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Introduction: Party Politics and Institutional Reform

At the heart of the current theoretical innovation within the comparative capitalisms literature lie distinct institutional configurations of national economies that generate a particular systemic logic of corporate action. Especially, the notion of institutional complementarities in which different institutional arrangements across diverse economic domains have distinct merits and demerits for different kinds of corporate activity has gained considerable currency during the last decade. Facing problems of transactions costs and agency loss inherent in various business operations, firms seek to exploit comparative institutional advantage of national economies to coordinate effectively with a wide range of economic actors to the extent that a bundle of institutions surrounding them are mutually reinforcing the quality of relationships that they have developed. Accordingly, different complementary institutional arrangements of national political economies tend to produce different complementary institutional mechanisms of coordination over corporate behavior.

An influential scholarly distinction lies between liberal market economies (LMEs) where coordination problems of firms are generally solved through market mechanisms and coordinated market economies (CMEs) where the solution largely depends on associational cooperation between organized societal actors. According to the typological scheme, the Korean variety of capitalism is clearly differentiated from LMEs and seemingly shares several basic characteristics of CMEs. However, it appears that treating Korea as exemplifying the same variety of capitalism as Germany obscures as much as it reveals. While the organizational capacities of employers and unions in chaebol (gigantic
industrial conglomerates) sector are stronger and more muscular than in LMEs, an institutionalized system of economy-wide bargaining between employers and unions are more fragmented and less well articulated than in CMEs. Even though they are unable to create an autonomous framework of coordination for the entire societal interest groups, they do hold sufficient capacity to resist institutional change that might harm their interests. More crucially, the dynamics of party competition has traditionally revolved around personal charisma and regionalist rivalry that largely deviate from representing the interests of organized societal actors. The institutional disconnections between political parties and societal interest groups have largely discouraged political actors from building an enduring social coalition for institutional reform. The absence of encompassing interest groups and programmatic political parties, which constitute the essential institutional infrastructure of associational coordination, therefore, makes us critically reconsider the coordination mechanisms of the Korean political economy as a unique case that is divergent not only from LMEs but also from CMEs.

As pointed out by many critics, mixed market economies (MMEs) like Korea, in which the state has acted as the primary coordination mechanism that introduces, extends, and consolidates institutional complementarities across different spheres of the political economies, uneasily fit into the LME and CME ideal types. The characterization of the Korean capitalism as a variety of MMEs builds on the developmental state literature that emphasizes the role of state intervention in the formation and evolution of production regime of the country. However, it differs from the literature in conceptualizing the coordination capacity of the state as a function of the characteristics of the party systems and the internal organization of political parties in conjunction with the procedures to access to and the distribution of powers between the executive and the legislature. The effectiveness of the state-led coordination over corporate behavior is not static as many developmental state theorists assume, but dynamic, depending on the different degrees of institutional complementarities between the mode of policy implementation and the mode of political representation. As Gourevitch tersely puts it, “politics shapes the policies that shape the micro-institutions of capitalism.” From this perspective, corporate restructuring in Korea requires the corresponding policy reform of the state, which, in turn, largely relies on the institutional arrangements of political regime.

Drawing on the discussion, this paper endeavors to show the centrality of party politics in corporate restructuring in Korea. Specifically, it conceptualizes political parties as dual institutional linkage mechanisms to coordinate the behavior of pivotal actors for institutional change in political economic systems. As micro-linkage mechanisms of political systems, they try to coordinate the behavior of the executive and legislative actors
in revising legal arrangements that enact institutional change of formal structures regulating basic modes of corporate activity. For formal institutional change to happen, a lawmaking majority coalition should form in favor of reform and adopt legislations that alter legal arrangements in the corporate sector, of which reform process is close to spot transactions in that reform policymaking and implementation are consummated in a relatively short period. Whether political parties succeed or fail in coordinating inter-branch bargaining of political systems largely depends on how patterns of lawmaking process are organized, which, in turn, reflects the degrees of institutional complementarities of constitutional order, electoral systems, and internalized norm of party actions. To the extent that one or more elements of political systems deviates from institutional clustering of consensus or majoritarian democracy, institutional coherency of lawmaking process tends to decrease. This in turn reduces coordination capacity of political parties to connect the executive and legislative actors.

As macro-linkage mechanisms of political economies, they seek to coordinate the behavior of the state policymakers and labor market players in negotiating industrial contracts that trigger institutional change of informal practices governing strategic interactions among economic actors. For informal institutional change to occur, the state and labor market actors should coordinate their future expectations around new rules of the game and jointly shift their old beliefs to the new ones in economic spheres, of which reform process is close to inter-temporal transactions in that current resources are exchanged for the promises of future rewards. Whether political parties succeed or fail in coordinating the state and labor market actors of political economies largely depends on how patterns of interest intermediation are organized. This in turn reflects the degrees of institutional complementarities of organizational characteristics among the state policymakers, political parties, and labor market players. To the extent that one or more components of political economies deviates from institutional clustering of societal corporatism or market liberalism, institutional coherency of interest intermediation tends to decrease, which reduces coordination capacity of political parties to connect the state policymakers and labor market players.

Based on the conception of dual coordinating capacities of political parties to effectuate institutional change of political economic systems, it is possible to visualize the fate of reform policy as illustrated in Figure 1. In spot transactions zone where formal institutional change occurs, the fate of reform policy depends on how credible the threat of political parties is in the realm of lawmaking. As long as the credibility of political parties’ threat is below the threshold, the reform policy tends to survive. This in turn diminishes the hazard rate of institutional change. However, if the credibility of political
parties’ threat goes above the threshold, the reform policy tends to fail, which in turn raises the hazard rate of institutional change. In the inter-temporal transactions zone where informal institutional change occurs, the fate of reform policy depends on how credible the commitment of political parties is in the realm of interest intermediation. Thus, the fate of reform policy takes an inverse-U shape according to coordinating capacities of political parties to unite the executive and legislative actors in spot transactions zone and those to bond the state policymakers and labor market players in inter-temporal transactions zone.

Figure 1. Fate of Reform Policy

The main argument of this paper is that the commitment capacity of political parties is not strong enough to manage the conflicts between employers and unions in the labor relations whereas the threat capacity of them is powerful enough to frustrate the reform efforts of the state policymakers in the lawmaking arena. This shaky “intermediate” institutional equilibrium of party politics of the Korean variety of capitalism shapes the coherency of reform policy coordination of the state, which also shapes the corporate restructuring outcomes. Thus, the coordinating capacities of the state policymakers in
corporate restructuring should be considered in terms of the interactions among those of political parties and of labor market players that jointly influence institutional reform outcomes.18

In the following sections, this paper fleshes out the argument by analytically narrating the historical evolution of the institutional connection between party politics and corporate restructuring in Korea. The next section shows how a few business groups developed into chaebol and how political parties degenerated into organizationally shallow and programmatically incapable institutions during the Park Chung Hee regime. The third section examines diminishing institutional complementarities among the organizations of the state policymakers, political parties, chaebol, and the unions in coordinating corporate reform policy implementation in pre- and post-democratization eras. The fourth section investigates pre- and post-crisis corporate restructuring process, emphasizing the hidden perils of redeployed state-led corporate restructuring policy implementation without renewing institutional capacities of political parties on which policy coordination of economic governance largely depends. The final section concludes.

Park Chung Hee’s Legacy: Forming Chaebol, Deforming Parties

The Evolution of Chaebol: An Economic Sequel of the Park Regime

After the coup of May 16, 1961, the Korea’s leading party politicians and businessmen were arrested almost immediately by the military government. General Park Chung Hee was fully aware of what the country suffered from: economic poverty due to rent-seeking corporate behavior, which was politically induced by corrupt politicians who avidly monopolized the scarce state resources during the previous regimes. However, he soon realized that coercion was not an effective tool to correct the old institutional practice. Instead, he sought a systemic transformation of the old regime. This involved erecting new institutional arrangements of the state that would shape the incentive structure of party politicians and businessmen in favor of his agenda for national reconstruction.19

At that time, Korea suffered from extreme geopolitical insecurity and severe resource constraints, ailments that reinforced one another. Astutely, Park recognized the systemic vulnerability of the nation and therefore set economic development as the highest agenda of his ambitious national reconstruction plan. He likewise forged a developmental regime in which expert and coherent bureaucratic agencies collaborated with private
entrepreneurs to spur national economic transformation.20 His genius shone through in the way in which he structured the collaborative arrangements. To win bureaucratic support and transform it into a political resource for his use, he built a hierarchical order into the bureaucracy that consisted of the Economic Planning Board (EPB), the Ministry of Finance (MOF), and the Ministry of Trade and Industry (MTI). As a central coordinator, EPB closely cooperated with MOF, which was responsible for financial regulation, and as well with MTI, which was put in charge of corporate promotion. While it designed the grand economic plans, EPB also secured budgetary funds and guaranteed foreign commercial loans; MOF carried on tax cuts, tariff protection, and bank subsidies; and MTI, which was in direct contact with the corporate sector, authorized a monopoly right over production. The Ministry of Labor (MOL)—in charge of industrial relations settlement—also joined the policy arrangements by implementing hard labor containment measures.21

Figure 2. Trends of Inflation and Interest Rates, 1964-1984


Notes: Percentage; IRBL: interest rates on bank loans; IRCL: interest rates on curve loans; IRES: interest rate in export sector; Real IRBL: IRBL – Inflation; Real IRCL: IRCL – Inflation; Real IRES: IRES – Inflation.

Against this concerted policy backup of the state policymakers, the interest rate
reform of September 1965—which created a “negative spread” between low lending rates and high deposit rates and contributed to a massive inflow of foreign loans that were *de facto* guaranteed by the government—marked a watershed in convincing industrialists to rush into Park’s risky business and transform themselves into *chaebol*. As shown in Figure 2, although the interest rates on bank loans did not go below 23 percent from 1966 to 1971, considering inflation rates, the real interest rates on bank loans did not rise above 13 percent either, but in fact did fall below zero percent afterwards. Furthermore, since the government controlled the interest rates in the export sector so that they would remain at a much lower level than those on bank loans, the real interest rates in the export sector remained negative until 1981. This “manipulated” working of the financial system provided *chaebol* with opportunities to exploit the huge gap between the interest rates on curb loans and those on bank loans. Thus, so as not only to invest in export goods production but also to speculate in the curb market, *chaebol* internalized debt financing practice into their corporate strategy. As a result, the average debt-equity ratio of the manufacturing sector dramatically rose from 93.74 percent in 1965 to 394.2 percent in 1971 and even reached 487.9 percent in 1980 (as illustrated in Figure 3).

**Figure 3. Average Debt-Equity Ratio of the Manufacturing Sector, 1960-2007**

Table 1. The Pattern of Chaebol Expansion

<table>
<thead>
<tr>
<th>DECADE</th>
<th>RELATED</th>
<th>UNRELATED</th>
<th>VERTICAL</th>
<th>SUB-TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DIVERSIFICATION</td>
<td>DIVERSIFICATION</td>
<td>INTEGRATION</td>
<td></td>
</tr>
<tr>
<td>1940s</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>33.33</td>
<td>66.67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950s</td>
<td>8</td>
<td>23</td>
<td>3</td>
<td>34</td>
</tr>
<tr>
<td>%</td>
<td>23.53</td>
<td>67.65</td>
<td>8.82</td>
<td></td>
</tr>
<tr>
<td>1960s</td>
<td>21</td>
<td>44</td>
<td>24</td>
<td>89</td>
</tr>
<tr>
<td>%</td>
<td>23.53</td>
<td>67.65</td>
<td>8.82</td>
<td></td>
</tr>
<tr>
<td>1970s</td>
<td>83</td>
<td>105</td>
<td>42</td>
<td>230</td>
</tr>
<tr>
<td>%</td>
<td>36.09</td>
<td>45.65</td>
<td>18.26</td>
<td></td>
</tr>
<tr>
<td>1980s</td>
<td>106</td>
<td>100</td>
<td>35</td>
<td>241</td>
</tr>
<tr>
<td>%</td>
<td>23.53</td>
<td>67.65</td>
<td>8.82</td>
<td></td>
</tr>
<tr>
<td>1990s</td>
<td>175</td>
<td>117</td>
<td>46</td>
<td>338</td>
</tr>
<tr>
<td>%</td>
<td>51.78</td>
<td>34.62</td>
<td>13.61</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>394</td>
<td>391</td>
<td>150</td>
<td>935</td>
</tr>
<tr>
<td>%</td>
<td>42.14</td>
<td>41.82</td>
<td>16.04</td>
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Note: The data set includes the twenty-two largest business groups according to the rank order based on total asset size in 2000.

When the overexpansion of chaebol was finally thrown into a fix in 1972, Park dealt with the problem with a presidential decree that placed a moratorium on all private loans incurred by chaebol. As a consequence, he inadvertently set a historical precedent: the chaebol are “too big to fail.” At the same time, the chaebol learned the fragile economic logic of the Park regime, which was inherently vulnerable to the fluctuating business cycle. To eschew unduly adjustment risks, chaebol deliberately hedged their investment by diversifying their lines of business. After Park launched the heavy and chemical industrialization drive in 1973, the diversified business structure of the chaebol fit nicely into the changes in the government's industrial policy—a policy that preferentially
allocated policy loans to those firms who already achieved organizational economy of scale as well as scope. The preferential credit allocation policy also led *chaebol* to actively seek merger and acquisitions of medium–and small-scale enterprises (MSEs), which implied increasing vertical integration of firms in broad lines of business. Accordingly, as shown in Table 1, *chaebol* considerably expanded their organizational size via a corporate strategy for diversification and integration that corresponded to the incentive structures that the state policymakers had made during that period. In other words, *chaebol* steadily institutionalized the capital structure of heavy debt financing and the business structure of horizontal diversification and vertical integration across various sectoral lines during the Park era.

The Devolution of Parties: A Political Sequel of the Park Regime

Although Park was determined to transform his nation into a “second Japan” under the marching order of “economic growth first,” he had never passionately embraced the “American-style” ideals of liberal democracy in the sphere of party politics. Whereas he consciously forged organizational capabilities of the state economic agencies to the fullest, he was content with the fledging institutions of the ruling party—as long as the party could marginally dispose of international and domestic pressures to reinstall electoral democracy and attend to factional conflicts within the ruling circle over succession to his presidency, he was satisfied. In retrospect, Park had no imperative to organize a ruling party with an extensive popular following since he faced insubstantial opposition from society and within the political arena, and as well already possessed the bureaucratic means of accomplishing his vision of national reconstruction. More specifically, he had already forged a working alliance of capital accumulation between the state and *chaebol* into the state economic agencies instead of the ruling party. Despite Park’s tepid attitude toward party politics, the “young Turks” within the military junta—who were in charge of the Korean Central Intelligence Agency (KCIA), which itself had been ordered by Park to clandestinely organize a ruling party in December 1961–started to form the Democratic Republican Party (DRP) for the 1963 presidential election. Their intent was to establish a major mass-based political party that would transform their power base in a post-Park era.

However, the socio-political conditions at that time rendered this ambition mere wishful thinking. Historically, the formation of mass-based parties has been a combined
product of the translation of divisive social cleavages into programmatic political
competition, the evolution of organizationally encompassing associations, and the
introduction of proportional representation (PR) electoral systems.30 The institutional
complementarities between organizations of societal interest groups reflecting social
cleavage structures and electoral systems aggregating the policy preference of them that
jointly reinforced organizationally deep-rooted and programmatically capable political
parties were simply absent in the Park era. Ethnically as well as linguistically, Korean
society had been exceptionally homogeneous, while most religions at that time were
largely irrelevant politically.31 Organizational efforts of workers to secure economic rights
were effectively dissipated by MOL, KCIA, and the other state security agencies. In
addition, in the sphere of party politics, the mobilization of labor for political purpose was
essentially considered illegitimate, a consequence of the collective memories of the
catastrophic Korean War. As a result, this “disorganized” society had little associational
capacity to cultivate organizations to develop mass-based political parties.32

Figure 4. Trends of Unionization and Labor Disputes, 1963-2007

Sources: Hagen Koo, Korean Workers: The Culture and Politics of Class Formation (Ithaca: Cornell University
467; Ministry of Labor website at http://www.molab.go.kr/ (accessed April 1, 2006); Korea Labor Institute website
at http://www.kli.re.kr/ (accessed April 1, 2006); Korean Statistical Information System website at
Notes: Number of Participants: 1,000 persons; Loss of Workdays: 1,000 workdays; Wage Earners: 1,000 persons;
Union Members: 1,000 persons.
For example, as illustrated in Figure 4, during 1963 to 1980, despite the dramatic increase of wage earners (2.3 to 6.4 million), the number of union members only modestly went up (224 to 948 thousand) and the volume of labor disputes was almost negligible due to the fragmented and decentralized structure of company unionism. This shows how effectively the state contained the potential conflicts in the sphere of industrial relations during the period of Korea's rapid industrialization.

Table 2. The Results of the National Assembly Elections, 1963-1985

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</thead>
<tbody>
<tr>
<td>DP</td>
<td>7</td>
<td>7</td>
<td>11</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>CRP</td>
<td>5</td>
<td>1</td>
<td>16</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>NDP</td>
<td>1</td>
<td>2</td>
<td>8</td>
<td>1</td>
<td>12</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>NKP</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>GNP</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
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<tr>
<td>YNP</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>YNP</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
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</table>


On top of this social context, the state introduced a mixed-member majoritarian electoral system (MMM), where three-fourths of the seats were elected by plurality in single member districts (SMDs), and a fourth by PR according to party seats share.33 Moreover, the electoral law stipulated that if there was no majority party in the votes share, a half of the PR seats should be allocated to the plurality party. Arguably, there was little
chance for political parties with programmatic policy orientation to take root in such social and institutional settings. Consequently, not only the ruling party but also opposition parties degenerated into organizationally incapable cadre parties, losing all linkages with societal interest groups.

Accordingly, the DRP nominally reigned by electoral mandate but did not really rule this bureaucratized polity. As shown in Table 2, the “majority-favoring” system had always given the DRP an absolute legislative majority during the Park regime. The system's huge electoral disproportionalities show how efficiently the state agencies like the Ministry of Home Affairs manufactured a legislative majority by tinkering institutionally with the electoral laws and other regulations.34 Despite its majority status, however, the DRP was not able to intervene in the policymaking process of the state. This was because Park had structured a bifurcated bureaucracy by directing patronage appointments to domestic service ministries while maintaining the professionalism of the core economic ministries (including EPB, MOF, and MTI). From 1963 to 1983, there were only two ruling party politicians among eleven who had held the MTI portfolio; as for EPB and MOF, the numbers were even lower (one among thirteen, and zero among fourteen, respectively).35 Thus, the DRP had little opportunity to expropriate fiscal resources for its own electoral purposes. Instead, party organizations and electoral campaigns were almost entirely dependent on the chaebol's illegal contributions and the state's financial manipulation of foreign borrowing.36 Being locked out of the policymaking process and lacking its own financial resources, the DRP could not evolve into either a clientelistic party (as the LDP had in Japan) or a quasi-Leninist party (as the Kuomintang in Taiwan).37 During the Park regime, the polity’s division of labor of “politicians-reign-and-bureaucrats-rule” was institutionally established with the strong gate-keeping power of the president over policymaking and fundraising.38 The institutional arrangements forced the abdication of lawmaking authority of the ruling party to the executive, which, in turn, enabled the president to effectively delegate policymaking power to the state bureaucracy.39 Thus, the threat capacity of the DRP had never risen beyond the threshold in the lawmaking realm during the Park regime.

As a result, the DRP degenerated into an electoral machine that could lure voters only with money provided from the chaebol and the state; it was unable to present any programmatic collective incentives. Consequently, money politics became entangled with the growth machine of chaebol that Park had constructed. The DRP prodigally used the political funds to hire local brokers as campaign workers and even to buy votes. On top of the institutionalized practice of money politics, it became apparent that party politics had become entrapped in a regional rivalry mechanism, as Park's discriminatory corporate
policy—which afforded preferential treatment toward “hometown” chaebol—produced a visible economic imbalance between regions.\(^\text{40}\)

### Table 3. The Results of the Presidential Elections, 1963-1971

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>5(^\text{th}) (1963)</td>
<td>6(^\text{th}) (1967)</td>
<td>7(^\text{th}) (1971)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>DRP</td>
<td>CRP</td>
<td>NDP</td>
<td>DRP</td>
<td>NPC</td>
</tr>
<tr>
<td>SEOUL</td>
<td>371,627 (56.3)</td>
<td>802,052 (65.1)</td>
<td>595,513 (45.2)</td>
<td>675,716 (51.3)</td>
<td>805,772 (40.0)</td>
</tr>
<tr>
<td>BUSAN</td>
<td>372,574 (48.2)</td>
<td>239,083 (47.5)</td>
<td>338,135 (64.2)</td>
<td>164,077 (31.2)</td>
<td>385,099 (55.7)</td>
</tr>
<tr>
<td>GYEONGGI</td>
<td>388,764 (53.1)</td>
<td>661,984 (56.9)</td>
<td>525,676 (41.0)</td>
<td>674,964 (52.6)</td>
<td>667,985 (48.7)</td>
</tr>
<tr>
<td>GANGWON</td>
<td>296,711 (59.6)</td>
<td>366,092 (48.1)</td>
<td>429,589 (51.3)</td>
<td>219,467 (41.7)</td>
<td>502,722 (59.8)</td>
</tr>
<tr>
<td>CHUNGCHU</td>
<td>202,389 (48.8)</td>
<td>285,597 (48.9)</td>
<td>269,831 (46.6)</td>
<td>252,869 (43.8)</td>
<td>312,744 (57.3)</td>
</tr>
<tr>
<td>CHUNGCHUN</td>
<td>405,077 (40.8)</td>
<td>490,660 (49.4)</td>
<td>489,516 (45.4)</td>
<td>510,076 (46.3)</td>
<td>556,632 (53.8)</td>
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<td>JEONBUK</td>
<td>400,556 (48.4)</td>
<td>343,171 (41.5)</td>
<td>392,037 (42.3)</td>
<td>451,611 (48.7)</td>
<td>388,509 (57.3)</td>
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<td>JEONNAM</td>
<td>873,412 (57.2)</td>
<td>486,080 (35.9)</td>
<td>652,647 (44.6)</td>
<td>682,622 (46.6)</td>
<td>479,737 (34.4)</td>
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<tr>
<td>GYEONGBUK</td>
<td>837,124 (55.6)</td>
<td>543,192 (56.1)</td>
<td>1,083,939 (54.0)</td>
<td>447,082 (26.4)</td>
<td>1,335,051 (75.6)</td>
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<td>GYEONGGAM</td>
<td>706,078 (61.7)</td>
<td>341,971 (28.9)</td>
<td>834,266 (58.6)</td>
<td>281,545 (23.0)</td>
<td>891,119 (73.4)</td>
</tr>
<tr>
<td>HEO</td>
<td>81,422 (69.9)</td>
<td>26,099 (22.3)</td>
<td>73,158 (56.5)</td>
<td>41,272 (32.1)</td>
<td>78,217 (56.9)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,702,640 (46.6%)</td>
<td>4,546,614 (45.1%)</td>
<td>5,688,686 (51.4%)</td>
<td>5,256,541 (40.8%)</td>
<td>6,342,828 (53.2%)</td>
</tr>
</tbody>
</table>


As show in Table 3, in the 1967 presidential election, Park gathered more than 60 percent of the votes of his “home” regions, Gyeongbuk and Gyeongnam. In turn, in the 1971 presidential election, the opposition candidate Kim Dae Jung collected more than 60 percent of the votes of his home regions, Jeonbuk and Jeonnam, while Park amassed more than 70 percent of the votes of his home regions. Such remarkably skewed vote distributions between regions showed that candidate persona emerged as the most significant factor affecting voting outcomes in electoral politics. As for party politics, it relapsed into a barren land for programmatic political competition, with no nurturing of commitment capacity to societal interest groups.

When Park decided to replace the existing semi-competitive constitutional order with the Yushin constitution in a more authoritarian fashion in 1972, he adopted a “majority-assuring” legislative electoral system where two-thirds were elected by single non-transferable vote (SNTV) in two-member districts and a third appointed by the president. Under the new system, the ruling party could secure a majority if it won only a sixth of the total seats. Moreover, the direct election for presidency was institutionally removed in
the new constitution. As the significance of popular elections in sustaining the regime dwindled down to a mere ritual procedure, the DRP’s marginal utility for the regime precipitously diminished accordingly. As a result, even such malfunctioning party politics were gradually reduced into the most peripheral sphere of the developmental regime under the Yushin state.

Park Chung Hee’s Revenge: Parties Spoiled, Chaebol Entrenched

Authoritarian Adaptation to the Park Regime: Defusing Party Politics

When Park was unexpectedly assassinated on October 26, 1979, it seemed that every element of the political economic system that he had assembled was immediately suspended and would shortly collapse. However, institutional legacies of the Park era loomed large even when the new authoritarian regime of Chun Doo Hwan took over by military coup in 1980. Seizing political power with as unconstitutional a method as Park had, Chun aimed at the chaebol in the expiration of his sin, since public opinion—to the extent that it mattered—was to blame collusion between the previous government and the chaebol for the country’s economic difficulties and political corruption. From the early 1981, with financial deregulation measures that included the privatization of the banking sector and the rifting of regulatory restrictions over the non-bank financial institutions (NBFIs), the Chun government tried to regulate the chaebol, setting the policy agenda of rationalizing industrial structure and reducing business concentration. The industrial rationalization included reorganization of industries with surplus capacity and consolidation by mergers of over-extended lines of business of the chaebol. To restrain business concentration, the government forced the chaebol to sell their inoperative real estate and non-essential subsidies, and as well imposed stringent supervision of preferential loans given to the chaebol.

Taking into account the gigantically amplified market power of these Korean conglomerates (derived from the strategic position in the production regime) and the languish state of party politics (inherited from the highly bureaucratized political system during the Park period), the Chun government gradually slid back into the old developmental economic formula, reestablishing authoritarian political control over society. Under the Chun regime, the “sword-won” working alliance of capital accumulation was still firmly embedded in the institutional arrangements of “politicians-
reign-and-bureaucrats-rule,” along with the strong gate-keeping power of the president over policymaking and fundraising. Although Chun's military protégés organized the new ruling Democratic Justice Party (DJP) soon after the coup, their fate was actually little different from that of the DRP politicians. The DJP's legislative majority was a product of tinkering with the electoral system (which was similar to the logic of the DRP), in which two-thirds of the seats were elected by SNTV in two-member districts and a third by PR according to party seats share. The trick lay in the PR prescription of the electoral law that if no party secured a majority of votes share, then two-thirds of the PR seats would be allocated to the plurality party, while SNTV in two-member districts almost evenly distributed seats between the ruling and opposition parties. Although the DJP was the primary beneficiary of the majority-assuring system, the very system had marginalized the role of electoral politics in sustaining the Chun regime so that the DJP could not escape from its secondary position in the vital policymaking process. For instance, on June 28, 1982, the Minister of Finance suddenly announced that the bank interest rate and the corporate tax rate would be lowered to 4 percent and 20 percent respectively. Although the measures meant the abolition of export loans—one of the political levers to channel political funds to the ruling party from the chaebol—the DJP had never been informed of the drastic policy change until that same day, and thus could not reverse it after the announcement that Chun had given wholehearted support to the state economic agencies. In other words, under the Chun regime, the ruling party's threat fell short of being credible to the state policymakers.

To implement chaebol policy, Chun redeployed old institutions of the state bureaucracy—which had created the chaebol as colossal market players—to the new purpose of restraining and streamlining its own creature. In addition, in April 1981, Chun attached a new element, the Fair Trade Commission, to the existing economic agencies in order to prevent conglomerate concentration through cross-investment, reciprocal buying, and cross-subsidization among chaebol subsidiaries. Despite the institutional conversion and layering of the state bureaucracy, however, change in formal institutional structures of regulatory regime did not necessarily result in corresponding changes in the informal institutional practice of chaebol corporate behavior and business strategy. On the contrary, the chaebol adroitly adapted to their changing surroundings. They skillfully offset (1) tight credit control by acquiring a new financial channel of NBFIs, (2) forced sale of real estate and subsidies by regaining them at time interval and amalgamating more MSEs, and (3) compulsory business dispersal by establishing a corporate governance structure that combined effective family control with a relatively low concentration of ownership. As a consequence, the capital structure of heavy debt financing, and the business structure of
horizontal diversification and vertical integration across various sectoral lines of *chaebol* remained intact during the Chun period.46

**Democratic Adaptation to the Park Regime: Activating Party Politics**

On June 29, 1987, Chun’s heir apparent, Roh Tae Woo, declared that he would accept a direct election for the presidency (scheduled for the end of the year) and liberalize the political system for society. This was the prelude to competitive electoral democracy and pluralistic interest politics, in which party politicians and labor unions would become the key players in what is often referred to as “the only game in town.”

In the sphere of industrial relations, unprecedented labor disputes hit the entire nation hard. During the “hot” summer of 1987, workers–finally unfettered from the authoritarian labor control experienced under the Park regime–launched 3,749 labor disputes, in which a total of 1,262,000 persons joined and resulted in 6,947,000 lost workdays. Since then, the state-controlled industrial relations became no longer effectual as one of the core institutional pillars of the developmental regime.47 In retrospect, however, despite the liberalization of industrial relations, the average unionized rate of the post-democratization period (1987-2004) remains almost the same as that of the pre-democratization era (1963-1986): 13.4 percent and 13.6 percent, respectively. The real change, however, can be seen in the volume of labor disputes, where the average loss of workdays dramatically increased to 2,354,000 workdays from 28,000 (see Figure 4).

What qualitatively differentiates the post-democratization period from the pre-democratization era in the labor relations is the drastically augmented market “hold-up” power of workers employed by *chaebol* affiliates. As illustrated in Figure 5, in the post-democratization period, on average, about 70 percent of union members concentrated in the large firms with more than 500 employees, which were mostly *chaebol* affiliates, where the number of unions constituted only about 11 percent of the total number of unions. This “dualistic” labor market structure allowed the *chaebol* unions to develop their institutional capacities only to a problematic “intermediate” level–in which the state policymakers might be threatened by the menacing market hold-up power–but could not rely on the shallow organizational coverage and density for forging industrial contracts in the labor market. To put it another way, the organizational evolution of the *chaebol* unions has reached its height during democratization, which is institutionally incompatible with either market liberalism or societal corporatism in terms of interest intermediation.48
Figure 5. Compositions of Organized Labor by the Size of Employees, 1992-2002


Table 4. The Results of the Presidential Elections, 1987-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Candidate</th>
<th>Percentage</th>
</tr>
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Notes: Percentage; DJP (Democratic Justice Party) candidate: Roh Tae Woo; RDP (Reunification Democratic Party) candidate: Kim Young Sam; PDP (Peace Democratic Party) candidate: Kim Dae Jung; NDRP (New Democratic Republic Party) candidate: Kim Jong Pil; DLP (Democratic Liberal Party) candidate: Kim Young Sam; DP (Democratic Party) candidate: Kim Dae Jung; UPP (United People’s Party) candidate: Chung Joo Young; GNP (Grand National Party) candidate (1997): Lee Hoi Chang; NCNP (National Congress for New Politics) candidate: Kim Dae Jung; NPP (New Party by the People) candidate: Rhee In Jae; GNP candidate (2002): Lee Hoi Chang; MDP (Millennium Democratic Party) candidate: Roh Moo Hyun.
In the realm of party politics, although every candidate promised the electorate to reform the political economic system of the previous regime in the presidential campaign of 1987, the actual vote-getting tactics of political parties were strategically organized along the overwhelming cleavage of regionalism, which, in turn, stifled policy-based electoral competition and encouraged appeal to emotion and sentiment. As shown in Table 4, popular votes have been irrefutably divided along the lines of the main candidates’ home-regions in the presidential races since then. In other words, the configuration of party competition has revolved around regional cleavage during democratization, which is largely deviated from embracing interest articulation in the sphere of industrial relations.49

In retrospect, it seems that the seed of regionalism that Park sowed during his reign was finally in full bloom in the field of party politics in the post-democratization era. To identify how regionalist the voting patterns of the electorate had been, regionalism indices of the presidential elections are illustrated in Figure 6. The difference between rivalry-regions index (RI) and other-regions index (OI) shows how regionalist rivalry regions are relative to other regions, while the difference between RI and the nationwide index (NI) reveals how regionalism of rivalry regions deviates from the national pattern of regionalism. Because there is no objective criterion of how high an index indicates a regionalist vote, an operational convention is adopted as follows: a vote is defined as regionalist when RI is at least 50 percent greater than NI and simultaneously when RI is at least 100 percent greater than OI.50 According to this convention, there emerges an unmistakable picture that regionalism “in itself” (as in 1963 and 1967) had already been transformed into regionalism “for itself” in 1971 (where regionalism took on a two-sided character involving both loyalty to one’s own region and hostility toward other regions). Party politics since 1987 then rekindled and internalized the institutional practice of regionalism “for itself” on an extensive scale.

Once regionalism as the most salient political cleavage in electoral competition was consolidated, the fate of political parties exclusively relied on the vicissitudes of the charismatic authority of party leaders who had cultivated region-specific political assets. With the “winner-takes-all” nature of presidentialism, regionalist party leaders tended to promise all things to all people to collect as many votes as possible. The “beauty” of the regionalist alignment of party competition, however, lay in the compensation scheme for the losers in the presidential race. As shown in Table 5, no party had ever secured an absolute majority in the National Assembly elections. The ensuing “divided” governments have become a rule since 1987. This implies that no matter how they performed in the previous elections, regionalist parties could ensure a definite portion of the legislative
seats according to the district magnitude of their stronghold regions.

Figure 6. Regionalism Indices in Presidential Elections, 1963-2002

Table 5. The Results of the National Assembly Elections, 1988-2004

| Notes | NKP (New Korea Party); ULD (United Liberal Democrats); URI (Uri Party); LP (Democratic Labor Party). |
Thus, despite the MMM legislative electoral system that is highly skewed in favor of majoritarian principle, it actually functions as if a variation of PR with a regional quota system. The consequences have been seen in that the average electoral disproportionality decreases to 10.37 (1987-2004) from 16.97 (1963-1985) while the average effective number of legislative parties increases to 2.83 from 2.17. Accordingly, it seems that the institutional logic of electoral politics in the post-democratization period combines the worst of both worlds in the sense that identifiable policy accountability as a merit of majoritarian democracy is rarely visible due to the recurring divided governments, whereas workable power sharing as an advantage of consensus democracy is hardly realizable because of the winner-takes-all nature of presidentialism. In other words, institutional capacities of parties in the post-democratization period have evolved to a tricky “intermediate” level where the state policymakers have to overcome the potential veto power of political parties in the lawmaking process, but cannot expect to benefit from them due to the programmatic incompetence and organizational shallowness in the interest intermediation.

All in all, the precarious “intermediate” institutional equilibrium of party politics and of industrial relations was the price that the post-democratization state policymakers would pay for the repressive and exclusionary political economic strategy in the developmental era. To paraphrase Levy’s word, it was Park Chung Hee’s “Revenge.” Thus, it was not surprising that economic reform programs, including chaebol policy of the Roh Taw Woo government, did not effectuate the intended policy outcomes. Between the dissolving developmental state and the swelling market power of the chaebol, Roh had to deal with the National Assembly—where unyielding opposition parties secured a joint majority—and manage the industrial relations—where chaebol unions intransigently resisted any endeavor to alter the status-quo of the labor market. Due to the precarious institutional setting, Roh let events take their own course until it became clear that he had no choice but to act. He either vetoed selective reform bills passed in the assembly by the majority opposition coalitions or he did not actively implement other reform policies. As a result, the Roh government inadvertently avoided decisive actions on many reform issues. During democratization, the tricky “intermediate” institutional arrangements of lawmaking process that incoherently mix majoritarian and consensus democracy have permitted the threat capacity of political parties to the state policymakers to ascend beyond the threshold. However, the risky “intermediate” organizational configurations of interest intermediation that are institutionally irreconcilable with either market liberalism or societal corporatism have prevented the commitment capacity of political parties from becoming credible to the labor market players.
Having the whole world against him, Roh made a historical decision that regionalist political realignment was the only solution to break systemic gridlock in the post-democratization era. Thus in 1990, he established the ruling Democratic Liberal Party (DLP) with Kim Young Sam and Kim Jong Pil against Kim Dae Jung. The birth of the DLP was a stunning testimony that institutional coherence of the old developmental regime had exponentially diminished by the logic of regionalist electoral politics.

Park Chung Hee’s Capitalism versus Two Kims’ Party Politics

Institutional Reform Korean Style: Pre-Crisis Party Politics

In 1992, the grand regionalist coalition ingrained in the DLP awarded Kim Young Sam the presidency by an 8.2 percent votes share margin against his lifelong rival, Kim Dae Jung. The historic feud of the two Kims, who had been career opposition party politicians for more than 30 years, lay at the center of the pathological Korean party politics in which personal charisma and regionalist agitation superseded programmatic party competition. At the same time, however, the irreversible tension between them became the critical parameter that conditioned the fate of institutional reform of the Korean political economy.

During the first half of his presidency when Kim Dae Jung temporarily retired from party politics, Kim Young Sam’s top-down drive of institutional reform seemed impregnable because of the ruling DLP’s majority status in the assembly. However, his own power base was actually feeble due to the factional fissures of the DLP. Since his reform efforts tended to threaten the other factions within the DLP, the dilemma facing the president was how to initiate enough institutional reform to consolidate his power over the DLP, but not so much as to upset the organizational unity of the ruling party. However, keeping a balance between restructuring party politics and maintaining governing stability proved hard in the course of institutional reform. In May 1993, he overhauled the Public Servants’ Ethics Law to legally require the legislators to disclose their own and immediate family members’ assets to the public. This resulted in a political purge of ten incumbent DLP legislators as illicit profiteers. Three months later, a presidential decree on the “Financial Real Name” reform, which had been aborted twice during the Chun and Roh governments, was promulgated in the name of financial transaction transparency and eradication of political corruption. But there was an
invisible political side effect: it was now harder for the factional bosses to raise political funds independently from the president. In addition, in March 1994, he reformed the Political Fund Law so that the amount of state subsidies to parties increased by a multiple of three. This was strategically used to weaken the financial footing of individual legislators *vis-à-vis* the central party organization. A *blitzkrieg* series of attacks on practices of money politics were enthusiastically supported by citizens’ movement groups and the related intelligentsias. This enabled Kim Young Sam to effectively anesthetize the possible factional defiance within DLP against the presidential projects, albeit temporarily.

However, Kim Young Sam’s reform drive finally reached a tipping point in 1995 when Kim Jong Pil defected from the DLP to launch the United Liberal Democrats (ULD). At around the same time, Kim Dae Jung returned to party politics as the leader of the National Congress for New Politics (NCNP). The sudden dissolution of the grand regionalist governing coalition reconfigured party competition around three Kims. Consequently, the DLP’s electoral base dwindled down to Gyeongsang region, while ULD recaptured the Chungchung region and the NCNP took command of the Jeolla region. The tripartite regionalist political realignment was anything but propitious for the president’s effort to revise the electoral law to promote programmatic party competition by expanding PR seats in the assembly. Not only the opposition parties but also the ruling DLP strongly resisted electoral reform since it might undermine their respective regional hegemony. Thus what ensued was a mere cosmetic revision of the law in March 1995.

In retrospect, Kim Young Sam became a captive of his own creature in that his institutional reform efforts to eradicate money politics destabilized the organizational unity of the ruling party. This also weakened the grand regionalist coalition that had enabled him to win the presidency. Due to this “built-in” vicious cycle of party politics, the presidential projects of political reform ironically resulted in the reproduction of regionalist configuration of party competition. When he approved one of the *chaebol’s* (i.e., Samsung’s) entry into the highly saturated auto industry market (by allowing the establishment of an integrated passenger car plant in his home region in December 1994), it became evident that the gate-keeping power of the president over policymaking was infected with the logic of regionalist party politics (in which the DLP legislators of Busan, with an eye on the 1996 legislative election, succeeded in persuading the president over the state bureaucracies’ opposition to accept the Samsung’s business plan). Encountering the centrifugal regionalist political realignment, he exploited the state prosecutorial power to forestall the probable revolt of the DLP politicians of Daegu and Gyeongbuk by indicting his predecessors Roh and Chun, who were the native sons of the regions, on
charges of official corruption and treason in November 1995. During the trials to “rectify” the historical wrongdoings of the state-chaebol collusion, it became apparent that the former presidents received an astronomical amount of illegal political funds from chaebol during their incumbency. This also led to the indictment of several heads of chaebol on charge of bribery.\(^6^3\) In this “witch-hunt-like” crusade against the state-chaebol collusion, Kim faced a dilemma inherent in the Korean variety of capitalism: institutional reform to wipe out corruption unavoidably required complementary corporate governance reform of chaebol, which in turn might produce adverse consequences on the working of the national economy.\(^6^4\) The intricate institutional complementarities of political and economic reforms ultimately made his “heroic” effort a halfway endeavor.\(^6^5\)

The results of the 1996 legislative election that reenacted the tripartite regionalist division of the electorate between the New Korea Party (NKP, formerly the DLP and renamed in February 1996), NCNP, and ULD symbolically reconfirmed the “partial” nature of Kim Young Sam’s institutional reform. All of the corrosive feedback effects of institutional reform finally forced him to revert to the old formula of economic growth under the guise of globalization. Fallaciously equating joining the Organization for Economic Cooperation and Development membership with becoming an advanced industrial nation, he orchestrated the state economic agencies to carry out extensive capital market liberalization to meet the Paris Club’s requirement by November 1996.\(^6^6\) Then, he submitted labor reform bills to the assembly and had the ruling party pass the bills unilaterally in December. At that time, however, his gate-keeping power over the NKP was almost exhausted, due mainly to the fact that he had entered a “lame duck” period in his tenure—a side effect of Korea’s non-renewable single term presidency.\(^6^7\) Thus, not only the opposition parties but also the ruling party had already shifted their political concerns away from the presidential reform projects toward the approaching presidential election.

During the last year of the Kim Young Sam presidency, the central mode of party activity, regardless of partisan identification, was a wait-and-see approach on reform policies of the state policymakers and a fish-in-troubled-waters strategy on institutional resistance of the labor market players. Facing a nationwide general strike of the chaebol unions against the revision of labor laws in January 1997, political parties opportunistically swam with the tide and forced the state policymakers to revoke the laws and resubmit compromised bills.\(^6^8\) During the summer, they seized on the public mood and orchestrated their action to help the alliance of management and workers of the insolvent Kia corporate group resist the attempt of the state policymakers to impose market discipline in the course of the corporate chain reaction bankruptcies. To avoid
taking any risky position on financial reform issue, they eventually scraped the financial reform bills presented by the state policymakers in November. With the flagging gatekeeping power of the president over policymaking and the ruling party, the old institutional formula of “politicians-reign-and-bureaucrats-rule” was displaced by a new institutional configuration of “politicians-reign-and-rule-bureaucrats.” Thus, the hazardous concoction of the maximum threat capacity vis-à-vis the state policymakers and the minimum commitment capacity vis-à-vis the labor market players of political parties systematically spoiled the corporate, financial, and labor market reform efforts of the state, which eventually thrust the country into a full-blown economic crisis by the end of the year.

Corporate Restructuring Korean Style: Post-Crisis Party Politics

In the middle of economic crisis, Kim Dae Jung won the presidential race of 1997 on the basis of a reversed regionalist alliance of the 1990 party merger in which the NCNP and ULD coalesced against the NKP. The crisis and the subsequent bailout inescapably inserted international financial institutions (IFIs) including the International Monetary Fund (IMF) and the World Bank into the policymaking process, which in effects reduced the political costs of system restructuring and provided a convenient shield for the president-elect, since any unpopular policy and outcome could be blamed on the IFIs. Furthermore, the unprecedented magnitude of the economic debacle made it inevitable for the incumbent government to cooperate with the next one in dealing with the crisis management.

Capitalizing on the transfer period of power as a political honeymoon, Kim Dae Jung hurriedly embarked on drastic reform projects before he officially assumed the presidency. In December 1997, the National Assembly unanimously passed financial reform bills—which he had blocked on the eve of crisis—to integrate the separated financial supervisory authorities into the Financial Supervisory Commission (FSC) and the Financial Supervisory Service (FSS). In January 1998, the president-elect presented the “Five Principles” of chaebol reform, which were translated into corporate restructuring laws in February: (1) to enhance transparency of corporate governance, (2) to control intra-group transactions, (3) to improve financial structure, (4) to streamline the lines of business, and (5) to strengthen accountability of corporate management. In the same month, he set up the Tripartite Commission (legalized in May 1999), to strike a binding industrial contract between employers and workers.
It is important to note that such swift policy turnaround was possible only by the presence of the state bureaucracy, which was the sole institutional actor that had expertise to elaborate the ideas of the president into a package of reform policies. Park’s institutional “legacy” and “revenge” made no other institutional actors—including employers’ associations, unions, and political parties—hold policy competence comparable to it. Thus, the president-elect’s reform projects in the post-crisis period inevitably resurrected the developmental institutions of the state economic agencies (which had worn out in the pre-crisis period) to the new purpose of system restructuring. That is, the state bureaucracy that had been created to direct economic development by Park back in the 1960s was being redeployed to facilitate market-led adjustment by Kim Dae Jung in the post-crisis period.\(^74\)

However, the crisis-driven armistice of party politics that temporarily stopped partisan bickering lasted only for two months. When Kim Dae Jung officially began his term in February, party politics as usual also resumed doing its business of creating political gridlock. Consequently, the reform capacity of the state had to be conditioned by the dynamics of party politics as the mood of crisis gradually submerged. Essentially, the state-led restructuring of the Korean political economy was institutionally incongruent with the “divided” government under “cohabitation” of the Kim Dae Jung presidency. To translate reform bills into binding laws, he had to deal with both the ULD—the strange bedfellow of the coalition government—and the Grand National Party (GNP, formerly the NKP and renamed in November 1997)—the recalcitrant majority opposition in the assembly.\(^75\)

In hindsight, it seems that the timing of legislations decided the differential rates of progress of reform policies. As the country report of the IMF reveals, among the triple core post-crisis reform arenas, the velocity of corporate restructuring was in-between the fast-moving institutional change of the financial system and the slow-moving institutional change of the labor market.\(^76\) In the realm of financial system where reform proceeded at a relatively speedy pace, the legislation had been completed and implemented before the assembly intensively engaged in the reform projects of the state policymakers. In the earlier post-crisis period, the president employed FSC and FSS as the central headquarters to coordinate financial reform process in which the financial institutions were de facto nationalized by the pouring of 167.6 trillion won of public funds into clearing non-performing loans. Even though their policy goals were greatly different, the way in which Kim Dae Jung reformed the financial system was strikingly similar to that of Park in the 1960s in that they successfully contained political parties to interfere with the policymaking process.\(^77\)
However, corporate restructuring bills were entangled with the political bargaining process around the issue of who would control the Ministry of Planning and Budget (MPB). While the president preferred having it under presidential jurisdiction to enhance institutional coherence with other reform policy areas, the ULD, allocated to the portfolio of the Ministry of Finance and Economy (MOFE), opposed the separation of the budget authority from the MOFE; likewise the GNP, concerned with “pork barrel” functions of the budget, insisted upon the status quo of the institutional arrangements of the agency. The GNP pressed the president with a linkage strategy, arguing that it would not approve the corporate restructuring bills without revising the governmental reorganization bills. It also drove a wedge between the coalition parties by opposing the nomination of the ULD’s Kim Jong Pil to the premiership. A compromise was finally struck in February by separating the Board of Planning and Budget (under presidential jurisdiction) from the Office of National Budget (under MOFE jurisdiction). The tug-of-war over jurisdiction, however, proved much ado about nothing as the separated agencies were integrated into the MPB a year later.\footnote{78}

Even worse, in the realm of industrial relations–where reform proceeded at a snail’s pace–the lawmaking process had been frequently delayed and the original policy intention of the state policymakers was substantially watered down during legislative deliberation. To accommodate the demands of the GNP, who manifested the chaebol’s interests, labor market reform bills were separated into several components, of which one to restructure employment practice was passed in February, another to legalize the teachers’ union was postponed until 1999, and a third to allow the political activity of the unions was made law in 2001. During the legislative quagmire, the Tripartite Commission (as an innovative institutional device to negotiate industrial contracts) took more than a year to acquire its legalization. On top of this, the shallow organizational coverage of the peak associations of employers and workers had little institutional compatibility to Kim Dae Jung’s societal corporatist solution that presupposed encompassing labor market organizations. After the two-year institutional experiment, the Tripartite Commission degenerated into an “idle” agency as the national labor associations withdrew from the institutional framework in December 1999.\footnote{79}

The chronic legislative stalemate that had originated from the situation of divided government forced Kim Dae Jung to dare to unify the executive and legislative branches under his control. Manufacturing a lawmaking majority to stabilize his power base, however, contributed only to deteriorating legislative productivity. His “artificial” endeavor to realign seats distribution in the assembly not only provoked the intense resistance of the GNP, which was deprived of its majority status, but also curtailed the
cooperative incentive of the ULD, whose privileges within the cohabitation tended to decrease. Between increasing confrontational relationship with the GNP and decreasing coalitional unity with the ULD, the president’s balancing act to find a viable governing formula proved fruitless. As a result, he hopelessly kept oscillating between divided and unified governments during his tenure. Furthermore, due to the manipulated nature of manufacturing a legislative majority, the ratio of governmental bills that passed dropped off even in the period of unified government (as shown in Figure 7). Worse still, the legislative productivity, measured by the ratio of days in deliberation to days in session, reached a miserable level of 0.170, a considerable declined from the 0.258 during the Kim Young Sam government and the 0.262 during the Roh government.

**Figure 7. Legislation Introduced by the Governments, 1988-2004**

![Figure 7](http://likms.assembly.go.kr/bill/sp/main.jsp)  
Notes: U: Unified Government; D: Divided Government.*

Encountering the dismal state of party politics, after the country “graduated” from the IMF bailout programs, Kim Dae Jung set electoral reform to increase the PR seats as the central agenda of the government. The two-year deliberation over the electoral reform bill finally ended in March 2000 in a superficial revision of the law in which the total number of seats would be reduced from 299 to 273 without extending the PR portion. The public discussion over political reform resumed when Roh Moo Hyun won the presidential race of 2002. As the first president after the “three Kims” era, he symbolized the rise of a new
generation in Korean politics. In fact, there was a marked decrease in the amount of illicit political contribution from *chaebol* in the 2002 presidential election. In March 2004, a two vote system with one cast in PR and another in SMDs was also introduced to encourage policy-based competition among political parties. Despite the improvement of controlling the practice of money politics, however, the expected effect of electoral reform on regionalist party competition has been muted thus far. Arguably, it seems that although post-crisis economic reform has positively contributed to the enhancement of transparency of party politics, it has not been strong enough to reconfigure party competition away from regionalism toward policy-based contestation.

**Figure 8. Sequencing of Corporate, Financial, and Labor Market Reforms**

The partial reform of party politics in the post-crisis period has subtlety affected the evolutionary path of institutional change in corporate restructuring and the following sequencing of system restructuring. As illustrated in Figure 8, in the earlier stage of the Kim Dae Jung government, system restructuring projects entered “Phase I,” where formal institutional change across the spheres of the economic system began with legal reforms in the legislature. The fast-moving financial reforms effectively forced chaebol to restructure the capital structures. After the collapse of Daewoo and the presidential declaration of the “Three Principles” of chaebol reform in August 1999, as a credible signal of both the market discipline and the governmental resoluteness toward corporate restructuring, system restructuring projects moved to the “Phase II,” where corporate governance reform became the core agenda of corporate restructuring because of its profound ramification on the other reform areas. Without increasing transparency and accountability of corporate management, banks could not make lending decisions on the basis of risk. Likewise, unions would not build a relation of trust with the firms. Thus, corporate governance reform would play the central role in consolidating the new lending practices of the financial institutions and in initiating a new employment practice of the labor market (complemented with industrial relations reform). In other words, if corporate governance reform were retarded, not only would the institutional change of financial system not be furthered, but also the institutional reform of labor market could not be launched. At present, it appears that sequencing of system restructuring is stuck somewhere between “Phase II” and “Phase III.”

Figure 9. Trends of Borrowing from Financial Institutions of the Corporate Sector, 1990-2005

Note: Billion Won.
Some empirical evidence shows that sequencing of system restructuring has bottlenecked at the point of corporate governance reform. The adverse effects on the new financial lending practices are apparent in the trends of borrowing from financial institutions of the corporate sector in post-crisis period (as illustrated in Figure 9). During the post-crisis period, not only has the total amount of borrowing of the corporate sector from financial institutions been substantially reduced, but also the pattern of borrowing has been extremely unstable compared to the pre-crisis period. In addition, the effect of the bottlenecked corporate governance reform on labor market reform is also evident in the worsening loss of workdays in the post-crisis period: it increased from 445,000 in 1997 to 1,452,000 in 1998 and remained above 1,000,000 until 2004 (see Figure 4).

Figure 10. Trends of Corporate Governance and Corruption, 1997-2005


Notes: The rating of Efficacy of Corporate Boards reflects the perceptions to the extent that corporate boards in your country are [1=controlled by management, 7=powerful and represent outside shareholders] as seen by business people and country analysts. The rating of Strength of Auditing and Accounting Standards reflects the perceptions to the extent that financial auditing and accounting standards in your country are [1=extremely weak, 7=extremely strong, among the best in the world] as seen by business people and country analysts. Due to data availability, the ratings of Insider Trading in 1997, 1998, and 2001 and of Fiscal Disclosure in 1999 and 2000 are used. The rating of TI Corruption Index reflects the perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).
Although it is more difficult to quantify corporate governance, three available proxies for
corporate governance for the time-serial comparison show that these reform slippages
were associated with the slow-moving corporate governance reform in the post-crisis
period. As illustrated in Figure 10, the indices of corruption, efficacy of the corporate
board, and strength of auditing and accounting standards improved only slightly. Thus,
even though not conclusive, sequencing of system restructuring has muted effects.

The consequences of this bottleneck and the institutional slippage in system
restructuring on business management of chaebol have been profound. As shown in
Figure 11, a considerable financial restructuring of chaebol has been implemented as
measured by debt ratio that substantially declines to 91.68 in 2004 from 390 in 1997.
However, institutionalized corporate practice of chaebol to diversify lines of business has
not withered away, as shown in that the average number of affiliates in the post-crisis
period (1998-2004), which declines only to 19.0 from 21.95 in the pre-crisis period (1990-
1997). Moreover, the average productivity of chaebol (measured by gross value added to
sales) in post-crisis period decreased to 21.67 from 25.24 in pre-crisis period. Finally, the
average profitability of chaebol (measured by operating income to sales) also declined to
7.61 from 8.10.

Figure 11. Trends of Business Management of the Large Enterprises in the Manufacturing Sector,
1990-2004

Source: Bank of Korea, Economic Statistics System website at http://ecos.bok.or.kr/ (accessed April 1, 2006); Fair
Note: Percentage except for the average number of affiliates that is calculated on the basis of the top 30 largest
business groups during 1990 to 2001 and of the business groups with limits on mutual debt guarantees during 2002
to 2004, both of which are designated by Fair Trade Commission.
All in all, it is not unreasonable to argue that corporate restructuring in the post-crisis period has transformed the previous corporate behavior of chaebol of “heavy debt with thin profit margin” into “less debt but with thinner profit margin,” leaving the opaque corporate governance structure and overextended business structure intact. The fleet financial restructuring and sluggish corporate governance reform of chaebol have corresponded to the fast-moving financial system reform and slow-moving labor market reform of the Korean variety of capitalism in the post-crisis period. The differential rates of institutional change between the financial and labor markets were, in turn, closely associated with the different timing of legislative involvement of political parties in the course of post-crisis reform. The financial reform projects of the state policymakers were consummated in the relatively earlier phase of system restructuring in which party politics was little engaged in the policymaking process. On the contrary, the labor market reform projects were largely protracted to the later phase of system restructuring in which political parties stalled, held up, or even reversed the original policy scheme of the state policymakers.

In sum, the maximum threat capacity of political parties in the lawmaking process has been mutually reinforced with the minimum commitment capacity of them in interest intermediation. The organizational characteristics of employers and unions are institutionally incompatible with the societal corporatist framework of the Tripartite Commission, thus constraining effectual labor market reform. This in turn makes it difficult to move corporate restructuring forward.

**Conclusion: Plus Ça Change, Plus C'est La Même Chose**

The historical evolution of the Korean variety of capitalism shows that diversity of national economies still persists even in the epoch of global capitalism. More importantly, it also reveals that institutional change of national models varies according to different institutional complementarities and coordination mechanisms of the political economic system. The notion of institutional complementarities predicts that institutional change would take a form of either (1) systemic rupture due to a mutually reinforcing transmission or (2) systemic inertia due to a mutually reinforcing resistance. Although this is a useful analytic distinction, the actual unfolding of institutional change is usually situated somewhere between the two. Moreover, a cumulative confluence of partial institutional reforms in temporally different points might endogenously generate
transformative consequences on the system. In a similar vein, an exogenous shock of great magnitude might be absorbed, refracted, or scattered in the course of partial institutional adjustment without much impact on the system. Thus, empirical studies on institutional change need a calibrated specification of the causal mechanism of how a local institutional change snowballs into global transition or is muffled by systemic resilience. The literature of comparative capitalisms tells us that institutional change of the system is conditioned by a corresponding reform policy coordination framework. This also reflects the mode of economic coordination for institutional maintenance of the system in the previous period. The evolutionary path of institutional change of the system, therefore, depends largely on the institutional mechanism of reform policy coordination of the political economy.

Without a doubt, the state has been the primary institution to coordinate the behavior of economic actors in Korea. Unlike the argument of the developmental state theories, however, the effectiveness of state-led coordination varies according to the degree of institutional complementarities of (1) lawmaking process in which political parties function as micro-linkage mechanisms between the executive and legislative actors and (2) interest intermediation in which political parties function as macro-linkage mechanisms between the state policy makers and labor market players. The development of chaebol in the economy was possible partly because the presidents effectively delegated the policymaking authority to the state bureaucracy with wielding the gate-keeping power over the ruling party and the assembly and imposing the authoritarian control over the labor relations (as was done in the Park regime). Encountering democratization, the institutional arrangements of state-led coordination started breaking down as competitive electoral politics and pluralistic interest politics became the only game in town. However, institutional incongruence between presidentialism and multi-partism only produced chronic policy gridlock in the lawmaking process, in which the threat capacity of political parties vis-à-vis the state policymakers was multiplied. In the labor market, organizationally shallow but politically strong chaebol and their unions did not institutionally fit the mode of interest intermediation of either market liberalism or societal corporatism, in which the commitment capacity of political parties vis-à-vis the labor market players was creeping toward. Consequently, political parties in the post-democratization period only played the role of system spoiler without contributing to the conversion of the coordination mechanism of the political economy. Although the impact of economic crisis temporarily prevented political parties from interfering with the policymaking process, the characteristics of the post-democratization party politics, which subtlety conditioned the pace, sequence, and timing of the state-led corporate restructuring outcomes, still persisted in the post-crisis period. To borrow the words of
Weyland, the developmental state in Korea has been transmuted from “Leviathan” ruling over the society to “Gulliver” captured by political parties, chaebol, and the chaebol unions.97

This historical case study on Korea shows that the theoretical utility of the comparative capitalsms literature is reinforced by the empirical findings of the developmental state approaches and vice versa. Studies on the developmental states could benefit from the theoretical insights of the comparative capitalism literature that emphasizes the combinative nature of institutional architecture of political economic systems on which the coordination capacity of the states largely depends.98 In a similar vein, research on comparative capitalisms could be enriched by the developmental state literature that highlights the hierarchical nature of institutional arrangements of the systems in which the states design, assemble, and reconstitute complementary institutions on top of economic actors.99 Such theoretical synthesis would enable us to traverse the traditional boundaries of scholarly inquiry between advanced and emerging industrial nations or between the Eastern and Western hemispheres in the discipline.100 In doing so, students of comparative capitalisms might refine the dichotomous typological scheme of LME and CME popular in the literature to a tripartite one: Liberal America, Social Europe, and Dirigiste East Asia.101

It also addresses a theoretical need to reconceptualize the patterns of corporate governance reform of non-LMEs from the perspective of party politics. Despite the commonalities of the non-LME-ness, the corporate governance reform of post-crisis Korea is bottlenecked due to divisive partisan conflicts inherent in the regionalist party politics. This differs from, for example, the German Social Democratic Party, which has succeeded in building an “transparency coalition” in which corporate governance reform not only benefits the interests of institutional investors in the liberalizing capital market, but also enhances the voice of the unions within the co-determination system of the organized labor market.102 This stylized difference of corporate governance reform between the two countries urges us both to pay more attention to diverse evolutionary paths of institutional change within non-LMEs and to take more seriously the interaction effects between party politics and institutional reform in the process. Recently, in fact, institutional complementarities or the lack thereof between corporate governance and party politics have become one of the most promising research areas in the comparative capitalsms literature.103

Finally, the theoretical framework of this paper is conceived as a response to the scholarly request to integrate political economy with the study of formal political institutions that enables us to distinguish the Korean variety of corporate restructuring
from the Japanese one. Despite the shared features with the Korean economy, the Japanese-style corporate restructuring has been characterized as an incremental process of reform that is markedly different from the post-crisis Korean experience. One of the principal factors slowing corporate reform in Japan is the decentralized policymaking structure in which heterogeneous interests of the LDP politicians flow together to forge the institutional arrangements of a “heavy-mutual-veto” system. However, the reform-averse nature of the LDP has been transformed under the leadership of Prime Minister Koizumi, who willingly takes the risks of reform. Although the ultimate political economic outcomes remain to be seen, it is evident that reform of electoral system toward majoritarian direction, the enhanced fusion-of-powers system of parliamentarism, and the presence of hegemonic ruling party have mutually facilitated the ascendancy of the logic of more centralized lawmaking process to increase decisiveness of policy implementation in contemporary Japan.

Compared to the complementary institutional change of the Japanese party politics, in Korea, behavioral conflicts between the risk-taking presidents and risk-averse political parties in the post-crisis system restructuring process still loom large, despite numerous attempts to reform the formal political institutions. Few would question that party politics is ultimately responsible for many problems in Korea, which have produced the incessant impetus to political reform. However, the outcomes have proved halfway reform. This is due to the intrinsic dilemma of presidential reform—too much might undermine the political governability within the polity; too little might jeopardize the political support of society. Arguably, the paradox of the Korean party politics is one of “plus ça change, plus c'est la même chose.” Indeed, the more things change, the more they remain the same.
Endnotes

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7 The definitional difference between programmatic and non-programmatic parties is not ideological in the purposes that the parties serve, but procedural in terms of the modes of exchange between constituencies and politicians. Programmatic parties offer programs of policies that they promise to pursue if elected into office and compensate voters only indirectly, without selective incentives. Voters experience the redistributive consequences of parties’ policy programs regardless of whether they supported the governing party or parties. See Herbert Kitschelt and Steven I. Wilkinson, “Citizen-Politician Linkages: An Introduction,” in Kitschelt and Wilkinson, eds., Patrons, Clients, and Policies: Patterns of Democratic Accountability and Political Competition (New York: Cambridge University Press, 2007), pp. 1-49.


13 Institutions are defined as a “system of human made, non-physical elements—norms, beliefs, organizations, and rules—exogenous to each individual whose behavior it influences that generates behavioral regularities.” Thus, an institutional change is a “change in beliefs, and it occurs when the associated behavior is no longer self-enforcing, leading individuals to act in a manner that does not reproduce the associated beliefs.” See Avner Greif and David D. Laitin, “A Theory of Endogenous Institutional Change,” American Political Science Review, vol. 98, no. 4 (2004), pp. 635-639.


15 Whereas dispersed power structures of governments, proportional electoral rules, and conciliatory party bargaining norms are mutually complementary to the working of consensus democracy where the logic of legislative politics is to maximize the size of lawmaking majorities as large as possible, concentrated power structures of governments, plurality electoral formulas, and adversarial party competition norms are reciprocally complementary to the functioning of majoritarian democracy where the logic of legislative politics is to optimize the size of lawmaking majorities as small as possible. See Arend Lijphart, Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries (New Haven: Yale University Press, 1999), pp. 62-170.


17 Whereas social democratic governments, programmatic political parties, and encompassing labor market organizations are mutually complementary to the working of societal corporatism where the logic of interest politics is to maximize the volume of industrial contracts as thick as possible, conservative governments, non-programmatic political parties, and fragmented labor market organizations are reciprocally complementary to the functioning of market liberalism where the


31 For instance, out of about 190 countries, Korea is the world’s most homogeneous country with the score of 0.0020 in terms of ethnic fractionalization. See Alberto Alesina, Arnaud Devleeschauwer, William Easterly, Sergio Kurlat, and Romain Wacziarg, “Fractionalization,” *Journal of Economic Growth*, vol. 8 (2003), pp. 184-189.


34 Electoral disproportionality is measured by the Gallagher Index (G) as follows:

\[
G = \sqrt{\frac{1}{2} \sum (v_i - s_i)^2},
\]

where \(v_i\) is vote percentage for party \(i\) and \(s_i\) is seat percentage for party \(i\). Ruling party disproportionality is calculated by the case that \(i\) represents ruling party. For comparison, except for the 1967 and 1971 elections, the average disproportionalities under the Park regime had been constantly higher than even India’s 20.77, which is the highest score among seventy cases complied by Lijphart. See Arend Lijphart, *Electoral Systems and Party Systems: A Study of Twenty-Seven Democracies 1945-1990* (New York: Oxford University Press, 1994), pp. 58-62 and 160-162.

35 Kim, “The Leviathan.”


44 While unionized rate rose from 13.2 percent in 1973 to only 14.6 percent in 1981, the top 46 chaebol’s share of value added in GDP greatly increased to 24.0 percent in 1981 from 9.8 percent in 1973. See Wonhyuk Lim, “The Emergence of the Chaebol and the Origins of the Chaebol Problem,” in Stephan Haggard, Lim, and Euysung Kim, eds., Economic Crisis and Corporate Restructuring in Korea: Reforming the Chaebol (New York: Cambridge University Press, 2003), p. 47.


46 For example, although chaebol sold off 166 subsidiaries in 1981, they had acquired 120 new subsidiaries within four years. They also sold some of their real estate only to quickly re-accumulate land holdings worth 20 times their original holdings. The proliferation of NBFIs and financial deregulation even reduced the effectiveness of the reform efforts over capital structure of the chaebol, providing them with alternative sources of corporate financing independent from the state. Furthermore, the chaebol policy of the Chun government stalled around 1985 as macroeconomic conditions deteriorated due to the “built-in” vicious business cycle of the developmental regime. See


50 Regionalism index (R) is measured as follows:

\[
R = \frac{1}{2} \sum \left| \frac{E_i}{E} - \frac{F_i}{F} \right|
\]

where \(E_i\) is the number of the votes elected candidate E gets in region \(i\), \(E\) is the number of the total votes candidate E gets in all the regions in question, \(F_i\) is the number of the votes first runner-up candidate F gets in region \(i\), and \(F\) is the number of the total votes candidate F gets in all the regions in question. In the case of the 1987 presidential election, F represents Kim Dae Jung instead of the first runner-up. From this formula, three kinds of regionalism indices are constructed: rivalry-regions indices (RI), other-regions indices (OI), and nationwide indices (NI). RI refers to rivalry regions, OI refers to regions other than rivalry regions, and NI refers to all the regions. For more details, see Keedon Kwon, “Regionalism in South Korea: Its Origins and Role in Her Democratization,” Politics and Society, vol. 32, no. 4 (2004), pp. 545-574.

51 The effective number of electoral parties (\(N_v\)) and of legislative parties (\(N_s\)) are calculated by the Laakso-Taagepera Index as follows:

\[
N_v = \frac{1}{\sum V_i^2} \quad \text{and} \quad N_s = \frac{1}{\sum S_i^2}
\]

where \(v\) is the vote share for party \(i\) and \(s\) is the seats share for party \(i\). See Lijphart, Electoral Systems and Party Systems, pp. 67-72.

53 The “intermediate” level of coordinating capacity of political parties and unions is exactly what state policymakers should avoid in the economic reform process, since reforms can progress with two “polar” conditions: they “have to be very strong and support the reform program, or they have to be very weak and unable to oppose it effectively.” Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York: Cambridge University Press, 1991), p. 180. It also makes it very difficult to escape out of “partial reform trap” because they lack coordinating capacities to expand political participation to include the losers in the policymaking process that “could place limits on the concentrated political power of the winners and prevent them from sustaining a partial reform equilibrium.” Joel S. Hellman, “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,” *World Politics*, vol. 50 (1998), p. 233.


87 The author acknowledges the cooperation of Joo-Youn Jung and Jai Kwan Jung in collecting the data.

88 Although the top five chaebol and restructured city banks have earned a large income in the post-crisis period, the average profit margin of chaebol as a whole has been deteriorated. See Jang-Sup Shin and Ha-Joon Chang, “Economic Reform after the Financial Crisis: A Critical Assessment of


99 Chris Howell, “Varieties of Capitalism: And then There was One?” *Comparative Politics*, vol. 36 (2003), pp. 103-124.


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