuasion did not work because within Thailand’s 1997 legal and institutional system, which closely reflected underlying political and economic power relations, large commercial banks and corporations could go on indefinitely without a meaningful debt restructuring, including equity write-downs and management change. Even after two revisions in April 1998 and March 1999, Thailand’s bankruptcy laws did not allow for its court to rule automatically in favor of creditors if debtors failed to respond positively to a creditors’ ruling. Because its court system used balanced sheets — not cash flows — to sort out insolvent companies, moreover, debtors could claim solvency simply through asset revaluation even when unable to service debts. Their creditors ironically endured —
if not encouraged—such forbearance from prudential regulations, because this held down loan losses (IMF 2000a:16, 24-25).

By placing both corporate and financial restructuring under Thailand’s private banks, Chuan soon got bogged down. With Finance Minister Tarrin Nimmanhaeminda publicly pledging not to close down any more banks in March 1998, pressures for reform rapidly dissipated. Those banks which recapitalized did so primarily through issuing “Stapled Limited Interest Preference Shares” and “Capital Augment Preference Shares” with a high yield, which only deferred bank restructuring to a later date. Consequently, even after Chuan introduced legal provisions for rehabilitation in April 1998 and established CDRAC in June, with seven hundred “target” firms identified for rehabilitation, only thirty rehabilitation proceedings commenced before November 1999. They primarily involved a consensual interest payment rescheduling on short-term loans, which could be done without damaging either creditors or debtors. The share of nonperforming loans in all bank loans inevitably increased from 22.5 percent in December 1997 to more than 35 percent by August 1998 (IMF 2000a:21, 23). Fearing another bank crisis, Tarrin announced he will match any new private capital injections into banks with public money raised through tradable bonds, but under what Lindgren, Balino, and others called “strongest possible safeguards.” Those receiving public funds had to make “full provisions upfront, in line with Bank of Thailand’s December 2000 loan classification and loan loss provisioning rules”; restructure nonperforming loans; and force existing shareholders to bear losses resulting after due diligence. The state and new investors, moreover, could change its top management (Lindgren et al. 1999:5-6, 34, 99-100). Hardly surprising, only Thai Military Bank and Siam Commercial Bank sought public money (Bangkok Post, November 9, 2000). Tarrin saw only 50 of his original 300 billion baht bank recapitalization funds used before March 2000 (Bangkok Post, March 24, 2000).

The extremely slow progress in restructuring nonperforming loans precipitated an intense political debate as Thailand geared for a general
election in February 2001. The line of conflict quickly emerged between Chuan’s Democratic Party and Thaksin’s newly established Thairakthai. Chuan called for continuing along his Finance Minister Tarrin’s policy, with large banks choosing to receive public recapitalization funds under stringent conditions or cut bad loans through private asset management companies (Bangkok Post, March 24, September 29, 2000). Thaksin, by contrast, proposed establishing a national asset management company with a fund generated through public bonds, but consciously refused to specify his conditions for purchasing bad loans. When his Thairakthai Party spoke on policy, however rarely and generally, it retracted not only on Tarrin’s privately led recapitalization plan but also on his stringent prudential regulations. The opposition political party included in its 2001 electoral platform a pledge to “ease regulations” (Bangkok Post, January 10, 2001). Nor did it provide any details on its proposed national asset management company’s legal status.

This ambiguity did not, however, prevent Thaksin from winning a historically unprecedented landslide victory under Thailand’s newly instituted single member majoritarian electoral system. Upon assuming power in February 2001, Thaksin began talks with banks on purchasing bad loans with public money (Bangkok Post, February 25, 2001). Thailand apparently faced two unattractive options. Either it could continue Tarrin’s policy and end up with an extremely slow progress on debt restructuring, which limited new lending and, hence, delayed economic recovery; or, it could cut down bad loans through injecting public money and relaxing prudential regulations, which could make Thailand vulnerable to another crisis in later times.

Unlike Korea, Thailand did not consider a third option: speeding up financial reform with a change in banks’ ownership structure. Kim Dae Jung was able to do so, because Korea’s political elite had a potential to act more independently of its big business, and because he had a state bureaucracy which saw its relationship with the chaebol as not only complementary but also competitive. The MOF had been a central actor in such power struggles. Since Park Chung Hee’s
ascendancy in 1961, MOF desperately strove to limit subsidies for the 
chaebol by its “administrative guidance” over bank interest rates, lending
practices, and corporate governance structures. Then, with strong
United States pressures to open up financial markets to foreign capital
beginning in 1987, MOF tried hard to induce the chaebol’s entry into
financial markets in a way not threatening its institutional interests.
The EPB, too, had a frequently strained relationship with the chaebol,
because it was entrusted with fair trade and monopoly regulation since
1981. The both MOF and EPB failed in their partial reform attempts,
but these experiences came to be crucial in enlarging Kim Dae Jungs
policy options and instruments after 1997.23

What Chuan and Thaksin lacked was not only independence from
Thailand’s hybrid ruling class, but also an institutional instrument whose
priorities and interests made it a natural rival to Thailand’s most
powerful societal actor: large commercial banks. The state ministries
responsible for industry and trade policy were weak even during Sarit’s
“developmental state” era. The Budget Bureau defined its mission as
assuring monetary stability by a fiscal restraint rather than using state
expenditures to implement a larger dirigiste industrialization program.
Having no political ambition to transform Thailand into an industrial
powerhouse, the Investment Board similarly focused on luring direct
foreign investment through free international capital flows and low entry
barriers in growth sectors. The Thai Finance Ministry joined in this
stabilization endeavor with low tariffs. The economic development
plans it and others drew up accordingly advertised their intention not
to interfere with private business activities, rather than identify strategic
sectors deserving a concerted support by state institutions (Jomo et al.

When financial crisis hit Thailand in 1997, then, there existed only
one power center within its state bureaucracy. The Finance Ministry
thoroughly dominated policymaking and organized all restructuring
programs around its central bank ally. Whereas former MOF and EPB
bureaucrats jointly designed policy in Korea,24 Thailand amended its
Bank of Thailand (BoT) Act in October 1997 to concentrate all restructuring powers in BoT (Lindgren et al. 1999:96). The central bank controlled asset valuation processes through FRA and debt restructuring processes through CDRAC. But BoT was an agency with a less conflictive relationship with its main client: large commercial banks. Whereas FSC’s primary target of reform was the chaebol which owned extensive interests in industrial sectors and, by their very nature, saw financial institutions as a mere source for subsidies, BoT had similarly minded commercial banks as its main object of reform. Sitting with similarly minded Thai bankers in CDRAC, BoT, more than FSC, was inclined toward a consensual approach to restructuring, once it overcame Thailand’s worst financial situation by closing down 56 finance companies in 1997. Historically, BoT saw itself as a defender of bank interests. The FSC endorsed rapid and comprehensive reform because it saw the chaebol’s downsizing, if not dismantlement, as a necessary precondition for enhancing its bank constituency as well as its own supervisory power and role. By contrast, BoT did not harbor any comparable hostilities toward Thailand’s functional equivalent — large banks — and started reform implicitly with a goal of not letting major banks go under. This goal seriously tied down Chuan’s hands.

4. CONCLUSION

The regime type, classified broadly into democracy and authoritarianism, mattered in our three East Asian crisis economies by significantly influencing their political elites’ understanding on causes, processes, and consequences. The two democracies each gave strikingly similar political meanings to financial problems by tapping on a reformist discourse it had developed since embarking on democratization, identifying “money politics” and “crony capitalism” as key underlying causes and focusing on transparency and good
governance as new organizing principles for its troubled political economy. By contrast, Malaysia looked at IMF’s policy package as a threat to its Barisan Nacional and defended authoritarianism by delinking interest rates from foreign exchange rates through capital controls. The regime type, then, mattered in a double way: it encouraged each crisis nation toward a particular policy direction; and once a policy was formulated, this quickly acquired a life of its own, creating a distinctive set of political opportunities and challenges which helped democracy become more democratic and authoritarianism more authoritarian (Emmerson 1999:35-52). To silence criticisms on his heterodox policy, Mahathir jailed Anwar in 1998. As part of its “solution” to corruption, Thailand convened CDA and overhauled its constitution in 1997. Korea, too, moved toward prudential regulations on financial agencies, with profound implications on how politicians raise political funds.

The state bureaucracy, by contrast, mattered by deciding whether and how far our two democracies implement their reform programs. The causality flowed in two ways. The hybrid ruling class, with very blurry lines of boundary drawn among its political, business, and bureaucratic elite subgroups, preempted Chuan from adopting any drastic measure against its large banks’ ownership structures. The absence of any alternative power centers against BoT within Thailand’s state bureaucracy, by contrast, made any radical reform unlikely even if Chuan’s Democratic Party desired it. Without a rival, BoT essentially could edit policy agendas and structure policy options to its taste before submitting to Chuan for an approval, and it used this power position to protect large banks, its historical constituency. The Korean case diverges in both dimensions. With a political elite generically distinct from its business and bureaucratic elite, Korea had a greater potential for breaking with its past economic strategies. Once its political rulers — party bosses and factional leaders — made such a cognitive shift, its state bureaucracy was also more ready to force change top down than BoT, because it was driven by former MOF and EPB bureaucrats.
who had identified chaebol combines as Korea’s primary economic liability as well as asset. They had what it takes to be a reformer: a hostility toward the chaebol, a wide set of policy instruments, and a concrete idea on reform. The Korean case shows that an emerging democracy requires a Weberian state to rapidly push through comprehensive reform.

NOTES

* I am grateful for the helpful comments I received from Jorge I. Dominguez on an earlier draft presented at American Political Science Associations Annual Meeting, San Francisco, September 1, 2001.

1 The funds disbursed were equivalent to 17, 25, and 5 percent of 1999 GDP in Korea, Thailand, and Malaysia, respectively. For a detailed analysis of financial restructuring, see Lindgren et al. (1999:77, 85, 101).

2 This is a misnomer. Among East Asia’s “four little dragons,” it is only Korea which fell in 1997; Hong Kong, Singapore, and Taiwan escaped financial turmoil. Moreover, China not only fended off pressures on its yuan, but also became a stabilizer in regional financial markets by not joining in competitive devaluations.

3 On IMF’s triple strategy of stabilization, financial restructuring, and structural reform in East Asia’s crisis countries, see Boorman et al. (2000:6).

4 The limits of globalization and policy convergence are extensively analyzed in Crouch and Streeck (1998), Berger and Dore (1996), and Boyer and Drache (1996).

5 The debt equity ratio surpassed 300 percent for Korean manufacturing corporations by 1997, reached 180 percent in the case of Thai corporations, but remained below 100 percent for Malaysian corporations (see Dekle and Kletzer 2001:22-23; Lindgren et al. 1999:49; and Boorman et al. 2000:12).

6 On Daewoo, see Hankyoreh sinmun (August 16, August 26, and November 1, 1999). On Hyundai, see Hankyoreh sinmun, (August 13 and August 24, 2000; May 20 and July 9, 2001).

7 The concept of “privileged issue” is from Hirschman (1965).

8 The Letter of Intent signed on August 14, 1997 required Thailand to
establish FRA and FIDF as its mechanism to seize insolvent finance companies for equity write-downs, management change, and public recapitalization. The Chavalit cabinet did so by enacting five emergency decrees in October 1997 (see Klingebiel et al. 2001:42-43).

9 The five principles included increased transparency in corporate governance, reduction of cross loan guarantees among chaebol subsidiaries, improvement of financial structure, specialization into core business lines, and strengthened accountability of majority shareholders and business executives. In August 2000, Kim Dae Jung added three more: separation of industrial capital from finance capital, prevention of unfair inside trading as well as “circular” shareholding among chaebol subsidiaries, and prevention of irregular inheritance (Chosun Ilbo January 13, 1998; August 15, 20, 2000).

10 The Big Deal’s goal was to induce Korea’s top five chaebol to concentrate on their respective “core” industries through engineering multiple, interlinked business swaps in aircraft, automobile, oil refining, petrochemicals, power generation, rolling stock, semiconductors, and ship engines industries, with FSC as a neutral facilitator. The idea first appeared in early 1998, but produced disappointing results. The talks produced an agreement only in Korea’s power generation, semiconductors, oil refining, rolling stock, and ship engines industries by November 1999. The merged semiconductors company, however, faced a serious difficulty since its Hyundai affiliate companies began faltering in early 2000 (see International Monetary Fund 2000b:104).

11 See Case (2001:10-18) for an analysis on Malaysia’s 1999 general election and 2000 UMNO election. The UMNO’s coalition maintained its two-thirds legislative majority by pulling 56.5 percent of the votes in 1999.

12 The Malaysian central bank imposed a ceiling on bank lending for property and securities purchase in April and October 1997; pushed through a more stringent definition of nonperforming loans as well as a tighter loan loss provision in January 1998; forced a regular disclosure of information in March; and introduced a framework for assessing bank liquidity risks in August (see Lindgren et al. 1999:81-82).

13 Literally, daekwon juja means “a runner in the race for presidential power;” gasin, “household servants” of a presidential aspirant; and silsae, “power wielders” acting under President’s personal trust.

14 The most bitter conflicts were fought over the arrest of Kim Young Sam’s top economic policymakers in March 1998 for “neglect of duty” during
Korea’s 1997 financial crisis; prosecution of Lee Hoi Chang’s brother in December 1998 for allegedly attempting to block Kim Dae Jung’s 1997 electoral victory by staging a “military incident with help from Pyongyang”; nationally televised national assembly hearings in January and February 1999 on Kim Young Sam’s 1997 economic mismanagement; Kim Dae Jung’s August 1999 retreat from his presidential campaign pledge to bring a parliamentary form of government through a constitutional amendment; media reports on bribery and grafts involving key ministers’ wives in January 2000; Kim Dae Jung’s visit to Pyongyang in June 2000; and his war against media tycoons in July 2001. For an analysis on partisan conflicts between March 1997 and August 2000, see Kim, B. (2000a:58-61, 63-64, 70-74).

The national assembly passed 356 laws in 37 days since it opened on December 1, 1998 alone (see Joongang Ilbo December 19, 1998; January 7, 1999).

This is a combination of economic policies which Carlos Diaz-Alejandro identified quarter a century ago as unwittingly inviting financial crisis (see Dekle and Kletzer 2001:3).

For a historical analysis on Korea’s failed reform efforts before 1997, see Kim, B. (Forthcoming:1-30).

The continuity existed in not only policy ideas, but also personnel. Lee Kyu Syong, with a long career within MOF, which included its vice ministership, headed MOFE. Lee Hon Jae chaired FSC for his 1974 experience in managing financial crisis as a MOF bureaucrat. The former EPB officials similarly made major advances under Kim Dae Jung, with Jin Nyum heading PBC and Kang Bong Kyu serving as Senior Presidential Secretary — first on policy planning and later on economic affairs. Kang, in turn, brought in four former EPB people he had worked with to staff his office. See Joongang Ilbo (February 25, March 4, 1998), Hanguk Ilbo (February 11, 1998), and Chosun Ilbo (March 6, 1998), and Donga Ilbo (May 25, 1999).

The FSC restructured Hyundai Construction by completely writing down its majority shareholders’ stocks and transforming bank loans and convertible bonds worth 2.9 trillion won into shares in May 2001. By August 2001, FSC also began finalizing its solution for Hyundai Securities and Hyundai Investment Trusts through American International Group buying up new stocks worth 1.1 trillion won and itself coming in with
900 billion won, including 200 billion won worth of Hyundai Investment Trusts stocks, which other Hyundai companies had loaned to Hyundai Investment Trusts to use as collateral for getting rescue funds from banks and nonbank financial institutions in 1999. With those stocks used to partly finance FSC’s 900 billion won investment, Hyundai Securities and Hyundai Investment Trusts will leave Chung Mong Heon’s group. Hynix Semiconductor’s fate, by contrast, looks much more gloomy despite Chung’s success in raising 1.25 billion dollars — worth 21 percent of Hynix Semiconductor’s stocks (Joongang Ilbo, March 29, April 28, May 19, 2001; on Hyundai Securities and Hyundai Investment Trusts, see Joongang Ilbo, August 13, 2001; and on Hynix Semiconductors, see Joongang Ilbo, June 16, 28, 2001).

Even with the support of Kim Jong Pil’s United Liberal Democrats (43 seats), Kim Dae Jung remained a minority president vis-a-vis Hannara (161 members) in February 1998.

According to Overholt (1999:1017), only Siam Commercial Bank raised enough capital to cover its nonperforming loans in 1998 and 1999.

See Tarrin’s criticism, Bangkok Post, February 27, 2001.

For EPB’s and MOF’s reformist programs on the chaebol between 1981 and 1997, see Kim, B. (Forthcoming:1-30).

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