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The Asian financial crisis of 1997–98 involved, among other things, a failure of regulation. Some believe this failure is endemic to global capitalism, and others believe it was profoundly local and idiosyncratic, emanating from regulatory flaws in the affected countries, stretching an arc from Thailand and Indonesia to Korea and Japan. There is also a debate about the nature of the regulation that failed. Some argue that the crisis emanated from a surfeit of nettlesome regulations and endemic industrial policy; others claim it happened for want of effective regulations and (even) industrial policy. Across the hypotenuse of these disagreements, however, stretches a universal recognition that regulatory infrastructure and institutions do matter and that they must play a major role in the way we think about economic development. After the miracle years in East Asia, "good governance" has become the Spirit of the Age.

I intend to examine one aspect of this trend toward good governance: corporate governance. I will argue that the issue of corporate governance must be understood in time and place, in historical and political context, which may mean eschewing common assumptions about regulatory frameworks and reform proposals that make more sense in settings, such as the United States, accustomed to complex legal regulation. In presenting my argument, I will also underscore the enormity of the economic, social, and political problems lurking in the shadow of this innocuous term, *corporate governance*. To instruct the present and to caution future expectations of reform, I will examine past practices of corporate governance in East Asia. Several East Asian countries have now embarked upon reforms, prompted by the exigencies of the 1997–98 financial crisis and the disciplines of the International Monetary Fund. Unlike much American commentary in the past six months, which blames the Asian crisis on certain generic attributes — "crony capitalism," absence of transparency, moral hazards, and a general failure of the rule of law, characteristics considered ubiquitous throughout the region — I sharply distinguish Northeast Asia from Southeast Asia and find two highly distinctive patterns of corporate governance. The first is a Japan-shaped model that influences Taiwan and the current leadership in China, but is best exemplified by South Korea (hereafter Korea). The second is a Chinese business practice having roots at least 150 years old that is market-adaptive and efficient enough to need little reform of corporate practice — or perhaps, from an Anglo-Saxon standpoint, to need so *much* as to make the task impossible.

Other experts can say more than I about the types of reforms that *should* have occurred or that *ought* to be enacted now, in the suddenly distressed East Asian region. I hope to illuminate the nature of corporate governance and discover what past experiences with reform can tell us. Finally, I will explore the possibilities and limits of corporate reform in the current climate of crisis and change: what *could* have been done in the past and what *can* perhaps be done now, given the very different business experiences of the two regions.

In the midst of financial crisis and International Monetary Fund reform programs, corporate governance came to be associated with international demands for transparency and accountability (especially with regard to Korea's corporate reforms). Few in the U.S. would object to these seemingly reasonable general principles. They sound like sweet reason. But what things are *called* can be infinitely more important than what they *are*. To many people in East Asia, the term corporate governance has a neologistic ring to it. In the context of societies that may lack legal norms and traditions that undergirded the rise of the rational modern corporation, corporate governance is a problematic concept. Let's look briefly at several reasons for this, in order to clear away conceptual underbrush and arrive at a better comprehension of this complex subject.

The traditional discourse of corporate governance was predicated on the long-standing practice in the United States of separating corporate ownership from control. In the context of "modern" enterprise, good governance is really about holding corporate management accountable to the interests of shareholders, or reducing *agency costs* (meaning the costs to shareholders of managerial behavior not consistent with their interests). The methods for achieving this accountability are often formal and legalistic and, according to some, idiosyncratic to Anglo-American traditions. In this sense, corporate governance can be thought of as a separate taxonomic entity from, say, "contractual governance," which is said to characterize the "Nippo-Rhenish" model of business organization. In the latter, good governance is a matter of reducing *transactions costs* by building and investing in stable and long-term commercial relationships among transacting companies.[1]

To avoid equating corporate governance with the ideal-type of Anglo-American business practice (which would have limited utility as a template for countries with substantially different legal norms and traditions), we can seek a broader conceptualization that transcends the regional specificity of governance models. Carl Kester provides a functional definition in which corporate governance is understood simply as "the entire set of incentives, safeguards, and dispute-resolution processes used to order the activities of various corporate stakeholders, each seeking to improve its welfare through coordinated economic activity with others."[2] In this rendering, both the Anglo-American and Nippo-Rhenish systems of governance are economically rational attempts to resolve problems of coordination and control among corporate stakeholders, and no *a priori* judgment is made about the ultimate superiority of either national configuration. This catholic definition of corporate governance is still, however, predicated on the highly evolved structure of the modern corporation, with a whole panoply of legal or otherwise regularized sets of norms that dictate the behavior of transacting parties.

Furthermore, the debate on corporate governance in the context of global competition has been particularly fickle and prone to revaluations. In the 1980s and well into the 1990s, for instance, it was fashionable to argue that the Anglo-American style of corporate governance (and various corporate-restructuring movements in particular) reduced investment and forced American managers to think "short-term." In contrast, Japanese corporate managers were thought to enjoy certain freedoms in retaining excess capital (rather than returning it to shareholders) and in determining long-term investment strategies (without oversight of shareholders). Once upon a time, this was viewed as the core of Japan's competitive edge.

Today, this historical verdict has been completely reversed. Michael Jensen argues that in periods of industrial transformation, in the late nineteenth century and in the last two decades, rapid technological and organizational change encourages reduced production costs and increased average productivity of labor. Rapid change results in widespread excess capacity and reduced rates of growth in labor income, causing corporate downsizing and exit. The best example would be the mergers-and-acquisitions wave of the 1980s that ended up sharply reducing capacity (by consolidating some 1,800 U.S. firms into roughly 150); that, combined with leveraged takeovers and buyouts, represented "healthy adjustments" to over-capacity that burdened many sectors of the U.S. economy. Corporate raiders turned out to be the "ephors," the overseers, of modern capitalism. Likewise, the decline in the Japanese economy was viewed as the result of a "structural" over-capacity, fueled by lax investment criteria employed by Japanese companies and the failure to pay out excess capital in the form of higher dividends or share repurchases.[3]

Such periodic revaluation reflects profound (or at least shifting) uncertainty about what constitutes a good system of corporate governance. We all agree that good corporate governance is important, as are motherhood, the flag, peace, and good will to humanity. But what exactly constitutes truly *good* governance, and how is it obtained? The contemporary discourse on corporate governance, influenced as it is by Western practice and experience, offers little hope of achieving a consensual understanding of the meaning of good governance. This makes institutional emulation on the part of "late" developers that much more difficult — particularly for the economies of East Asia, where the norm is not the "modern" corporation, with a long-standing separation between management and ownership, but the family-owned and controlled firm, which can take the form of the modal Korean conglomerate, the *chaebol*, or the Chinese family enterprise in Southeast Asia.

A reform project of corporate governance first must determine which measures will work. And the essence of making dramatic reform *work* is to ask, "*Cui bono*?" Societies differ in their collective goals and priorities, and in the moral valence they assign them, so it is conceivable that improved welfare of stakeholders may not always have priority, for better or worse, over other collective goals. The rise of particular business systems bears some relationship to the collective goals of the society, whether they are popularly mandated or unilaterally imposed from above. The *chaebol* in Korea, like the prewar Japanese *zaibatsu*, is unthinkable apart from a massive project of nationalist economic mobilization that prevailed over three decades, the aim being to create, through all variety of state subsidies and supports, world-class competitive enterprises. Likewise, the behavior and organization of Chinese enterprises in Southeast Asia are influenced by the highly charged political terrain where they operate, leading to catch-as-catch-can outcomes — that is, ethnic divisions of labor and ethnically demarcated redistributive policies, both perhaps most visible in Malaysia.

In light of the current debate on corporate governance, the only possible answer to the question "who benefits" is that good governance enhances the welfare of corporate stakeholders, regardless of their nationalities, affiliations, goals, and designs. In other words, reform of corporate governance has to be plausible in the context of what *is* (and not simply what ought to be) and resonant with larger social goals that enjoy broad support. It is best to think of corporate governance in an idiosyncratic *national* context — for example, the absence in many countries of effective institutions of property rights and, related to that, the persistence of a traditional, family-owned corporate structure. Some scholars of East Asian business organization eschew the concept of corporate governance altogether, and favor, instead, a study of different "business systems." Richard Whitley defines the latter as a "distinctive configuration of hierarchy-market relations which become institutionalized as relatively successful ways of organizing economic activities in different institutional environments."[4] A "business system," of course, is a distinctly vague category if we are grappling with the reform of corporate governance. But the merit of Whitley's sociological approach may be to alert us to the true magnitude of social change that would have to accompany any meaningful reform in corporate governance. Furthermore, it brings us to that sphere where any serious reflection on corporate governance should start: state and society.

II.Northeast and Southeast Asia between the State and the "Sib-Fetters" of the Economy

Westerners have been remarkably consistent in the way they have problematized capitalist enterprise in East Asia during the past century. As early as 1904, Max Weber postulated that the modern rational enterprise was predicated on "the separation of business from the household" and the "rational bookkeeping" that would issue forth from independent firms, thus presaging today's debate about family-controlled firms in East Asia and the lack of transparency in their business accounting.[5] For Weber, the predominance of family-run enterprises and the relative absence of rational accounting were prima facie evidence not merely of bad corporate governance, but also that capitalism in East Asia was not modern, rational, or normal — that is to say (and Weber said it over and over), not Occidental. Weber found it puzzling that the Chinese, who generally seemed to exhibit the appropriate "acquisitive virtuosity" and "deification of wealth" (in the Confucian sense that wealth was the means toward a virtuous and dignified life), failed to achieve the kind of depersonalization of business reflected in the commercial laws of the Italian city-states. The "unceasing and intensive economic ado" of the Chinese did not originate in the legal forms and social foundations of capitalist enterprise, Weber argued, because of a double bind consisting of a premodern political order on the one hand and a particular type of kinship structure ("acquisitive familial community") on the other.[6] This focus on the *state* and the *family* is of particular interest to us here.

Weber had an extensive lexicon for describing the political order that connived with Confucian and Taoist predilections to deny modernity and rationality to East Asia and that filled the well of ideas and definitions from which many scholars continue to draw. China had what Weber called "political capitalism," or sometimes "bureaucratic capitalism," in the form of "usury connected with office, emergency loans, wholesale trade and industrial *ergasteria*," or capital connected with extortionist practices in office. This lexicon has been continuously replayed in discussions of capitalism in East Asia, being used to explain why no capitalism existed in the past and what kind of capitalism can be observed now.[7] Weber also used the terms "booty capitalism," which experts still use to describe the worst excesses of the government and the oligarchy in the Philippines, and "pariah capitalism," which remains a common description of Chinese entrepreneurship in Southeast Asia.[8] In other words, Westerners have thought that East Asia possessed a system of capitalism that is nothing like what Werner Sombart might call "high capitalism," whether in the precapitalist dynasties of a century ago or in the "miracle" economies that seemed to define the meaning of Third World development for a generation.

Cultural tendencies or "mentalities" cannot be conceived apart from the existing political and market opportunities and incentives. Even Weber, who spoke disparagingly of the kinship organization in China as the "sib-fetter" of the economy, understood that the communal, or the sib, economic organization "protected the individual against the dangers of proletarization and capitalist subjection." The patriarchal sib was, for him, an expression of "the abolition of feudal estates" as well as "the extensiveness of patrimonial bureaucratic organization."[9] Just as Marx thought religion was both the "sigh" and the opium of the oppressed, Weber maintained that the Chinese sib-based economic organization seemed to work both to protect against the incipient capitalism of late imperial China and to prevent the rise of a culture of universalistic trust. That is, in the absence of or amid the rise of a contract-based system of business trust, one's own family was still the best bet. Given the tenuous political exigencies of the Chinese diaspora and the prevalence of particularistic trust in East Asia, it is not surprising that this tried-and-true system of Chinese enterprise persists to this day, especially since the organization of Chinese business enterprises appears ideally suited for small businesses. But it is also not difficult to imagine that large, globally competitive Chinese firms will eventually look and behave more like Western-style enterprises, as they already do in places like Hong Kong and Singapore; for big firms, sib-based "familism" may now be yielding diminishing returns as a form of corporate organization.

The main point is that the Western discourse on East Asian capitalism tends to miss two key points. First, East Asian business has developed in a cocoon of particular historic practice, where what appears irrational from an ideal-typical Western standpoint may be an effective local adaptation in the interest of wealth accumulation. And second, development has been so incredibly rapid that practices that might have been expected to die out have persisted because everything seemed to work. For nearly fifty years, East Asian capitalism developed at a phenomenal speed, in many cases in a single generation; therefore, rapid growth was less the solvent of outdated practice so much as its preservative.

Today, that era seems forgotten, and the term "crony capitalism" is often used to refer indiscriminately to the economic systems of East Asia. But no single category can encompass all of East Asian capitalism. Even in the worst periods of authoritarianism in Korea and Japan, the "cronyism" of Northeast Asia never approached that of Southeast Asia.[10] The relationship between the state and the big corporations was forged through industrial policy, which was simultaneously disciplinarian *and* munificent with regard to big business. But in Southeast

Asia, the relationship between the state and big business was forged through an ethnic division of labor in managing politics and economy, in the context of ethnic apartheid between political and economic powers. Indonesia under President Suharto was always the worst case, a classic "cronyism" of sultanlike dictatorship and political monopoly—a kind of capitalism in one family, with Suharto and his relatives and children constituting by far the biggest conglomerate. The truly entrepreneurial element in Indonesia, the ethnic Chinese business class, was always at risk of being prostrated before the rifle butt or the ethnic pogrom (or both, as in the 1965 bloodletting). A state like this is ultimately interested in economic development to the extent that it receives its payoffs, but otherwise is not at all interested in development, in part because the ethnically alien group is synonymous with entrepreneurial business. This does not mean that the state was absent in the development effort. On the contrary, it played an important role in expanding markets, foreign capital inflows, new technologies, and the growth of an urban, educated middle class—in short, everything that the 1993 World Bank report, *The East Asian Miracle*, argued that it did. Suharto worked with and protected the ethnic Chinese, as long as their payoffs continued. But it is also true that there were occasional serious efforts in Southeast Asia to break the "economic stronghold of the overseas Chinese" by excluding them altogether from certain lines of business, especially in Malaysia.[11] The main point is that, in Southeast Asia, the widely discussed lack of transparency and accountability in corporate governance grows out of a very different state-society interaction; it is the result of the elaborate ethnic give-and-take of Malaysia or of the protection/racketeering that prevails in Indonesia.

Westerners are not alone in finding it difficult to fathom the worst excesses of "crony capitalism" in Southeast Asia. From the vantage point of Northeast Asian political economy, it can also appear quite baffling. The Japanese economist Kunio Yoshihara, for example, argues in an influential book that capitalism in Southeast Asia is "ersatz" because it is developed by foreign and overseas Chinese capital and is not, therefore, wholly dedicated to building a sound, national, manufacturing base. It is also ersatz, he claims, because it is "technology-less" and, consequently, "dependent" on the multinationals and because it is captured by various kinds of rent-seekers and speculators—running the gamut from "royal capitalists" (presidential families) to "crony capitalists" (private-sector businessmen who benefit from close relations with the head of a state), to "bureaucratic capitalists," "politicians-turned-capitalists," and "capitalists-turned-politicians." In other words, it is a far cry from the Japanese or the Korean style of growth, which, because it places industrial policy at its core, is not, Yoshihara claims, a genuine form of capitalism.[12] We might call this the Japan-centric solipsism (as opposed to the Occidentalist solipsism of Weber and Sombart), but Yoshihara nonetheless plumbs key differences between Northeast Asia and Southeast Asia.

How does knowing the differences between the political economies of North and Southeast Asia help us understand the evolution and constraints of business enterprises in their respective areas? Comparative studies of economic development in multiethnic and homogenous societies are rare,[13] although Joseph Schumpeter did allude to the critical importance of the ethnic factor in class and business enterprise formation, in a seminal essay entitled "Social Classes in an Ethnically Homogeneous Environment."[14] Despite the dearth of research on the subject, the ethnic dimension has significant implications for economic development and business enterprises.

In Southeast Asia, many governments have attempted to curtail the role of the Chinese through restrictive licenses, protective tariffs, ownership limitations, preferential credit allocations, and outright bans on Chinese activity in particular sectors.[15] The flip side of this coin has been massive government help to non-Chinese enterprises, including placing entire sectors under state enterprises, giving indigenous businessmen comparatively easy access to licenses, contracts, subsidized credits, and joint ventures with foreign companies.[16] The Chinese response has run the whole creative gamut, making adaptability the highest premium in doing business. This has meant cultivating political patrons and sponsors, providing bribes and payoffs to local and government officials to circumvent restrictions and secure protection, and creating so-called Ali-Baba ventures with indigenous "sleeping partners" in whose names the enterprises are registered.[17] The alliance with indigenous patrons does not seem to alter the essential character of the Chinese firm, however; this family-oriented closed corporation, based on an individual tycoon and his family, is often thought to limit the Chinese capacity for capital mobilization and organizational expansion but, instead, seems to reinforce it. In Malaysia, for instance, Malay interests participate actively in Chinese companies, but the Chinese entrepreneurs retain centralized control of the businesses by owning large blocks of shares. Lim Mah Hui's study of 100 of the largest corporations in Malaysia reveals that the Chinese directors outnumber the Malays by two to one, and they tend to possess substantial ownership interests in the companies they sit on, whereas this was less so for Malay directors.[18] Hence, Robert Kuok can be closely associated with a vast panoply of Malay partners, including representatives from the aristocracy, the military, and the bureaucracy (but not prominent businessmen), while retaining his legendary tight control of his vast family empire.[19]

The most careful articulation to date of an "ethnic framework" of economic development is the work by James Judason, also for Malaysia. In the context of a historic pluralism deriving from ethnically based political mobilization, the goal of the national leadership is to shape development to enhance the dominant ethnic party's political base and to meet the cultural aspirations of "backward" groups. By retaining a great deal of discretionary control over the private sector and business firms, the state can facilitate expansion of its enterprises and enforce "affirmative action" in favor of the economically "backward" Malay majority.

What is the result of this "ethnic logic of accumulation" (as versus the "national logic of accumulation" that one might find in Northeast Asia)? According to Judason, it privileges the state enterprise, the surplus from which can be redistributed along ethnic lines, and also the foreign multinational corporation, which provides the state with a source of entrepreneurship that is an alternative to the Chinese (as well as providing employment in labor-intensive, export industries). To the extent that there is a business alliance, it does not unite the state and domestic enterprises and pit them against multinationals (as might be the case in more nationalist states); instead, it binds together the state and multinationals, often against the Chinese domestic enterprise. This has been called an "ethnic by-pass," meaning that Malays collaborate with foreign partners to avoid dependence on the Chinese (for example, in their national car project). There are exceptions, of course; some politically influential Chinese have managed to do well in import-substitution industries such as cement, flour, sugar, and automobile assembly.[20] But the state certainly has not favored the Chinese entrepreneurs (who own most of the Malaysian manufacturing enterprises), and, in fact, it often harasses them for violating laws on intellectual property rights, land use, labor, and environment. The upshot is that the Chinese manufacturing entrepreneurs prefer to remain small and family-owned, engaged in a kind of "guerilla capitalism" that limits growth, economies of scale in production, technological innovation, marketing, and international competitiveness; the consequences for regulating wages, industrial safety, occupational health, and environmental protection are disastrous. K. S. Jomo, the Malay economist, concludes that "while [the Chinese] may represent Malaysia's best chance for domestic-led industrialization, it is doubtful that they will be granted the opportunity necessary for expansion."[21] Another consequence of the harassing presence of the state, exemplified by the "New Economic Policy," has been to make the Chinese gravitate toward finance and real estate, investments that offer rapid, attractive returns and quick exit. The consequences of all this, Judason argues, are structural inefficiencies in the economy and growth rates that depend upon both commodity prices and on political priorities that emphasize employment and stable wages for purposes of the political incorporation of Malays.[22]

The historical, cultural, and institutional constraints (and opportunities) that Chinese businesses face in Southeast Asia help to explain the persistence of the family firm. But several sociologists and anthropologists who have long studied business enterprises in East Asia differ with this assessment. They have long argued that Chinese business practices are the same everywhere, whether the Chinese are in the minority or the majority. Gary Hamilton and Tony Waters write:

> A sociology of minority capitalism cannot explain Chinese economic success when their entrepreneurial strategies in locations such as Hong Kong and Taiwan are similar, if not identical, to those they use in Southeast Asia and other locations where they are in the minority. And if accounts are given of the entrepreneurial efforts of the Chinese in the People's Republic of China are correct, it appears that the organizational strategies of Chinese entrepreneurs in China are the same as those elsewhere.[23]

In other words, capitalism is a matter of a particular cultural mentality —and we are back to a relatively straightforward reading of Weber on capitalism. (A leading expert on Chinese business enterprises, S. Gordon Redding, has titled his book, *The Spirit of Chinese Capitalism*, a parody of Weber's *The Protestant Ethic and the Spirit of Capitalism*.[24]) I maintain, however, that Chinese organizational strategy is best understood as the shadow that is attached not to some ubiquitous Chinese culture but to a minatory world where trust is low, contracts are not strictly enforced, laws may be unfair, and the politics of the ruling parties can lead to riches or ruin. Regardless of which position one takes, however, it must be acknowledged that Chinese corporate governance springs from a milieu entirely different from that of American firms. The same is true of a different form of corporate governance, the Northeast Asian variety.

III. Corporate Governance in Korea

Korea is perhaps the most pristine case of nationalist mobilization for economic development, and it may be taken as the postwar exemplar of the Northeast Asian model — the original incubator of twentieth-century nationalist industrial strategies. Northeast Asia contains three capitalist countries that formed the core of the prewar Japanese empire and whose economic structures were tightly interwoven and articulated: Japan, Korea, and Taiwan. Notwithstanding the great human suffering that Japan inflicted on its former colonies, the postwar developmental trajectories of Korea and Taiwan were heavily influenced by the models and policies that Japan demonstrated for them and imposed upon them before World War II; it illustrated these again — by example this time — in the 1950s and 1960s, during Japan's heyday of rapid export-led growth. Since nothing succeeds like success, Korea and Taiwan embarked on a similar trajectory of light-industrial exporting under multiyear plans, guided by strong state ministries (less strong in Taiwan than in Korea) and taking from Japan its lessons, experiences, advanced technologies, and capital. This gave all three economies a highly neomercantilist, nationalist tendency. In Japan and Korea, it meant strong state involvement with, and promotion of, big economic conglomerates (the *keiretsu* and the *chaebol*), rather than engaging in "ethnic by-passing" as in Malaysia. (Malays worried about the Chinese; but because Koreans worried about escaping dependency, they permitted much less foreign direct investment.)

The Republic of Korea has been a security state in the global system ever since its division in 1945, and has used these security concerns to justify the logic of industrialization since the end of the Korean War in 1953. Its critical position during the Cold War enabled it to attract huge amounts of external savings — foreign aid in the 1950s and 1960s and foreign loans in the late 1970s and the 1980s. But Korea was a state born without a capitalist class of its own (and was thus bereft of the mainstay of capitalist development), so the project of independent

Korea was created by a constellation of the entrepreneurial elements using a credit-based system of industrial finance.

In a nation with a dearth of accumulated capital, business had to rely on credits from banks that the state controlled and (until the 1980s) owned. Since the firms were highly leveraged, much more so than they were in Latin America or Southeast Asia, business had to maintain good relations with the state so as to avert the possibility of default (through severance of friendly credits). For its part, the state manipulated Korea's credit-based system of industrial financing so it could exert influence over the economy's investment pattern and guide sectoral mobility. The highly leveraged nature of business firms in Korea — the norm throughout Korean history — meant that even small changes in the discount rate or in concessional credit rates between sectors could dramatically affect resource allocation, because the effect of such instruments on the firms' cash flow position was so much greater given the high debt-equity ratios. For that reason, Korean firms closely conformed to the macroeconomic policy goals of the state.[25]

We now have the skeletal outline of the different relationship of government to business in Northeast and Southeast Asia. In one fundamental way, however, there is something that these interventionist states have had in common, bringing us back to the earlier, Weberian, question of the absence of legal forms and social foundations for modern, legal-rational capitalist enterprise. In homogeneous Korea, as in multiethnic Southeast Asia, the state is the guarantor of property rights (albeit for different reasons); in that context, it is not surprising that the modal enterprise would also be the family firm. In other words, in Northeast Asia, too, we find a charismatic political order based on vast discretionary political power, rather than on the rule of law or norms that are legitimated over time. Both the small Chinese firm in Indonesia, which is escaping from the burdensome legal realm to the extralegal "gray economy," and the Korean manufacturing behemoth, which believes it still needs to get even bigger, are forestalling the threat of outright confiscation.

A couple of vignettes of the politics of confiscation will illustrate how the politicization of property rights in Korea is an artifact of decades of military authoritarianism. One of the first acts of the military regime after the coup in 1961 was an anticorruption campaign that rounded up the richest men in Korea and stamped them as profiteers with "illicit fortunes," although their real crime was to engage in the political economy of the earlier Syngman Rhee regime. In the end, the situation was resolved when the businessmen were allowed to use the huge fines levied on them to establish industrial firms, donating shares in the firms back to the government. Banks, however, were confiscated, swiftly nationalized, and lined up under the direction of the ministry of finance. From this point on, big corporations could anticipate that political-regime changes would be accompanied by various kinds of shakedowns, ranging from the payment of huge bribes to so-called industrial rationalization (involving forced mergers and the like) to the outright confiscation of property.[26]

In the 1980 "industrial reorganization" that followed upon Chon Doo Hwan's coup, for instance, the three biggest *chaebol* groups were ordered to give up firms specializing in the production of power-generating and heavy-construction equipment, which were merged into Korean Heavy Industries and Construction. Saehan Autos was forced to merge with Hyundai so there would be only two makers of passenger cars; Kia and Tong-a were merged into a monopoly on trucks and buses; the heavy electric subsidiaries of Sangyong and Kolon were merged with another firm; and so on.[27] Property rights were completely insecure unless the state (often meaning the ruling dictator) approved of the firm and what it was doing, something that was mightily expedited by large political contributions. Business leaders could lose not only their firms but their own fortunes at the whim of the state.

A typical example was the dismantling of Kukje, Korea's sixth largest conglomerate, in 1985. By that time, Kukje was involved in everything from manufacturing jogging shoes to construction, securities, steel-making, paper-making, shipping, resorts, tires, farm tools, running an aluminum smelting plant, and so on. But it was also massively indebted and split by a long-standing family feud. In February 1985, the government decided to pull the plug on the firm and its preferential funding, and proceeded to dismantle it and turn its assets over to others. This involved no "due process, no bidding for assets, only a multimillion-dollar takeover operation shrouded in secrecy." The reason for this confiscation, the owner of Kukje claimed in 1988, was the paltriness of his contribution to the ruling group.[28]

This is by no means an atypical story of "corporate governance" in Korea, nor was the assault of the authoritarian regime on property rights limited to big business. The state routinely ignored the property rights of its average citizens in order to bail out big firms and foreign lenders. During an acute financial crisis in the early 1970s, the government imposed a sudden moratorium on all payments of corporate debts owed to the private, *domestic* financial market, otherwise known as the "curb market," with market-determined—that is to say, high—interest rates. The crushing burden of interest payments on foreign loans was thus shifted overnight to small investors, who had followed their entrepreneurial instincts and put their savings in a curb market yielding much higher interest returns on financial assets than the banks.[29] In short, the problem of corporate governance cannot be resolved without addressing the problem of the continuing discretionary power of the politicians' and the bureaucrats' residual industrial policy, as well as a host of other problems that come under the rubric of the rule of law.

The history of the Korean *chaebol* is not old, but the roots of this form of corporate organization can be traced to Japan. Most of the big Korean firms date from the post-Korean War period, especially the mid-1960s, when the export-led "take-off" began. They were bolstered by economic liberalization that promoted export-led growth; financial reforms that freed, at least temporarily, financial prices from government control; massive foreign aid that continued to pour in as the result of Korea's strategic position and its substantial participation in the Vietnam War; the normalization of relations with Japan, which meant additional wherewithal for industrial financing; and the availing presence of the vast export market in the United States. In this environment of such economic munificence, the government in Korea helped create a whole constellation of can-do entrepreneurs, who became the mainstay of Korea's industrialization.

The question of the deeper origins of the Korean *chaebol* is important because the answer explains how things got to be the way they are, and may suggest possible trajectories for reform. The template for the *chaebol* was the wartime Japanese *zaibatsu*. Korea's military leaders who served in the Pacific War (like Park Chung Hee) were familiar with the model, and the extensive wartime coordination between the Japanese state and big business, with highly centralized finance as the linchpin, appealed to them. State control over finance not only made the implementation of industrial policy possible, but it also bolstered the power base of the state by creating a whole entrepreneurial class as beneficiaries of the political leadership. This was no small consideration for a postcolonial state with a military regime at the helm that was perennially struggling for legitimacy. So the idea was there to graft the *zaibatsu* into Korea; the only question was how to create the Korean *zaibatsu* in the first place, out of the ravages of colonialism and war. The answer was industrial policy that created hugely leveraged firms as the carriers of Korean capitalism (with financial repression as the core mechanism for shifting resources from savers to producers). This is not to imply that Korea's *chaebol* have functioned politically like the old *zaibatsu*, supporting aggression and huge armaments expenditures. But an examination of the similar corporate structure in Korea helps clarify the relationship between authoritarianism and its legacy on the one hand, and the type of big business on the other. It also underlines the extent and enormous complexity of contemporary reform efforts.

In the work of many Japanese historians, the term *zaibatsu* refers to family-dominated combines that developed following World War I, using holding organizations to maintain control over their industries and expanding rapidly in the heavy industrialization drives and wartime conditions of the 1930s and 1940s.[30] Keiichiro Nakagawa, a business historian at the University of Tokyo, provides a historicist definition of the *zaibatsu* as "a major economic entity established in a developing country, whose fundamental social structure is based on [an] instinctive gregarious group expressed as [a] family, to pursue an industrialization process in [the] face of international competition against industrialized countries."[31] In other words, an extraordinary family-based combination of wealth and power at home is necessary to fight more weighty and competitive foreign corporations that arrived in the world economy earlier. From Professor Nakagawa's perspective, it is not so surprising that the Korean *chaebol* of today is an atavism of the prewar *zaibatsu*.

But let's look more closely at the Japanese *zaibatsu*, in terms of their goals, market positions, size, and organization. The late economist Eleanor Hadley, who was an American staffer and later the leading chronicler of the antitrust experiment in Japan during the Occupation, said the *zaibatsu* were a "political expression referring to the estate of wealth, and by extension, to the source of this wealth, the combines." According to Hadley, the goal of the *zaibatsu* was not high-market occupancy of one, two, or a few more related markets, but an oligopolistic position running the gamut of the modern sector of the economy. The largest firm, Mitsui, conducted far-flung operations in coal and metals mining, shipbuilding, ordnance, aircraft, heavy and light electrical equipment, and various other fields of manufacturing, not to mention commercial banking, insurance, and trading. A series of oligopolistic positions, often accounting for 10 to 20 percent of market output, was the fundament of this *zaibatsu*, which at the end of the war employed an estimated 1.8 million people in Japan alone, and two to three million in the whole of the Far East.[32]

In 1946, the Big Four *zaibatsu* — consisting of Mitsui, Mitsubishi, Sumitomo, and Yasuda—controlled 24.5 percent of the paid-up capital of all incorporated businesses, and the next six added 10.7 percent, for a total of 35.2 percent. The same Big Four also accounted for 49.7 percent of finance, 32.4 percent of heavy industry, 10.7 percent of light industry, and 12.9 percent for "other" fields. The Big Four also accounted for 80.1 percent of foreign investment at the war's end. Additionally, the *zaibatsu* were divided into numerous subsidiaries. Of the ten firms designated by the U.S. Occupation for "dissolution," Mitsui had 294 subsidiaries; Mitsubishi, 241; Sumitomo, 166; and Yasuda, 60. The remaining six also had numerous subsidiaries: Nissan, 179; Asano, 59; Furukawa, 53; Okura, 58; Nakajima, 68; Nomura, 19.[33]

Because these firms emphasized corporate unity through family ties and coordination of the subsidiaries by the holding company and companies, they achieved tight control over the astonishing market breadth of the combines. Even when the companies were "opened," two features made the family control of the *zaibatsu* possible. One was that stock did not have to be equally paid up, meaning that the families and the holding companies could increase the "stretch" of their capital. The other was the implicit understanding that the will of the family and the holding company would prevail, regardless of their actual ownership position. Indeed, Hadley points to numerous instances in core companies at the end of the war when *zaibatsu* ownership (defined as the sum of top-holding company ownership, family holdings, and cross-subsidiary ties) fell short of majority control.[34] One might think of it as a remarkable instance of the personalistic — even feudal—basis of mutual trust to corporate power. The prewar *zaibatsu* was an organization that represented a means of extending control far beyond the controller's corporate (or partnership) limits, thus denying independence of action to businesses within the network. The techniques to bring this about included ownership, personnel, credit, and centralized buying and selling — again with the goal of unity of purpose and action.[35] This system of enterprise worked more for market share than solely for the company's profit; companies often operated at a loss (and, of course, during the war they produced everything under government dictate).

Of particular interest in the current context of *chaebol* reform is that the seven-year American occupation of defeated Japan, with the war hero of the Pacific campaigns, General Douglas MacArthur, at the helm and the full panoply of extraordinary powers vested in him and his SCAP staff, could not decisively break the power of the *zaibatsu*. They hunkered down and waited when they could, restructured when they had to, and transmogrified into the post-Occupation *keiretsu*, a definite improvement but by no means the thorough break-up and reform that MacArthur had planned. One great difficulty of the *zaibatsu* reform effort was to pinpoint the line where the state left off and private business began. The victorious Americans, used to drawing lines in the sand of Pacific islands, could not figure out where to draw the line in Japan proper.

American staff in SCAP, many of whom were New Dealers, perceived the *zaibatsu* essentially as products of "tricks" played with holding companies: once the secrets, like the name of Rumpelstiltskin, were revealed, the whole system would come apart at the seams. Thus, the holding companies were abolished, but the system of political economy in Japan — the triumvirate of politicians (now replacing the military), bureaucrats, and business (now called the *keiretsu*) — remained intact, favoring the producers at the expense of consumers. This experience is a strong cautionary note to those who think the reform of corporate governance in contemporary Korea will move smoothly or quickly. Since the big Korean firms formed under strong state prodding in the 1960s, it has been difficult there, as well, to delineate a meaningful line between the public and the private. In many ways, the *chaebol* have been quasi-state organizations (President Kim Dae Jung has called them "quasi-government enterprises"), and in others, they have been immense private domains, "company towns" writ large that employ, house, feed, clothe, educate, and provide credit to millions of ordinary Koreans. The *chaebol* groups are the private agency of public purpose, having been created through easy credit in the context of "financial repression" as well as labor repression — in other words, over the dead bodies of both savers and workers. The question of the *chaebol* is at the core of a whole complex of issues, involving banking, medium- and small-sized firms, land, labor, income distribution, law, and politics. It cannot be excised from the economic system of Korea and "reformed."

Let us return to Eleanor Hadley's phrase—"the estate of wealth." The *chaebol*s resemble the estates maintained for decades by the DuPont Corporation in the small state of Delaware in that they meet all of their employees' needs. For example, the typical Hyundai worker drives a Hyundai car, lives in a Hyundai apartment, gets his mortgage from Hyundai credit, gets health care from a Hyundai hospital, sends his kids to school on Hyundai loans or scholarships, and eats his meals at Hyundai cafeterias. If his son graduates out of the blue-collar work force and into the ranks of well-educated technocratic professionals (which is every Korean parent's goal), he may well work for Hyundai research and development. The extreme form of this arrangement is seen in the masses of construction teams that Hyundai sends to the Middle East; every worker departs wearing Hyundai T-shirts and caps and carrying Hyundai bags, lives and eats in Hyundai dormitories, and uses Hyundai tools and equipment to build Hyundai cities in the desert. In the same way that Kim Il Sung built a Confucian-influenced hereditary family-state in North Korea and called it communism, the Korean *chaebol* have built large family-run hereditary corporate estates in Korea and called it capitalism.

Many also argue that corporate governance (or leadership style) is militaristic in Korea as compared to postwar Japan—that is, that it is more directive and authoritarian.[36] But that merely suggests another strong comparison with *prewar* Japan. Those *zaibatsu* emphasized corporate unity through family ties and the coordination of subsidiaries, with control mechanisms that included ownership, personnel, credit, and centralized buying and selling; there was, however, a separation between ownership and management. The families with controlling interests in Mitsui and Sumitomo never actively participated in management, contrasting sharply with, say, Hyundai, where the founder, Chung Ju-yong, put his sons and grandsons in charge of core Hyundai industries and subsidiaries. It might be argued, then, that the *chaebol* are even more autocratic than the prewar *zaibatsu*, because the former are often the direct instruments of founding patriarchs and their male descendants.

Here is the rub. To break up the *chaebol* is to break up Korea, Inc. The depth of the problem can perhaps be appreciated by remembering the results of anti-trust legislation in the American experience. The dissolution of Standard Oil benefited from the existence of forty-eight states that were often under separate or different regulatory regimes; the results were Standard Oil of Indiana, of California, of New York, and so on. Because Korea is highly centralized, with no such federal structure, it has been difficult to devise efficacious policies with regard to the *chaebol*, despite the antipathy and resentment they engender. In fact, some argue that the successive governments in Korea have been at a loss to define the nature of the problems in the first place, let alone handle them. This is startling, given the centrality of the *chaebol* in the Korean debate on economic growth, social justice, and political power. One economist argues that, for all the crimes said to be committed by the *chaebol*, there is still no clear articulation, for the purpose of effective policy, of why they are so nefarious, either from an economic or a social-justice perspective. We need to know whether the *chaebol* problem is based on market concentration, ownership concentration, their lack of diversification, their putative lack of international competitiveness, their insistence on family ownership and control, or even their criminality in evading laws (inheritance and gift taxes, for instance).[37]

IV. Concentration and Diversification in the Korean *Chaebol*

In terms of economic concentration, the *chaebol* are strong counterparts to the prewar *zaibatsu*. Even the main organizational difference between the two—the existence of the holding company in the former but not in the latter—may well disappear in the near future.[38] Almost all the *chaebol* groups began when Korea was in a phase of export-led, light-industrial production. Lucky made toothpaste, Goldstar made radios, Samsung made clothes, and Hyundai began, with U.S. military contracts during the Korean War, to transport goods and people around in war-surplus or cobbled together trucks and buses. Daewoo was founded just thirty years ago, in 1967. They acquired their typical large and diversified structure even more recently, during the third Five Year Plan in the early 1970s; thus they began to develop heavy industries, including steel, chemicals, machine tools, automobiles, shipbuilding, and power-generation. By the 1980s, electronics had also become a huge part of the *chaebol* repertoire. The expansion of these firms was stupendous: between 1970 and 1975, the three fastest-growing *chaebol* (Hyundai, Daewoo, Sangyong) grew at annual rates of 33, 35, and 34 percent, respectively. This breakneck rate of growth, combined with reliance on politically mediated debt, encouraged high risk taking and competitive overinvestment in various industries—such as integrated petrochemicals, which more than doubled the output of ethylene at a time when world prices were declining and surplus capacity was widely anticipated. The same was often true of sectors like semiconductors, ships, steel, and cars. No wonder excess capacity bulked large as an explanation of Korea's serious economic downturn in 1979, leading to a loss of 6 percent of GNP in 1980. Profitability was also low in key manufacturing sectors: net profit fell to 1.8 percent in 1971, and it reached about 3 percent over the next decade.[39]

Still, there were great advantages to the state-directed "big push" of the 1970s. The experience in managing complex technologies in heavy and capital-intensive industries, requiring effective coordination and integration of separate independent components, became the basis for developing managerial skills, which could be transferred to other kinds of manufacturing. The largest, Hyundai, has carried on globe-ranging operations in automobiles, shipbuilding, construction, electronics, aircraft, machine-building, and many others. Such diversified managerial skills and market structure meant that Koreans were more likely than the Japanese to recruit senior managers from outside who possess a greater variety of managerial backgrounds and experiences than those in most large Japanese firms. Korean firms are more diversified than their postwar Japanese counterparts and incorporate more economic activities within their authority structure and, correspondingly, engage in less subcontracting.[40]

The Korean *chaebol* occupies an oligopolistic position that runs the gamut of the modern sector of the economy. For each of the seventy-eight manufacturing industries in which *chaebol* are present, there were, in 1989, an average of three groups and 3.8 group member firms operating.[41] There are many indicators of the size and the extensive market position of the big conglomerates. One indicator is to compute the value-added of the *chaebol* as a percentage of total industry, which in 1989 stood at 9.2 percent for the top five *chaebol* and 16.3 percent for the top thirty. Alternatively, one could look at sales figures as a percentage of manufacturing industries; in 1990, the top thirty *chaebol* accounted for 35 percent total sales. The same top thirty also employed some 16 percent of labor working in manufacturing. But since these numbers are liable to change as corporate governance of these firms changes and some firms become independent of the group, it is advisable to look at data for individual firms. Sales figures for the top 100 firms in 1981 accounted for 46.2 percent of manufacturing, dropping to 38.5 percent in 1987 and further to 37.7 percent in 1990; this trend is visible also for value-added: 40.6 percent of manufacturing in 1981, down to 36.5 percent in 1987, to make a small drop in 1990 at 35.1 percent. Just as the indicators for *chaebol* economic concentration can vary depending on corporate definitional boundaries, the indicators using individual firms can change drastically as a result of mergers and acquisitions.[42]

While the preceding figures indicate a formidable level of economic concentration, there is also a growing trend in the global economy of firms scrambling to survive in worldwide competition by getting bigger and more competitive. The jury is out on just how economically concentrated Korea's *chaebol* are, given the uncertainties today about the change in the corporate governance of the *chaebol* and about how to interpret economic concentration in light of the accelerating global trend toward industry mergers.

The thornier issue is probably that of diversification. Unlike the level of economic concentration, Korea's level of diversification remains high compared with advanced Western countries. In 1994, the number of affiliated firms for the top five *chaebol* averaged about forty, to a total of 210 firms, and the top thirty *chaebol* had some 616 affiliated firms.[43] This extraordinary diversification was achieved primarily by establishing new subsidiaries: the mammoth and remarkably diversified structure of the *chaebol* combined with an open call on state-mediated loans were essential to Korea's success in gaining market share around the world, because losses in one subsidiary could be made up by gains in another. This extensive diversification has been the main staple of public criticism of the *chaebol*, but perhaps that criticism should be weighed against at least three considerations.

The first is obvious: while the *chaebol* have been criticized for failing to nurture "core competence" — thereby exploiting more fully the gains from economies of scale — diversification into many different sectors can be justified through the gains from the economy of *scope* (as versus scale) and dynamic back-and-forth synergy among firms; furthermore, portfolio diversification reduces risk. The second and often forgotten point is that diversification went hand in hand with specialization. Out of the fifty affiliated firms for Samsung, Hyundai's forty-nine affiliated firms, LG's fifty-three, Daewoo's twenty-five, and Sunkyung's thirty-three, only a select few firms in a few sectors were responsible for the bulk of total sales figures. In the case of Samsung, only three firms were responsible for 67 percent of its sales, and even with Hyundai, which is evenly spread out in many different manufacturing sectors, five affiliated firms accounted for 70 percent of total sales; as for Daewoo, four firms accounted for 85 percent of total sales.[44] If the common complaint about *chaebol* diversification can be summed up in the remark that "even in the Olympics there aren't gold medalists who can win in both swimming and basketball,"[45] one might counter that the *chaebol* were not aspiring to win in all categories, but the incentive system pushed them in that direction. The third and last point about the merits and demerits of diversification again involves corporate governance: anytime the structure of a given *chaebol* changes as firms detach from the group, the firm is instantly "specialized." Over the years, the government has tried—and failed—to use its elaborate system of credit control to curtail the *chaebol* tendency toward diversification and to coax the groups to "specialize" in a few sectors.

The point about diversification, then, is not that it is *ipso facto* problematic, but that it results from an economic system geared toward protecting domestic producers at the expense of consumers. The *chaebol* firm does not strive to become competitive in all the sectors it enters because there is little incentive to do so, given that the government protects domestic producers through residual industrial policy, especially by limiting foreign competition. It also limits domestic competition, through the system of "controlled competition." The important conclusion for any reform process, then, is not to pile on more discretionary measures to force "specialization," which the state has tried all too often (and is trying again today under Kim Dae Jung), but to liberalize the market so that open competition can take place. This liberalization would enable the *chaebol* firms to decide for themselves whether it makes economic sense to diversify or not.

V. Family Governance, Trust, and Rule by Regulation

Family control of corporate wealth and family-dictated "corporate governance" are other practices that, over the years, the government and various critics have sought to curb. How serious is the problem of family ownership of the *chaebol*? For the top thirty *chaebol*, family ownership (defined as the share held by the family members as well as by affiliated firms) totaled 43.3 percent in 1995. The figure for the top five in 1994 was 47.5 percent, combining the family share of 12.5 percent and the 35.0 percent share for the affiliated firms. These figures, while high by comparative standards, have tended to decline over the years. In 1987, family ownership in the top thirty firms averaged 56.2 percent, while that for the top five averaged 60.3 percent. There has been a steady decrease in relative shares owned by the family and affiliated firms. But individual families still exercise too much control over corporate governance of the *chaebol*, and public stockholding remains weak, despite the quarter-century effort on the part of the Korean government to dilute family ownership of big firms, develop the equity market, and force firms to go public. For the top thirty *chaebol*, which together claimed possession of some 623 firms in 1995, the number of publicly listed firms was 172, or only 27.6 percent. This figure shows a marginal decline from 1991, when the number of listed firms was 161 out of 561 firms, or 28.7 percent.[46]

The salience of the family in Korean business has led some observers to conclude that Korean firms are really more "Chinese" than anything else, and that whether in Korea or China, family governance reflects an immature development of civil society and the rule of law. Francis Fukuyama argued in his influential book, *Trust*, that "the truth of the matter is that Korean businesses, despite their large scale, do look and behave more like Chinese businesses than like Japanese corporations." (He even titles one chapter "Korea: The Chinese Company Within.") The question of whether or not the Korean firm is more Chinese or more Japanese would not be particularly interesting (especially since the answer is neither—it is Korean), except that Fukuyama bases his argument about corporate governance on an American premise that now presents itself as the global zeitgeist. There is, according to Fukuyama, a "convergence of institutions around the model of democratic capitalism" at the "end of history," with "virtually all serious observers" agreeing that liberal political and *economic* institutions depend on a healthy and dynamic "civil society" for their vitality. In this way, Fukuyama adds an economic dimension to the argument made famous by Robert Putnam in his *Making Democracy Work*—that true democracy cannot be achieved without the presence of a thick web of civic institutions.[47] The absence of such a healthy "civil society," defined as a complex web of voluntary associations and intermediate institutions, is thought to characterize low-trust societies with Confucian and Catholic cultures where family-based firms predominate. Instead of civil society, these cultures exhibit what Edward Banfield once described as "amoral familism," meaning that people will maximize the material, short-run advantages of the nuclear family, rather than pursue individual or societal goals. The economic effects of amoral familism, Banfield famously argued, create a "very important limiting factor in the way of economic development in most of the world. Except as people can create and maintain corporate organization, they cannot have a modern economy."[48]

Amoral familism (or the absent Anglo-Saxon civil society) is synonymous with a pre-modern economy and the predominance of family firms. But there are many problems with this argument. To the extent that one accepts this characterization of places as diverse as Korea, China, and southern Italy (Banfield's locus of specialization), one can give up any hope of corporate reform because family governance bears an indelible and ineradicable historical and cultural stamp. But the argument is wrong; it does not explain family governance of Korean corporations.

We have seen how the emergence and persistence of family-controlled firms are related to the prevalence of discretionary rule (rather than the rule of law) in Korea, growing out of institutional structures of "late" industrialization and the specific ethnic milieus that Chinese businessmen must adapt to in Southeast Asia. That is different, however, from claiming that democracy and market capitalism are not possible in the absence of Anglo-Saxon civil society and the rule of law and resulting high levels of trust that such societies reflect and subsequently foster. The prevalence of family firms does reflect an absence of universalistic trust and the rule of law in Korea (not to mention a country like Indonesia), but such practices are rooted in decades of authoritarianism and the myriad discretionary rules that it has fostered to support and regulate big business, and not in some indelible (and, therefore, inescapable) cultural trait.

An interventionist state like that in Korea creates a permanent bind for itself with regard to big business, which in turn deeply prejudices the emergence of the rule of law. On the one hand, Korea is a paradise for big business, because state industrial policy favors domestic producers over consumers and foreign producers in every manner imaginable. As domestic producers become more economically and politically powerful, however, the state attempts to rein in and tame the *chaebol* through regulatory tactics, creating seemingly endless discretionary rules. These rules have been fickle, irrational, short-lived, and, quite predictably, ineffective in achieving their goals. Instead, they create the sense that the rules of the game in Korea are constantly negotiable.

The government's dilemma, or "bind," results from Korea's credit-based system for raising capital. In the 1960s, the *chaebol* relied on massive foreign aid from the United States and Japan, funds from which were vetted through the state-mediated banks. In the 1970s, big business relied heavily on cheap capital, so-called policy loans given at negative real rates (about a 6 percent loan rate in the context of 12 percent inflation, for instance) to those firms willing to conform to the dictates of government industrial strategy. Thus, the state created a structural incentive for the firms to rely on bank financing and retain entrepreneurial autonomy by staying closed to the public and inaccessible to external audits, especially since access to the bank-loan window required high levels of political contributions — something that cannot be entered in the books. In the mid-1990s, prosecutors determined that, during the 1980s, Chun Doo Hwan and Roh Tae Woo had amassed more than $1.5 billion in corporate political donations.

Yet the state has also been a relentless nag, trying to force firms to go public — and failing every time because of the state-created incentive structure. In the aftermath of the financial crisis in 1972 and the bailout of big business through a sudden moratorium on corporate repayment of loans to the curb market, the government selected what it considered "blue chip" firms (based on profitability, equity, and asset position) and forced them to go public by threatening to slap the recalcitrants with a 40 percent corporate tax (instead of the usual 27 percent). Overnight, new public stock offerings, valued at $48 million, inundated the Seoul Stock Exchange, and the number of companies listed jumped 50 percent. The stock market received a further boost in 1974, when a special presidential decree tightened the audit and supervision of bank credit for all nonlisted (but listable, according to government standards) firms. Many more measures like these followed in the 1970s. The government also sought to control the securities market by setting low prices on new issues and determining dividends and corporate reinvestment decisions.

The *chaebol* found themselves between the proverbial rock and a hard place, between the state's punitive measures, on the one hand, and the forbidding costs of going public, on the other. They lost cheap bank credits and autonomy in business decision-making and contended with the high costs of raising undervalued equity capital, all amid continuing government intervention in corporate management. The corporate response was utterly rational. Some firms decided it was better to resist the government order, pay the tax, and by-pass the palliatives that the government offered to listed firms. Others obeyed the government but without really complying: the owners themselves absorbed much of the newly issued stocks.[49] Thus, the equity market in Korea has remained relatively small.

The government made matters worse by trying to regulate *chaebol*, corporate governance and access to and monopolization of bank credit, through what surely must be one of the most arcane and intractable set of "credit controls" (*yoshin kwalli*) the world has ever known. In a system where state-mediated bank credit was extended not on the basis of economic viability but on the exigencies of industrial policy, the only way to prevent default was incessant supervision and control, ranging from ubiquitous surveillance over the use of credit (to prevent speculation, for instance) to supervising the reform of corporate financing structures to creating a web of credit ceilings. In trying to prevent the concentration of credit in the hands of a few *chaebol*, the government came up with complex rules limiting credits to the same borrower, limiting credit per individual bank for large borrowers, and establishing credit ceilings for *chaebol*-affiliated firms. To prevent default, the government developed a series of guidelines for "early warning," procedures for "modernizing" credit evaluation, and intricate rules for default management. A special set of decrees applying only to the *chaebol* sought to improve corporate financing structures, and yet more rules sought to regulate the ratio between equity and debt in various industrial sectors. To prevent the ever-growing concentration of the *chaebol* and suppress their penchant for speculative real-estate acquisition, the state issued complicated requirements for permission to purchase land, gave various fiscal incentives for going public, and developed financial breaks for *chaebol* firms that "specialize" rather than continue growing into diversified fields.[50]

The price of the government's attempt to supplant the financial market was a regulatory albatross that, in the end, did not achieve its purpose—judging by the persistent reliance of Korean firms on bank credit and the continuing family control of business. One has to wonder what the state of affairs would have been had the government not intervened. Throughout the 1990s, when credit control got increasingly complicated, the borrowings by the top thirty *chaebol* as a percentage of total bank loans dropped from 19.0 percent in 1990 to 14.5 percent in 1995. Some economists have blamed government regulation for this drop.[51] The logic of Korea, Inc., put the state in the position of having to proliferate regulations to stem the worst effects of its own developmental strategy; at best, its efforts could only yield marginal successes. No regulation or special decree ever changed the essential structure of Korean corporate governance, right up to the crisis of late 1997.

VI. Family Governance: Part of the Problem or Part of the Solution?

About 70 percent of Korea's *chaebol* groups remain in the hands of the founding family, and core responsibility for corporate governance remains situated at the top. Corporate decision-making still rests at the "commanding heights," to use a current term. To truly reform such a persistent and resilient form of corporate governance is a daunting task. Clearly, more state regulation is not the answer. The preceding section would suggest that breaking the nexus between the Korean state and the *chaebol* is a more likely avenue toward real reform. But what about the structure and governance of the firms themselves? Should they be broken up, given over to professional managers, encouraged to go public, or continue doing what they have done so well over the past three decades — keep investing, producing, and growing? All such measures presuppose an answer to this question: Is family control of big business necessarily inefficient? The answer is not as simple as one might think and depends on many things—above all, the entrepreneurial talent of the family members running the business.

Reflecting on the rise and fall of corporate families, Joseph Schumpeter remarked that capital accumulation does not happen automatically: "the captured value *does not invest itself* but must be *invested*." By this he meant that the study of capital accumulation should include behavior and motive — in other words, from the *social* "force" to the responsible individual or family. The crucial factor, he argued, is that "the social logic or objective situation does not unequivocally determine *how much* profit shall be invested, and *how* it shall be invested, *unless individual disposition is taken into account*."[52] Thus, a private corporation run by able owner-managers can be more effective than one run by professional managers; although there is no way to insure that such will always be the case. For every advantage to owner-management of the big firm, such as speed and flexibility in corporate response, there is a disadvantage, such as a dearth of professional management skill. Likewise the owner-manager, by assuming corporate responsibility, can either create stability for the firm or generate a sense of instability by being dictatorial and arbitrary in his decision-making. Owner-managers can be more dedicated to the long-term development of the firm, utilizing their own resources, but it is also easy to imagine a nefarious collusion between corporate and private accounting.

The Korean *chaebol* shows both the advantages and disadvantages of family control. In the early days of industrialization, the can-do spirit and dedication of founding entrepreneurs, who made strategic choices and resource-allocation decisions by themselves, helped expand business by leaps and bounds. Strong central—even personal—control gave the *chaebol* much more integrated command and direction than conglomerates controlled purely through financial means. But it is also true that there was too much personal charisma and too little routinization and institutionalization. In large Korean firms, assignments are often unclear and overlapping, and the application of control systems is rarely standardized. A fluidity of roles and responsibilities characterizes top management levels; job rotation is said to be more frequent than in Japan, with senior managers often transferred between firms in the same group. Market organization is assumed to be more self-sufficient than in the Japanese *keiretsu* system, with less need to organize market connections to reduce risk and, thus, less enterprise interdependence and cooperation than in Japan.[53] But the key question is still unanswered: Are the family-run *chaebol* firms profitable or not?

The conventional wisdom is that the *chaebol* are not profitable and, in fact, are not even interested in profit. Their activity, it is said, has rarely been driven by ordinary market concerns of price or supply and demand, and instead has long pursued market share, not just operating at a loss but courting a kind of habitual bankruptcy—should anyone call them to account on a given day. Perhaps the most telling statistic comes from the financial crisis in 1997, when it was determined that, on the eve of the debacle, the total annual profitability across the top fifty Korean firms was less than 1 percent.

A cross-national study of corporate profitability tells a different story. Ha-Joon Chang and others have examined "post-interest-payments" profitability and found that the rate of corporate profit in Korea is indeed low, as the above data suggest. From 1973 to 1996, the post-interest-payment profitability of Korean firms was about 2.8 percent, which is low but hardly surprising—given the 333.8 percent debt to equity ratio for the time period. The same rate for the United States was 7.9 percent (1995), 5.1 percent for Taiwan (1995), and 4.3 percent for Japan (1995). Korea's corporate profitability *before* interest payments over the same 1973–96 period, however, was 7.4 percent, which is close to that of the United States at 7.7 percent and better than Taiwan's at 7.3 percent. In other words, the Korean firm is loaded with debt, but not unprofitable—a paradox in a market system but not in a system where the state mediates capital to big firms, with both having a hell-bent-for-leather growth perspective. As Chang and others have argued, low post-interest-payment profitability did not harm investment momentum in Korea because government measures ensured that the income appropriated by the financial sector would be circuited back to the manufacturing corporate sector, thus promoting continued investment.[54]

If the Korean sector as a whole is not particularly inefficient in comparison to that in the United States or Taiwan, is the same true of Korea's large *chaebol* firms when compared to smaller domestic firms? A study of profitability and productivity comparing big business with medium- and small-size firms shows that *on average* there is no big difference between the two groups; the record for the *chaebol* firms tended to be erratic, however, with some affiliated firms showing very high profitability and productivity and others not. Big firms, however, tend to possess long-term advantages because of their relentless drive to expand market shares, whether at home or abroad. In that sense, the strength of the *chaebol* should be measured secularly, over long swatches of time, rather than parsed into annual measures of pure productivity. The Korean economist Yu Sungmin also argues that the *chaebol* have been able to overcome market imperfections through internal organization and reorganization. In a context where most markets (the labor market, financial market, technology market, the market for corporate managers) functioned improperly, the *chaebol* compensated by creating an internal world of their own, enacting a kind of do-it-yourself industrial reorganization.[55] In its purpose and design, this analysis suggests, the *chaebol* constitute the more perfect microcosm of an imperfect macrocosm, a prophylactic realm insulated from or seeking to offset the flaws of the Korean business world.

Except for Alice Amsden's examination of the Korean ability to absorb technology, or "learning-by-doing," this organizational aspect of the *chaebol* has not received much scrutiny,[56] But the fact that they kept increasing market share at home and abroad attests to their organizational ability. The effective presence of Korean firms in the fledgling markets of Eastern Europe, the Central Asian Republics, and other emerging areas is testimony to the advantage that accrues from having a vast, flexible, and well-coordinated internal organization. This success should be considered alongside the well-known inefficiencies of the so-called convoy system, whereby even the most inefficient unit of the *chaebol* group is kept afloat through intricate financing agreements. In short, it is important to remember both the good and the bad in the *chaebol*, because reform is only possible with the knowledge of what worked in the best of times, as well as what failures brought on the worst of times.

VII. Efforts at Corporate Reform in Korea

We have only briefly assessed the politics of the *chaebol*, but that was the overwhelming focus of Korean attention in the mid-1990s, as one *chaebol* leader after another was brought into the docket and shown to have lined the pockets of all the leading politicians as far back as the 1960s. Although the image of the flagship firms responsible for the Korean miracle was deeply tarnished, this hugely important phenomenon signaled the arrival, finally, of democratic politics in Korea. And it is only through democratic means that the deep nexus between the *chaebol* and the authoritarian state could be broken. The best news for those interested in *chaebol* reform is simply that real reform is now possible, given the election of two successive civilian presidents (Kim Young Sam in 1992 and Kim Dae Jung in 1997) and the impetus of a crisis in the economy unparalleled since the Korean War.

In the middle of an analogous crisis, U.S. President Franklin Roosevelt, in his message to Congress in 1938, called for an investigation of concentrated economic power: "The liberty of a democracy," he said, "is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself."[57] In Korea, the problem of private power is as President Roosevelt described it, but much more so. Politicians and political parties collected huge amounts of money from the *chaebol*, offering in return loan guarantees to sustain these highly leveraged firms. No firm could avoid paying out one day lest it be declared "bankrupt" the next. The recent investigations, ultimately leading to the incarceration of two previous presidents and several big business leaders, revealed to the Korean people the operational method of patronage. Korea, Inc. proved to be far more arbitrary than Japan, Inc.: especially in the 1980s, a racketeering state was the flip side of the much-touted developmental state, as the earlier, more systemic pattern of *chaebol* support for the ruling groups devolved into a kind of mad extortionism.

President Kim Dae Jung, long a dissident who was the object of *chaebol*-provisioned political funding (he nearly won his first presidential campaign in 1971 in spite of widespread irregularities and munificent support for Park Chung Hee—(whereupon there were no more elections until 1987) needs no tutoring in the politics or the economic liabilities of the state-*chaebol* relationship. He wrote in his 1985 book, "The Korean economy . . . has been plagued by inefficient allocation of valuable resources . . . [which is] the result of government interference in almost every aspect of market functions, including pricing, credit allocation, industrial location decisions, and labor-management relations. This interference has left the Korean economy in a state of serious imbalance. The imbalances . . . [include those] between large conglomerates and small or medium-sized firms."[58] The economic crisis gives him the leverage needed to pursue real reform of the Korean system, for the first time since it was established in the 1960s.

Since his election in December 1997, President Kim has reiterated his resolve to tackle "the *chaebol* problem" by instituting the rule of law and bringing transparency throughout the nexus of the state, the banks, and the *chaebol*. The establishment of effective rule of law requires, however, a particular kind of "mentality," to resort to Max Weber once again. The interventionist state in Korea has been profoundly results-oriented, privileging outcomes over established procedures and rules. This mentality is evident in the various liberalization policies that Korea has enacted over the years.

Import liberalization, for instance, has rarely meant competitive liberalization, but refers instead to ad hoc measures like the "import-diversification policy" designed to keep out Japanese products or to prevent monopolization in the domestic distribution of imports. Likewise, deregulation usually meant reducing the number of procedural and administrative regulations and not promoting more competition. Even the people in charge of competition policy were often confused by what *competition* really meant, and whether it was actually conducive to creating competitiveness. A series of interviews with officials at the Fair Trade Commission (which was created in 1980 as an antitrust watchdog) revealed that most did not actually *believe* that more competition would increase the competitiveness of Korean firms. Privatization reforms also moved slowly, both because of opposition from vested interests and for fear that the *chaebol* would simply absorb any newly privatized state firms. More generally, in the last two decades, state policy toward the *chaebol* has been profoundly complex and contradictory, relying on its discretionary power more to protect and discipline the *chaebol* than to expose them to a transparent legal regime and a real environment of competition.

In the past, the objective of financial regulatory policy centered on the reform of the always hugely leveraged corporate finance. In 1974, the government launched a series of elaborate ad hoc measures to curb *chaebol* reliance on the banking system and, in 1980, followed up with an effort to force big businesses to develop "core competence" and shed their large number of subsidiaries. The government closely monitored *chaebol* use of bank credit, expanded external audits, and by the middle of the 1980s, instituted a consistent policy package based on fair-trade laws. In 1992, the fair-trade law was again fortified, the use of intersubsidiary loan guarantees was restricted (if not abolished), and the loan ceiling for some *chaebol* core industries was relaxed in another effort to enforce "specialization." All these efforts came to naught: the *chaebol*s in 1997 remained as leveraged as they were in 1969 (when Korea experienced its first major debt crisis) or in the 1970s (when they were hungry recipients of the outright subsidies known as "policy loans") or after the flurry of attempted reform in the early 1980s and early 1990s. The problem of nonperforming loans has not abated either, but has remained more or less steady for the past thirty years.

The failures of past reform efforts have taught two significant lessons. One is that the most egregious *chaebol* practices, like intersubsidiary loan guarantees, should have been simply outlawed. Instead, the government issued a series of complicated regulations and deadlines to reduce the extent of these guarantees, fearing to abolish outright a practice that helped maintain the organic unity of the *chaebol* (by making it difficult for inefficient firms to "exit" without taking the whole group down). The Korean banks have long eschewed credit analysis, given decades of credit rationing, so the intersubsidiary loan guarantees (along with the demand for large collateral, usually in real estate) enabled banks to reduce their exposure. The idea was that the loan guarantee turned the entire *chaebol* group into a gigantic chunk of collateral, and since it was highly unlikely that the entire group would fail (or that the state would let it fail), this was the second-best option for the banks in the absence of thorough credit analysis (which was impossible anyway, given closely held and deceptive *chaebol* methods of accounting). For the *chaebol*, the intersubsidiary loan system was a quick way to raise a lot of capital, even if this meant that ailing firms could threaten the health of other firms. The loan-guarantee scheme also, of course, belied the pretense that all *chaebol* affiliates were legally independent entities, thus bolstering the organic unity of the group. In

1993, a newly elected government finally decided that the loan guarantees had to go, once and for all. Faced with furious opposition from the *chaebol*, however, Kim Young Sam compromised by setting a three-year deadline for reducing the guarantees to 200 percent of equity. According to the Fair Trade Commission, in March 1992, intersubsidiary loan guarantees of the top thirty *chaebol* stood at 538 percent of their equity, but steadily dropped down until they met the 1996 deadline of 200 percent.[59]

Another lesson from the past is the failure of various efforts to force the firms to specialize in core industries and not duplicate each other's efforts. Simply stated, a quarter-century of failure is testimony again to the power of the *chaebol* to resist state-of-the art discretionary policies and regulations. All told, this history attests to the continuing power of big business in Korea rather than to the successes of reform. No government could imagine dismantling the system until the financial crisis of 1997 forced the issue.

In the wake of this crisis, the new Korean government has instituted a number of measures to force corporate reform, including ending the system of intersubsidiary loan guarantees, posting deadlines to bring the corporate debt-equity ratio down, and forcing those *chaebol* firms that cannot service their debt without support of their affiliates to go bankrupt. The new administration of Kim Dae Jung has also demanded a so-called Big Deal, meaning a swap of key subsidiaries so that each of the top *chaebol* will emerge stronger in the areas of its "core competence." This would reduce overlapping investments and allow surplus production capacity to be closed down.[60] Some of these measures, such as the decisive ending of the intersubsidiary loans (mightily helped by the demands made by the International Monetary Fund), are important departures from the past; others are not departures but are continuations of the past government policy, albeit with more "teeth."

Evidence in the first half of 1998 clearly indicates that Kim wants to break up the cozy relations of the big firms with the government and the banks. He has sought in a variety of ways to share the pain of the IMF bailout fairly, throughout the society. And for the first time in Korean history, he has given labor a strong voice at the bargaining table with business and government—certainly a major achievement and one that has generally kept labor from major strikes and disruptions, in the face of unemployment that tripled in one year (from 2 percent in mid-1997 to over 6 percent in mid-1998). It remains to be seen if

Kim intends to downsize or even dismantle the *chaebol*, which would require a systemic set of antitrust measures and competition policies that would be effective in the Korean context. It seems more likely that he hopes, through various reform measures, to free the *chaebol* of state regulators and preferential lending—a kind of marketization strategy that will end the worst external problems of corporate governance and open these firms to more competitive pressures, but that will do little to reform *chaebol* governance internally.

In considering the potential of Korean reform, it might be useful to label the various efforts the Good, the Bad, and the Ugly. The ugly aspect refers to the political practices of the *chaebol* — the massive exchange of bribes and political favoritism that should be excised from the Korean system and that, under the new administration, most likely will be. The bad refers to the economic deficiencies of the *chaebol* that must be changed — the lack of competitiveness in certain industries resulting in their excessive concern to expand market shares. The Kim administration is focusing on this problem more than anything, trying to get the groups to shed their many unprofitable subsidiaries and to concentrate on a few successful core businesses. Reforms in this area might move Korea closer to the structure of the postwar Japanese *keiretsu*, a highly unpopular idea from the standpoint of 1998 but one that obviously makes sense in evolutionary terms. Finally, there is the good, or the economic virtues of the *chaebol*. This good—the essential logic of the *chaebol*—needs to be maintained and even nurtured. At least that is the way all Koreans, reformers or not, will see the problem.

Much of the current reform effort is still being done through government edict rather than legislative deliberation and rule-making. Even the current democratic reformers favor the use of discretionary measures by the government because Korea, after all, has one of the oldest and finest traditions of civil service and, counting the colonial period, a century of state-directed economic growth. In times of crisis, there is a strong temptation to use this ubiquitous state structure to force industrial reorganization; the bureaucrats—who come from the best universities and constitute a respected and experienced elite—cling to the belief that the next regulation is the one that will finally achieve real reform. The history of such reform, however, should teach the Korean government that perhaps it is better to change the incentive structure and the rules of the game and stick to them—in other words, institute the rule of law—rather than try yet another round of industrial reorganization. It is time to try the path not taken: develop an abiding rule of law applicable to both corporations and the government.

At the end of the day, Max Weber's insight is still valid — that the essence of modernity is the rationalization as well as the professionalization of economic and political management and that modernity is unthinkable apart from rational bureaucracy and the separation of the household from the corporation. In Korea, too, the predominance of the family-controlled firms must change, as routine replaces charisma, and as what began in the 1960s as the frenetic attempt to emulate Japan's success becomes more settled and institutionalized. The change will come slowly but surely, paralleling the development of the equity market and the increasing globalization of the Korean economy.

VIII. The Politics of Ethnicity and Corporate Governance in Southeast Asia

The modal firms in Korea and in Southeast Asia are family businesses, big and small, that operate not within the bounds of a well-established rule of law but amid the uncertainties of many decades of authoritarian rule. But there the similarities end. Korea's economic development has been marked by ubiquitous industrial policy (now made residual), with the state creating and re-creating the business class, protecting and disciplining its members. Because Southeast Asian states are bereft of industrial policy, except where it is a device to buttress the economically disadvantaged ethnic majority, they have had a (relatively) free market, punctuated by economic affirmative action of sorts. The upshot is that family businesses in Southeast Asia rely less on the ethnically alien government and, of course, less on government-mediated capital. Thus, the business class in the heterogeneous Southeast Asia was forced into self-sufficiency and onto the market.

The differences were overdetermined, from the days of colonialism. If Japanese colonialism bequeathed to the Koreans the template of the authoritarian interventionist state and the *zaibatsu*, European colonialism bequeathed the opposite: minimal taxation, strict avoidance of deficits, and an unprotected market. Professor K. S. Jomo attributes the habits and practices of Chinese businesses in Southeast Asia to their historical inability to rely on the colonial government; even when the state and the legal system became more accessible to Chinese business interests, a "Chinese business idiom" persisted that abjured close association with the government.[61] Colonial governments also left a legacy of an ethnic division of labor and a cobbled together concept of the nation—best exemplified by Malaysia.

Malaysia had its origins in an explicitly negotiated "bargain" that set the stage for a peaceful transfer of power from the British in 1957. This bargain, reached between ethnic political parties representing the Malay, Chinese, and Indians, became the basis for a coalition that has ruled Malaysia since independence. Malaysia has practiced the most pronounced policy of "apartheid," Ruth McVey argues, because it was also the last to be independent from the British rule.[62] Elsewhere, ethnic compacts occurred more haphazardly, but the generalization — cobbled-together nations, ethnic divisions of labor — holds for most of Southeast Asia.

Since independence, however, Southeast Asian countries were favored by the same external environment that favored Japan, Korea, and Taiwan. They enjoyed political and economic patronage by the United States during the Cold War, supporting stable, anticommunist regimes, and a close economic relationship with Japan, which soon emerged as the major industrial power and, later, the single most important external investor in the region, from Korea to Indonesia. Added to that was the exclusion of China: in the words of Benedict Anderson, the "extraordinary forty year sequestration from the global market of the greatest power in Asia—namely China."

Exclusion, yes, except for the Chinese diaspora, that is. The one glaring difference between Northeast and Southeast Asia was the critical economic role of this marginalized minority. The Chinese business presence is as old as the merchants who prospered in the ancient tribute-trade system of the region, linking Japan, Korea, and China together with Central Asian and Middle Eastern trade routes (a Chinese presence that the European colonizers found useful in their own penetration of Southeast Asia in centuries past). The modern diaspora, however, was peopled by the millions of young, mostly male, mostly illiterate people, who, between the Opium Wars in the 1840s and the onset of the Sino-Japanese War in the 1890s, left the coastal districts of Fukien and Kwangtung for the labor-hungry European colonies in Southeast Asia and independent Thailand. They spoke mutually unintelligible languages such as Hokkien, Cantonese, Hakka, Hainanese, and Teochiu, and scarcely regarded themselves as Chinese.[63] In Thailand and Malaysia, they formed the bulk of the working class, but significant numbers also worked their way up the occupational ladder to become small traders, entrepreneurs, and professionals. Particularly in the Dutch East Indies, such people came to form a middle tier between the colonial administrative apparatus and the peasant bulk of the indigenous population. The Chinese used their positions as intermediaries between Western big business and the local economy to gain knowledge of modern trade, manufacturing techniques, and the local market. They also were the interlocutors when Japanese firms sought to reestablish their presence in Southeast Asia after World War II.[64]

A variety of barriers maintained this racial division of labor. In the early stages of development, Chinese immigrants were excluded from peasant production by lack of access to land, and were concentrated in wage labor, while indigenous peasants were excluded from commercial activity by lack of access to capital and market outlets. Because they were denied access to land, the Chinese tended to keep their assets in liquid form and to invest in economic activities that generated quick returns. This racial divide quickly became a vertical division of labor as well, as upwardly mobile Chinese entered into commercial activity, often as intermediaries between indigenous peasant producers and the world market, and obtained higher returns from their investments of capital and labor. Soon the indigenes shook loose from the land and joined wage labor at the bottom of the economic hierarchy.[65]

This phenomenon of the middlemen, or so-called pariah minority, is a familiar one in Europe, where the kings and magnates found them less threatening in some cases than their own population and, therefore, encouraged them to play brokering roles. "Pariah capitalism" became a subject of serious inquiry in the late nineteenth century, chiefly by German sociologists, including Werner Sombart and Max Weber, and as early as 1875, analogies were being made between the Jews in Europe and the Chinese in Southeast Asia.[66] The position of the pariah minority was always precarious because of their different ethnicity and because of the activities that they engaged in, such as money lending, petty trade, and tax farming, all considered odious by the existing social morality.

Notwithstanding wide variations from country to country, the general sociological trend in Southeast Asia after independence was for upwardly mobile "natives" to claim positions in the political realm (state bureaucracies, military, and police), especially in Malaysia and Indonesia; the people of Chinese ancestry were relegated to the private commercial sector. Benedict Anderson reminds us that from 1966 to 1998 not a single person of known Chinese descent became a cabinet minister, senior civil servant, general, admiral, or air marshal in Indonesia. Yet the Chinese in Indonesia have been called "the race that counts," according to Adam Schwarz, and almost all of the biggest "crony capitalists" around Suharto came from this group. This "racial" division of labor has made a marginalized minority the "real domestic motor of the 'miracle,'" has limited the growth of a vigorous "native" entrepreneurial class, and has encouraged massive profiteering on the part of state officials.[67]

How is the "real domestic motor of the 'miracle'" distributed across Southeast Asia? In Malaysia, the ethnic Chinese are 29 percent of the population but account for some 69 percent of share capital by market capitalization. In the Philippines, ethnic Chinese are said to be only 2 percent of the population but control 50 to 60 percent of share capital by market capitalization. In Thailand, an estimated 10 percent of the population are ethnic Chinese, accounting for 81 percent of listed firms by market capitalization. In Indonesia, ethnic Chinese are an estimated 3.5 percent of the population, controlling 73 percent of the same. And in Chinese-dominated Singapore, they account for 77 percent of the population, representing some 81% of listed firms by market capitalization.[68]

The politics of this racial division works differently in different locations. In a culturally and racially assimilated Thailand, there is little organized opposition to the Sino-Thai business predominance, and the same is true of the Philippines, where the Chinese have long intermarried with the Spanish *mestizo* elites, to the extent that today some 10 percent of the population claim partial Chinese ancestry (compared with 2 percent "pure" Chinese). In Malaysia, assimilation has been more limited, with the government committed to a race-based economic policy — known as the New Economic Policy (1970 – 90) — to boost Malay corporate ownership from a piddling 1.9 percent to some 30 percent by 1990. The non-Malay ownership would remain the same, according to this scheme, at about 40 percent, and foreign ownership was to fall from 60.7 percent in 1970 to about 30 percent in the 1990s. In Indonesia, the Chinese are scattered throughout the archipelago (unlike the Sino-Thais, who are concentrated in Bangkok), but the big Chinese businesses exchange state protection for economic patronage through close ties with the military and the ruling group. The Salim Group of Indonesia is reportedly the world's largest Chinese-owned conglomerate, accounting for some 8 percent of the Indonesian GNP.

All this makes the reform of corporate governance a distinctly different enterprise than it is in Northeast Asia.

But what an enterprise it is! It thrives in highly adverse political circumstances, finds opportunities in the unlikeliest places, and turns adversities into advantages. Unlike industrial leaders in Korea or Japan who have stuck with one big idea (industrial policy), Chinese "pariah" capitalists have quickly adapted themselves to policy decisions made by the alien ethnic elites, who have but a single advantage over the Chinese in that they hold state power. Chinese businesses have thrived in all milieus, under both protectionist *and* liberal regimes. For instance, occasional nationalist restrictions on foreign-owned enterprises tended to help the Chinese by limiting competition, and when the foreign firms were localized, the Chinese often found themselves the logical partners. With import-substitution industrialization, the local-ownership requirement often helped the Chinese acquire foreign technology, and "local-content" requirements in industries such as automobiles also created new business opportunities for local Chinese enterprises. But the Chinese have also done well with structural adjustment and liberal market-oriented economic-reform programs (involving trade and investment regimes, financial reforms, deregulation, and privatization of state-owned enterprises), which frequently hurt the local private sector in the short run. These policies are more readily effected in Southeast Asia than in other developing countries because of the political weakness of the Chinese-dominated local private sector; instead of resisting the state, the Chinese just made the best of their opportunities, as usual. The Chinese were also protected against the tight monetary policies, credit rationing, and high interest rates characteristic of macroeconomic stabilization policies. This is because they have disproportionate access to alternative sources of capital abroad, from informal ethnic-based credit networks at home to internal financing in Chinese conglomerates (many of which own their own banks), and preferred-customer status among other local banks (most of which are Chinese owned).[69]

The principle of corporate governance in the Chinese firms in Southeast Asia is said to be the same as the Chinese family business elsewhere, as in Taiwan and Hong Kong. This does not mean that certain cultural traits are immutable but it does mean that there is a heritage of economic organization through clan lineage and *pang* (speech-group) networks, that seems conducive to economic success at earlier stages of commercial activity. The Chinese term most often used to describe business groups is not *caifa* (a translation for *zaibatsu* or *chaebol*), or *qiyejituan* (for *kigyo shudan*) but rather *quanxiqiye*, meaning "related enterprise." *Guanxi* refers to particularistic connections between persons that are based on some common or shared identification, and Ichiro Numazaki defines a *quanxiqiye* is defined as a "cluster of enterprises owned and controlled by a group of persons tied by a network of various *guanxi*."[70]

Most Chinese family businesses are small and highly specialized, and prefer informal sources of finance — family members, close friends, revolving credit associations, or the unregulated "curb," as, for example, in Taiwan. As the firms get bigger, the reliance on network tends to become attenuated, in favor of thicker ties with outsiders, for greater economic opportunities as well as political protection. Today, it is the small, or merely unsuccessful, businessmen who, lacking such fortuitous outside arrangements, still must resort to Chinese lineage and home-village associations. These facts form the basis of Linda Lim's argument that the peculiarities of Chinese business organization were neither necessary nor sufficient as an explanation of Chinese economic dominance or monopoly of particular lines of business in Southeast Asia.[71]

When Chinese family firms engage in "opportunistic diversification," it is with retained profits of the existing firms (unlike the Korean *chaebol*) under the management of a family member or another highly trusted close associate. And even when they grow and diversify (as, say, in Hong Kong), they tend to think in terms of their long experience in the textile industry, and their major managerial skills and commitments reflect it. Where investment requirements are too great or there are needs for political and business connections, the families enter into alliances with trusted partners to set up new businesses, thus forming the Chinese "business groups" that operate in a variety of industries. These are not integrated through a central administrative hierarchy like the Korean *chaebol*; instead, they operate like partnerships united by common investments and mutual trust in which the critical locus of decision-making and control remains the individual family business. Large Chinese family businesses span a number of fields and are interconnected through a network of alliances and ties between family heads; in contrast again to the Korean *chaebol*, Chinese businesses combine managerial specialization with entrepreneurial diversification.[72] The strategic preferences of the Chinese family firm include reliance on price and cost competition, short payback periods for new investments, the intensive use of resources, and a reluctance to share control or responsibility; risks are managed largely by restricting commitments and maximizing resource flexibility.[73]

In Hong Kong, where there are many public companies, the typical Chinese-run family business invites outside equity participation by offering a minority stake in a public company within the network of family firms. Control of this public company stays within the family through direct investment in the equity by other family companies and family members, cross-holdings and cross-directorships with related companies associated with the family group, and other arrangements yielding an element of control with related parties.[74] The familism of the Chinese firm also points to the pervasiveness of the so-called Buddenbrooks phenomenon: indeed, the typical successful Chinese family business is said to go through four distinct phases—emergent, centralized, segmented, and disintegrative—in about three generations.

To some, like Francis Fukuyama, this pattern is the Chinese counterpart to the cycle that the Irish call "from shirtsleeves to shirtsleeves." It attests to the Chinese reluctance to develop and use professional management, and indicates a real problem with forward integration, especially in unfamiliar markets.[75] But to the Schumpeterian mindset, the Chinese Buddenbrooks would indicate something else — a world of perpetual destruction and creation in which the Chinese family business operates, where flexibility and innovation count as they should, and the families involved cannot rely on the state or some other political benefactor to bail them out. In any case, it is a world far apart from Northeast Asia. The reform of corporate governance in Southeast Asia toward ideal-typical Western standards seems tantamount to asking Chinese businesses to stop being—well, Chinese.

IX. Conclusion

The primary purpose of this essay is to suggest that the focal point of reform should be Northeast Asia, especially Korea; it should also be reform with an eye cocked toward China, in order to preclude the development there of similar methods of corporate governance (given that China's leaders are increasingly attracted to the Northeast Asian model of industrial development). It was by no means only during the last year, or only under sharp IMF scrutiny, when people suddenly discovered big problems in the Korean economy. The current financial crisis gripping Korea should not have come as such a surprise, since it is the third such massive financial crisis Korea has experienced since the country "took-off" more than thirty years ago—and it is not even the first to earn the epithet "the worst crisis since the Korean War" (as Kim Dae Jung called it in his inaugural address). Koreans said the same about the debt crisis of 1979–83, when Korea had difficulty servicing large outstanding foreign debts (about $40 million, third ranking in the world) — a crisis that produced modest financial liberalization in the early 1980s.

The Korean financial system has always been joined at the hip to the huge and hugely leveraged conglomerates, and it has always been vulnerable to external shocks, which threaten to bring the whole economy down like a house of cards. That this did not happen until 1997, however, was mainly because of security concerns owing to the Cold War and the conflict with North Korea: in the past, the United States and Japan promptly stepped in with large amounts of aid and credits (e.g., the $4 billion package from Tokyo in January 1983) to reactivate the economy. Even though each financial crisis pointed to the urgency of reforming the *chaebol*, prompt external support meant that nothing was really done. In spite of sharp criticism, the *chaebol* continued to grow like Topsy. Why?

The main reason is the problem we began with: Korean public good and private interest are rolled together into one large complex that is bent on rapid industrial growth. There is also considerable truth to the old adage that "nothing succeeds like success." After each of its two previous financial crises, Korea resumed prolonged, double-digit economic growth. This probably will not occur again, however, which means the reform of Korean corporate governance has finally become a stark necessity of the new administration. It is impossible to predict how this newly embarked-upon reform will develop, but we can now sum up what is likely to happen.

The first "pointer" is that Koreans are likely to think of the whole issue not in terms of legislating a new atmosphere in which the rule of law prevails, but in terms of what changes will again make the *chaebol* world-competitive firms. Korea, with or without reform, will long remain a "developmental" rather than "regulatory" political economy. This insight is often forgotten amid much talk today about the need for new forms of regulation: the Korean crisis must have stemmed from lax regulation, *ergo*, the need to regulate anew. At the root of the Western concern for regulation is a doctrine of fairness, of creating level playing fields and competitive environments. This mode of regulating the corporate sector is not likely to work in the near future, because the concept of regulation carries different meaning and intent in the Northeast Asian context. For all the talk about the rule of law—even if, in the final analysis, that is the most critical element in changing corporate governance and in breaking the state-bank-business nexus—regulatory reforms most likely will be pushed with an eye to honing Korea's competitiveness. Koreans will have no interest in reforms that weaken their competitive firms or create level playing fields where the strong gobble up the weak.

The Republic of Korea has long represented the essential "developmental state," which, as I have argued, may be a paradise for big business; but in spite of the "crony capitalism" and "moral hazards" to which the IMF refers, it did succeed in making globe-ranging competitive Korean firms. Development and competition are the key; in the end, all Koreans are economic nationalists, including the new president, because they believe that, in a predatory world economy, they can afford to be nothing less. We cannot expect that the current financial crisis will bring closure to four decades of developmentalism unless we believe that history means nothing. Nor can we expect that a particular type of mentality can disappear overnight because it was proved wrong in 1998. The current administration in Korea has already done more than all previous administrations combined to bring about democracy in Korea, but its starting point for dealing with the *chaebol* remains the same as that of the previous regimes: tried and true discretionary measures to force industrial reorganization, something as revealing as it is predictable.

The second fact to remember in contemplating the reform of Korean corporate governance is that the *chaebol* may have emerged in the last thirty years, but the model goes back seventy years. This is another way of saying that we must be sensitive to "path dependency," to a pattern of Northeast Asian development that has characterized the whole twentieth century. Korea is not a leopard that can instantly change its spots (a point that is vividly illustrated by contemporary Japanese immobilism in the face of eight years of recession). But we do not preclude the possibility of what Barrington Moore once said—that big changes are often easier than small changes. A radical reform might, therefore, be possible. The conditions couldn't be better: a new, popular reform leadership coming to power amid palpable crisis, yielding the best opportunity since the Korean War to truly transform the system. Nonetheless, reforms, no matter how big, will be consistent with what has gone before. (It is interesting to note that the man in charge of sabre-rattling before the *chaebol* on behalf of Kim Dae Jung is none other than Pak Tae-jun, the captain of Korea's steel industry; he built up and long directed P'ohang Steel, and is known to be as familiar with the Japanese system as any Korean capitalist. So perhaps the ROK will again take cures from Japan—this time, postwar Japan.)

What *is* this postwar Japanese system to which Korea might conform? Masahiko Aoki argues that management acts as a mediator in the policy-making process, striking a balance between the interests of shareholders and those of employees. The enterprise union functions as a substructure of the firm and represents employees in the decision-making process.[76] Given the ubiquitous presence of enterprise-union organization in Korea, the Japanese example might also argue for Korean labor reforms along the same lines, which would be a good counterpart to the historically unprecedented "peak bargaining" that Kim Dae Jung directed in January 1998 between top representatives of business, labor, and government. If this were to be institutionalized, the ROK would then resemble Japan's postwar pattern of political corporatism, as a political scientist would understand it.

Before this system became viable in Japan, the firm had to meet three historical conditions. The first was the dismantling of family control of the firms, through Occupation policies in 1946 and 1947. This involved a "managerial revolution from above" through the dispersal of share ownership as part of the dissolution of *zaibatsu* holding companies and the replacement of previous managers by young or new ones who were less loyal to the *zaibatsu* family. The second was a move toward Cooperative Enterprise Unions, resulting from the defeat of various labor actions in the late 1950s. The third was an effective insulation from hostile takeovers through the development of mutual shareholding between companies and financial institutions, notably city banks. This was facilitated by the stock-market crash of 1964–65, the government purchase and freezing of stocks to stabilize the market, and later, a concerted action by the interlocking companies to repurchase stocks, in part to stave off foreign takeovers.[77]

Obviously, these conditions are not going to obtain in contemporary Korea. But it is possible that the *chaebol* might, *mutatis mutandis*, move in the direction of the *keiretsu*. The *keiretsu* is an advancement on the evolutionary scale of the economic combines in Japan, a rational/legal form of the more feudal *zaibatsu*. To the extent that the *chaebol* was a postcolonial mutation of the *zaibats*u, it would be wrong not to examine the logic of historical change in Japan with an eye to what is possible in Korea. The major problem with Korea moving toward the *keiretsu* is that the structure is predicated on domestic insularity and exclusivity, something that goes against the grain of the globalized world and against the immediate Korean necessity of attracting more foreign capital. That, and the fact that effective *keiretsu* reform took two decades in Japan.

Finally, we come back again to the "good" aspects of the *chaebol* pattern. For much of postwar Korean history, the *chaebol* were in many ways the Schumpeterian entrepreneurs of Korean development, or what he called "ephors" of capitalism. Their mammoth structure and even their inveterate reliance on state-mediated bank credit made sense, especially given the immaturity of financial markets and Korea's strategy to make an assault on the world market, to wipe the floor with the advanced countries in product areas such as semiconductors, heavy and chemical industry items, petrochemicals, automobiles, and other machines. Erecting these strategies required massive investments that far exceeded retained earnings. This developmental aspect is not likely to go away, but rather will be modified or reformed to fit current circumstances. Korea's *chaebol* have had built-in advantages in economies of scale, and that is not likely to change either—nor should it. (In fact, trade statistics for Korea in early 1998 show that it was precisely the items just mentioned that have recorded an average of 30 percent growth in exports, with exports of steel products marking a 44.5 percent growth. By contrast, exports of the older-style, declining labor-intensive goods recorded a 9.9 percent growth.

Regardless, the fact remains that there *ought* to be great change in the corporate governance of the *chaebol*, allowing more transparency, external audits, foreign participation, and more accountable management. There should be an effective institution guaranteeing minority shareholder rights and transparency in accounting. The power and function of the board of directors should be bolstered, and the role of institutional investors should grow as well, through financial deepening. Realistically, however, the Korean firm will become "more like us" only up to a point, to use James Fallows's phrase. For half a century, the United States has sought to make Korea "more like us," but the problem of reforming an economic model deeply influenced by Japan's industrial success remains.

Likewise, we should be wary of the kind of triumphalism reflected in Francis Fukuyama's "end of history," according to which the Chinese family firm is the mere reflection of low-trust societies crippled by the absence of civil society. On the contrary, the Chinese family firms that characterize Southeast Asian capitalism are perhaps the most flexible and adaptive entrepreneurial units in the world today. Sometimes, the behavior of these firms reflects a harsh world bereft of universal trust. But the reverse is also true, that the Chinese family firm is at ease with a world of trust as Fukuyama would define it. Witness, for example, the enormous success of diasporic Chinese business in highly articulated civil societies like Vancouver and Toronto. Perhaps global capitalism, with its free movement of goods and services, has made the most singularly pre-modern of corporate governance forms, the Chinese family firm, into the most highly adaptable, multicultural, postmodern firm, able to navigate in any economic waters.

This is another way of saying that no one-size corporate governance fits all, even in the globalized world of unforgiving investors and school-marmish IMF officials. No matter how severe the pressure for organizational convergence, it is unlikely that we will see the emergence, at the "end of history" as it were, of one superior form of corporate government to which all can adhere. It is worth remembering that it was not visionaries standing at the doorstep of the twenty-first century but culture-bound writers of the mid-nineteenth century who "looked forward to a single, more or less standardized world where all governments would acknowledge the truths of political economy and liberalism would be carried throughout the globe by impersonal missionaries more powerful than those of Christianity or Islam had ever been; a world reshaped in the image of the bourgeoisie, perhaps even one from which, eventually, national differences would disappear."[78] ◉

Notes

1. Peter Gourevitch, "The Macropolitics of Microinstitutional Differences in the Analysis of Comparative Capitalism."

2. Carl Kester, "American and Japanese Corporate Governance: Convergence to Best Practice?," 109.

3. Michael Jensen, "The Modern Industrial Revolution," and Donald Chew, "Introduction."

4. Richard Whitley, *Business Systems in East Asia*, 13.

5. Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, 22.

6. Max Weber, *The Religion of China*, 85, 242, 245.

7. Ibid., 242. For a representative example of the current usage of "bureaucratic capitalism," see Maurice Meisner, *The Deng Xiaoping Era: An Inquiry into the Fate of Chinese Socialism, 1978*–1994, chapter 11.

8. "Booty capitalism" is a variant of "adventure capitalism," referring to a system where rulers raid the population for treasures. Paul Hutchcroft uses the term to describe the predatory behavior of the oligarchy in the Philippines, especially in the Marcos years. See Hutchcroft, "Patrimonial State, Predatory Oligarchy."

9. Weber, *Religion of China*, 96, 97.

10. One might argue that even Southeast Asia, with the exception of Indonesia, never came close to the original context of "cronyism." According to Yoshihara, the term "crony capitalism" was coined in the Philippines during martial law, to denote those who benefited greatly from close relations with Ferdinand Marcos. Because the power of Marcos was so absolute, the length of his rule so long, and the benefits accruing from associating with him so enormous, Yoshihara thinks that the terms ought to be used with utmost specificity.

11. Jamie Mackie, "Changing Patterns of Chinese Big Business in Southeast Asia," 162, 165.

12. Kunio Yoshihara, *The Rise of Ersatz Capitalism in South-East Asia*.

13. Most studies of the relationship between ethnicity and business in Southeast Asia do not cut across regional boundaries and have not generated a useful thesis about the impact of ethnicity in economic development.

14. Joseph A. Schumpeter, *Imperialism/ Social Classes*. This was probably prompted by the late 19th century debate on the role of the Jews in the rise of Western capitalism.

15. Linda Lim and L. A. Peter Gosling, "Strengths and Weaknesses of Minority Status for Southeast Asian Chinese at a Time of Economic Growth and Liberalization," 286.

16. Mackie, "The Chinese Big Business in Southeast Asia," 165.

17. There is a large literature on this. For details, see Linda Lim and L.A. Peter Gosling, eds., *The Chinese in Southeast Asia*; Ruth McVey, ed., *Southeast Asian Capitalists.*

18. Lim Mah Hui, *Ownership and Control of the One Hundred Largest Corporations in Malaysia.*

19. Heng Pek Koon, "The Chinese Business Elite of Malaysia," 127, 132.

20. K. S. Jomo, "Chinese Capitalism in Southeast Asia," 250.

21. Ibid., 248.

22. James V. Judason, *Ethnicity and the Economy: The State, Chinese Business, and Multinationals in Malaysia*, 15.

23. Gary Hamilton and Tony Waters, "Ethnicity and Capitalist Development: The Changing Role of the Chinese in Thailand," 278.

24. For work in this genre, see S. R. Clegg and S. G. Redding eds., *Capitalism in Constrasting Cultures*; Gary Hamilton, ed., *Asian Business Networks*; Richard Whitley, *Business Systems in East Asia*. For Korea, see Roger L. Jinelli, *Making Capitalism*.

25. For details, see Jung-en Woo (Meredith Woo-Cumings), *Race to the Swift: State and Finance in Korean Industrialization.*

26. To see the extent of this discretionary power, see the *New York Times*, March 25, about how a major *chaebol* owner watched Chun Doo Hwan transfer his company and his own

personal property to another business group, just because the bribes hadn't been big enough.

27. For details, see Woo (Woo-Cumings), 178.

28. Mark Clifford, *The Troubled Tiger*, 218–222.

29. A total of 209,896 persons were registered as creditors through the curb market, of which 70% were small lenders with assets in the market below one million won (with the official exchange rate in 1971 at 346.1 won to a dollar, this equaled $2,889). They were ordinary citizens: female factory workers saving for marriage, parents preparing for their children's college tuition, would-be homeowners, senior citizens, etc. The moratorium was to last three years, after which all curb funds had to be turned into five-year loans at the maximum annual interest rate of 18%. In reality, the rate on curb after the moratorium, ended up being half of what it was before.

30. Eleanor Hadley, *Antitrust in Japan*, 21.

31. Keiichiro Nakagawa, quoted in Tamio Hattori, "Japanese *Zaibatsu* and Korean *Chaebol*," 80.

32. Hadley, 9, 23.

33. Ibid., 47, 26.

34. Ibid., 24–25.

35. Ibid., 37–31.

36. Whitley, 50.

37. Yu Sungmin. *Nanumyonso k'oganda* [*Sharing, Growing*], 12. Also see by the same author, "Taegiop chibaekujo ui ponjil kwa chungch'aekchonmang." [Corporate Governance in Large Enterprises: Policy Prospects] and "Shinchongbu chaeboljongch'aek ui p'yongka wa daekiop ui hyokshin kwaje." [Evaluation of the New Government Chaebol Policy and the Reform Prospects for Big Business].

38. The main feature of the antitrust action in Japan was the abolition of holding companies, and this example was followed in Korea. In recent years, however, Japan restored the legality of the holding company, and Korea may very well follow suit.

39. Whitley, *Business Systems in East Asia*, 44–46.

40. Ibid., 43–44.

41. Ibid., 44.

42. These figures are variously from the ROK Fair Trade Commission, and cited in Yu, 21–23.

43. ROK Fair Trade Commission, quoted in Yu, 24.

44. The three Samsung firms are in electronics, trade, and life insurance; the five Hyundai firms are in general trading, automobiles, heavy industry, automobile service, and construction; the four Daewoo firms are in trading, automobiles, electronics, and heavy industry. See Yu, 39.

45. Remark by the Korean head of the McDonald's, quoted in Mark Clifford, 325.

46. Yu, 25–26; the figures are from the ROK Fair Trade Commission. For the government effort to develop the equity market, see Jung-en Woo (Meredith Woo-Cumings), *Race to the Swift*, chapters 5 and 6.

47. Fukuyama, 133, 4; Robert Putnam, *Making Democracy Work*.

48. Edward C. Banfield, *The Moral Basis of a Backward Society*, 85, 88, quoted in Fukuyama, 99.

49. Woo (Woo-Cumings), 174–175.

50. These rules are translations of the data on the purpose and methods of credit control, published by the ROK Bank Supervisory Commission, and quoted in Yu, 102.

51. Yu, 104.

52. Schumpeter, 119.

53. Whitley, 50, 46.

54. Ha-Joon Chang, Hong-Jae Park, and Chul Gyue Yoo, "Interpreting the Korean Crisis: Financial Liberalization, Industrial Policy, and Corporate Governance."

55. Yu, 29–32.

56. Amsden, *Asia's Next Giant*.

57. Quoted in Hadley, 455.

58. Kim Dae Jung, *Mass-Participatory Economy: A Democratic Alternative for Korea*, 3.

59. Yu, 151–161.

60. "Give Me Your Sick," *Far Eastern Economic Review* (2 July 1998): 52–3.

61. Jomo, 251.

62. Alasdair Bowie, *Crossing the Industrial Divide: State, Society, and the Politics of Economic Transformation in Malaysia*, 13; Ruth McVey, "The Materialization of the Southeast Asian Entrepreneur," 25.

63. Benedict Anderson, "From Miracle to Crash," *London Review of Books* (27 April 1998).

64. See Anderson, as well as McVey, 21.

65. Lim, "Chinese Economic Activity in Southeast Asia," 7, 20.

66. Anthony Reid, "Entrepreneurial Minorities, Nationalism, and the State," 35. Sombart argued that capitalism flourished where Jews were given the greatest economic freedom because of the positive attitude toward wealth expressed in the Torah, as against the New Testament. Weber made a similar argument about the Chinese attitude toward wealth, but did not think that such was conducive to the development of modern capitalism with its many social and legal prerequisites.

67. Anderson, "The Race that Counts" is a chapter title from Adam Schwarz, *A Nation in Waiting*.

68. *Far Eastern Economic Review* (26 February 1998): 45.

69. Lim and Gosling, "Strengths and Weaknesses of Minority Status," 287–288.

70. Karl Fields, *Enterprise and the State in Korea and Taiwan*, 66.

71. Lim, "Chinese Economic Activity in Southeast Asia," 5, 8.

72. For a discussion of the organizational aspect of the *chaebol*, see Whitley's chapter on Korea, and Chung and Lee, *Korean Managerial Dynamics*.

73. Whitley, 54–55.

74. Robert Tricker, "Corporate Governance: A Ripple on the Cultural Reflection," 200.

75. Fukuyama, 78–80.

76. Masahiko Aoki, "The Japanese Firm in Transition," 265.

77. Ibid., 269–273.

78. E. J. Hobsbawm, *The Age of Capital*, 83, quoted in Robert Wade, "Globalization and Its Limits," 61.

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