


# **DEVELOPMENT and GLOBALIZATION in SOUTH KOREA**

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From Financial Crisis to K-pop

Park Gil-Sung



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## Preface

### Embracing Globalization

This book is to review the development of Korean society from the perspective of globalization. The period of analysis spans from the very end of the 20th century up to the present. It is not intended to become a full survey of development and globalization, as analysis exclusively focuses on two phenomena in particular: the upheaval caused by the 1997 financial crisis and the more recent worldwide spread of K-pop as a genre of popular music. In retrospect, Korea's globalization unfolded in just as dynamic fashion as did its industrialization and democratization. However, being dynamic does not imply, by any means, that the nation travelled along the most preferable or proper path. In essence, this book paints a picture of how Korean society experienced, institutionalized, and ultimately became an exemplar of the globalization.

One would be hard-pressed to find a country in modern times that experienced globalization in more dramatic fashion than South Korea (hereafter Korea), as the process put its people through the entire emotional range of happiness, rage, sorrow, and enjoyment. In other words, the aspirations and burdens of globalization befell upon Korean society in its full breadth and interplay of light and darkness that few other societies have experienced. To prove this point, the book will analyze the burden of globalization centering upon the 1997 financial crisis, while the aspirations of globalization will be centered upon the phenomena of K-pop. In short, the burden of globalization that was coerced upon the country in the form of a financial crisis ended

up having far-reaching impact on the country's social institutions within a short span of time, while the aspirations associated with globalization are continuously being realized at the moment through the growth of K-pop.

The causes for the 1997 financial crisis can be traced back to the country's rushed promotion of globalization to as a core objective of national policy, albeit without full knowledge of what it meant or what it entailed. The sense of betrayal in the crisis aftermath was strong, as the constructive fervor to actively respond to the challenges of globalization resulted in utter devastation. It became a clear lesson in what may happen when the government seeks the fruits of globalization in an ill-prepared top-down manner. The result of such was shattered dreams on so many levels and of the largest magnitude. On the other hand, the recent globalization of K-pop is a worldwide dissemination of popular music that was based upon mobilizing core elements of globalization related to music production, distribution, and consumption. In other words, K-pop's success was the result of appropriately mixing the core elements of globalization. Led by the private sector, K-pop's success was able to rapidly raise the profile of the nation from being a peripheral latecomer in popular music to ultimately becoming a center for leading trends.

While intensely experiencing these two polar extreme examples, Korean society was destined to reexamine the meanings of nation, society, organization, and even the notion of what it means to be an individual. In view of such the title of this book could just as well have been 'the story of embracing globalization'. On a personal level, the notion of embracing globalization also has special meaning to my academic career. Twenty-five years ago, I published a book, entitled *Globalization: Capital and Culture in Change* (1996b), which then became one amongst the pioneering books on globalization in Korean academic arena. This was the first complete academic book I ever published as a scholar. I'm sure many would agree that being the

first to do anything has special meaning.

## **Roadmap to the Book**

This book gathers a set of papers and essays that document my work within the field of globalization and development, exclusively focusing on 1997 financial crisis and K-pop. As Zelizer persuasively mentioned, any republication of papers drawn from the length and breadth of a scholarly lifetime makes strong claims: the first strong assertion declares that the papers have retained a significant share of their original value despite the passage of time; the second contends that the ensemble of papers adds value to the simple sum of individual contributions (Zelizer, 2011: xi). I have tried to add extra value across board by reiterating the substantive messages of the collection as well as smaller clusters of essays on globalization in contemporary Korean development.

This book consists of ten chapters organized into three parts. Part One is an overview of the entire publication that includes the challenges immediately following the 1997 financial crisis, as well as the history of Korea's globalization, alongside the theoretical framework for analyses. Part Two examines in detail over five chapters the socioeconomic restructuring of Korean society following the financial crisis. Part Three is the story of K-Pop, which currently stands as the brightest and most expansive aspect of Korea society's globalization. There will be much discussion of K-pop's worldwide expansion, touching upon Korea's domestic creativity as well as its global networks at its core.

The opening chapter introduces core messages of financial crisis and K-pop from within the context of globalization, by comparing and contrasting two tales of challenge and opportunity. One tale of financial crisis in 1997 involves major ripples created all across Korean society. The greatest challenge



above all was that the so-called miracle on the Han River that became synonymous with the utility of Korean model of economic development had come under fire domestically as well as internationally. The financial crisis negates the Korean model of development and subsequently made people rethink the past trajectory of Korean pathway to modernity. Meanwhile, the other tale of K-pop opens up a particular system of creativity that is manufactured in a Korean way, resulting in pop culture contents exported in massive volumes to all over the world, all the while relying on an environment of innovative means of content delivery.

Chapter 2 deals with the features faced by Korean society in the aftermath of the 1997 financial crisis. The financial crisis and the ensuing dominance of the global governance regime are often touted as a turning point for Korean society. Henceforth, Korean society embarked on a wide-reaching and comprehensive restructuring process as a result. The restructuring process took place according to the demands of foreign institutions such as the International Monetary Fund (hereafter IMF). The process hurt Korean society down to the bone, as new rules were brought in. In facing such a crisis, both Korean values and attitudes were completely transformed to the extent that the history of modern Korea became clearly and very dramatically delineated two historical epochs: before financial crisis and after financial crisis with 1997 serving as its inflection point.

Chapter 3 explores the history of Korea's globalization, which is divided into three separate stages, based upon the institutionalist perspective and concepts. They are the enthusiastic stage, then coercive stage, and finally the mimetic stage of globalization. During the enthusiastic stage, Korea's globalization took place based simply upon an enthusiastic zeal to become a member among the most advanced nations in the world. Unfortunately, the government at the time were neither fully versed in the basic concepts

nor aware of the global standards related to globalization. The only thing government did have was a zeal to become a member of the OECD countries, and globalization was the vehicle to realize that dream. The first side effect of such an attempt was a financial crisis that proved extremely difficult to overcome. This was the beginning of the next stage, being that of coercive globalization. The IMF's manual for change became the global standard by which every socio-economic system in the country would undergo comprehensive surgery. The next stage of globalization is that of mimetic globalization when Korean society's embracing of the new systems became a norm over time. It is during this stage when the concept and practice of globalization becomes a social norm in Korean society, entering into the normative stage.

Chapter 4 delineates the theoretical framework for analysis toward globalization and development. Conceptualizing the clutch of globalization as the interplay between 'being global' and 'being local,' the chapter shows whether a society shows homogeneity or heterogeneity aspects will matter in the resulting form of globalization it experiences. Both being global and being local will be subjected to crossover analysis to arrive at four possible paths of globalization, with focus on the path that was ultimately followed by Korea. Regarding development, Korean society is analyzed from the perspectives of dilemma between neoliberalism and developmental state. Incidentally, neoliberalism and the developmental state are incompatible theoretical concepts. However, within the reality of Korean society, the neoliberalism of globalization and the developmental state models clearly co-exist in a vague manner.

Part Two deals with the restructuring of Korean society and economy since the financial crisis, starting with Chapter 5 discussing the transformation of corporate culture. Focus is given toward changes in Korea's corporate

governance structure as well as changes within the workplace itself. The impact of the financial crisis toward Korean corporate sector, who were previously the architects for Korea's legendary economic emergence, was catastrophic. The old legend was effectively destroyed. Four of the largest banks in the country at the time disappeared without a trace through mergers and acquisitions. As such, this chapter provides detailed information showing how the country's corporate governance structure changed dramatically following the 1997 financial crisis. Regarding changes in the workplace, new concepts, such as competition, flexibility, innovation, and core competency spread widely to become the norm in society. No longer was the workplace a provider of lifelong employment, and compensation was to be based thenceforth upon competitiveness and merit. In other words, nothing in society was so sacred that it would be spared from the winds of change.

Chapter 6 deals with the changes that took place in civil society, focusing on the minority shareholders' movement of Korea. In the aftermath of the financial crisis, the minority shareholders' movement became the most representative and symbolic activist movement during the restructuring phase of Korean society. At the epicenter of this movement was the nongovernmental organization, People's Solidarity for Participatory Democracy (PSPD). PSPD's objective was to raise questions against the customary business practices of Korean companies that were unilaterally allowed up until then. This chapter will introduce the basic positions and methodology of the minority shareholders' movement alongside the movement's impact on society. In retrospect, the movement brought about largely positive results, especially in leading to changes in the country's corporate governance structure, but there were also unintentional but notable side effects as well.

Chapter 7 explores the divisive conflicts within Korean society that emerged alongside the restructuring process. Korea's conflicts have arisen

explosively in so many different areas that the term conflict itself became synonymous to the Korean people, as they went through the restructuring of social composition or order. The chapter shows how Korean society had arrived at the present era of contentious politics, explaining where the political fault lines have developed. The conflicts within Korean society are organized around the terms of compound, complex, and compressed, also explaining why resolution of such conflict is so difficult. More specifically, polarization of society is explained in terms of class conflict, where the weak have become weaker while the middle class has become unstable. Also explained is how the ideological conflict in society had been exaggerated due to the dynamics of politics. Finally, the chapter proposes the institutionalization of negotiation as an antidote to the exploding social conflicts that are taking place today.

Chapter 8 addresses more fundamental albeit everyday issues such as the identity, authority, and trust associated with being Korean which had largely been abandoned in the aftermath of the financial crisis and ensuing restructuring of society. Identity, authority, and trust are very important concepts in any society, let alone one going through a restructuring process that upended society down to its core. Regarding identity in Korea, two paths emerged. The structural reforms following the financial crisis that coerced the country into abandoning all that was Korean up until then ignited two distinct phenomena in society where, on one hand, things that were previously considered to be Korean became even more strengthened, while on the other hand, there was also a call to simply abandon the past. Such a phenomena is supported by specific evidence and examples in this chapter. In terms of authority in society, the authoritarianism of Korea's traditional past crumbled quickly but was never replaced by a new authority to this day. Meanwhile, the concept of trust is one that forms the foundation of social order. In Korea's case, trust toward the public sector, consisting of government and legislative

assembly have fallen off a cliff, yet trust within the private sphere has persisted somewhat.

Part Three discusses Korea's globalization as the most expansive and dynamic elements ever exuded by Korean society. More specifically, it discusses the reasons behind K-pop's success across two separate chapters. Chapter 9 delivers a new perspective of 'creativity' sitting at the heart of K-pop. Manufacturing creativity seems an oxymoron, as creativity is individualistic and rare, so much so that it is utterly impossible to manufacture it. If creativity is duplicated or manufactures, it is no longer creative for its loss of the aura of authenticity. However, the oxymoron sheds new light on the nature of the globalized music industry. In the globalized and highly localized K-pop movement, creativity is manufactured in a Korean way and popular culture contents are exported in massive volumes to all over the world relying on innovative means of content delivering system such as SNS and YouTube. The three stages are introduced as the G-L-G' Model: 'globalization of creativity' – 'localization of music contents and performers' – 'global dissemination through SNS'. This chapter also formulates an innovation index for popular music shows as evidence how Korea's K-pop stands favorably in the aspects of stability and innovation.

Chapter 10 analyses the success of K-pop via examining the structure of the new music industry's ecosystem. The chapter first begins with a look at how the new social media is qualitatively different from conventional media. Then, it moves to present the K-pop industry's ecosystem from the supply chain perspective, portraying a cyclical loop that consists of the producer's realm (including artists and writers), social media realm (i.e., YouTube), the music consumer or fan's realm, and the multinational companies' realm. Particular attention is given toward the utilization of YouTube in making the strategic choice to shift from B2B (business-to-business) to B2C (business-

to-consumers) as a core component in the globalization of K-pop. Here, interviews were conducted with entertainment specialists who are directly responsible for promoting the K-pop industry. These in-depth interviews, in turn, enabled important evidence related to the explanation of how K-pop's new business model was able to be established. In short, K-pop's success was contingent upon the mass production of creativity within the new ecosystem structure of the music industry.

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**PART I**  
**MAKING GLOBALIZATION**

## **Chapter 1. Korea's Globalization**

### **Two Tales of Challenge and Opportunity**

#### **Financial Crisis: Negating Korean Model of Development**

Before the 1997 financial crisis, South Korea (henceforth Korea) had accomplished remarkable economic growth leading to its characterization as the Korean miracle. Judged by the wisdom of hindsight, the development of Korea until the late 1990s has been enough to be recorded as a chapter of world history in view of the development. The process of development was so great that Korean experiences could be used as a textual guide of modernization projects. The rapid economic growth, exemplified by the fact that per capita income expands one hundred times (from less than one hundred in mid 1960s to ten thousand dollars in mid 1990s) only within one generation, is remarkable enough to make Korea a top candidate for the title of model country. Such an economic growth seldom have we witnessed among any developing countries, and hardly shall we in the near future either.

If a successful transition to democracy was to be added to that wonderful economic performance, Korea would become not only a model for economic development but also an exemplar of social development for the late developing countries. It is widely recognized that Korea's remarkable

economic growth resulted in a pathway from the periphery, elevating it to the rank of the eleventh largest economy in the world, and entry into OECD (Organization for Economic Cooperation and Development) in 1996. The development of the Korean society is widely cited as one of the great stories of the post-world war II era (Eckert et al., 1991:388).

However, this legacy came to an end in 1997 when the country was gripped by a financial crisis of historic proportions (Park, 2004:147). The celebration of the miracle was over in 1997 when the country was cornered into economic trusteeship of the International Monetary Fund (henceforth IMF) in return for bailout loans. A major part of the trusteeship was the Korean government's agreement to restructure the domestic economy and society under the auspices of the IMF, the leading international financial agency championing global capitalism (Park, 2004: 147). Korea lost both its past and future through the long journey the IMF-imposed governance and its accompanying structural reforms. The pillars of society that supported an unprecedented 100-fold growth in per capita income within a single generation had crumbled in an instant.

The financial crisis has created major ripples all across Korean society. Right after the declaration of financial crisis, virtually all socio-economic indicators fell into a miserable state within a day. Immediately after the announcement of the crisis, many of economic indicators and social indexes dropped sharply. The unemployment rate doubled within the first few months and the per capita GNP jumped down from over \$10,000 in 1996 to approximately \$6,000 in 1998, falling back to the level in 1991. Korea also witnessed corporate bankruptcies, malfunctioning of the banking and financial sectors, abrupt asset deflation, negative economic growth rates, increasing unemployment, and growing homelessness, all of which had been quite foreign to the populace and the general public of Korea (Park, 2004:148). The Korea

before and after the financial crisis shows two remarkably different social construction, enough for disbelief that the two eras took place in the same space.

The response of Korean society towards the IMF regime was that no entity would remain sacred any more if it could not guarantee livelihood, whether that be the nation, government, tradition, organization, or ideology (Park, 2003: 3). The mythos of the miracle on the Han River, as well as the four dragons of East Asia, transformed into that of a distorted hero, leaving 'efficiency' and 'competitiveness' the only worthwhile values in life for Koreans to embrace. The cost of this transformation for Koreans was quite high, as every day was a reminder of how adopting a whole new global standard, which itself had neither precedent nor clear identity, was not as simple a task as expected. As such, Koreans had been throwing away its own identity one by one trying to navigate the dark and long lost pathways of the IMF regime and its aftermath.

Koreans are all too well informed of what to throw away but are still confused as to what new things they should build for the future. With the old authority figures voted out, they have not been able to build a new authority to replace the old one. With the old developmental models thrown out, there are no viable alternative models for economic development as of yet. Concurrently, mistrust towards the government and institutions of governance is amplified but with no means for its reduction in sight. The same goes for traditional social communities in Korea. In other words, Korea faces a new era of uncertainty that is quite different from anything seen in past.

Words such as competitiveness, structural adjustments, flexibility, and restructuring were not those forced only upon business nor a mere few public institutions but became key words for society as a whole. The ideology that became the social hegemony in the aftermath of the crisis can be summed up as

‘all responsibilities lie with the individual.’ The spread of the neo-liberal global standards had the effect of clearly defining who is ahead and who is falling behind in society. This inevitably leads to a polarization of society in many aspects. The breakdown of society will accelerate under this trend, leading to intensified conflict.

In September 2001, about three years nine months later of the 1997 financial crisis, Korea paid the last installment to the IMF, completing the repayment of IMF loans three years ahead of schedule. The loan may have been paid in full, but the so-called ‘IMF Crisis’ not only halted the nation’s phenomenal decades-long economic growth but also brought about fundamental changes in lifestyle, employment pattern, corporate culture, and even worldview (Kim, 2004; Park, 2004). Indeed, the most striking aspect of the impact of the financial crisis is that it has not been limited to the economic sphere, as virtually every sector of Korean society has undergone and, to a large extent, is still undergoing significant changes. After the financial crisis and IMF trusteeship, confidence in the development of Korean society began to be undermined. Simultaneously, the operational rules and integrative structures of Korean society are rapidly losing their strength and vigor. Norms of trust are being shaken and the cleavages of conflicts are deepening. In a word, the financial crisis negates the Korean model of development and subsequently rethinks the past trajectory of Korean pathway to modernity.

### **K-pop: Sustainable global Vigor<sup>1</sup>**

Hallyu, also known as the Korean Wave, is arguably the most important cultural spread of Korea at the present time, and it is Korean popular music, simply referred to as K-pop, that has in recent years become the most important part of the wave. K-pop has grown into a popular subculture among teenagers

and young adults around the world, especially in many parts of Asia, resulting in the growing interest in all things Korean, including the widespread interest in the fashion and style of Korean idol groups in particular. All of this prompted Time magazine to hail K-pop as “South Korea’s Greatest Export”(Mahr, 2012) and according to some scholars, the spread of Korean popular culture in many parts of the world “illustrates the new reality that the North-South pattern of trade and cultural exchange that has dominated the world since the ascendance of European colonialism is giving way and making room for unexpected soft power”(Russell, 2012).

K-pop had a modest beginning on the global stage, first gaining popularity in Taiwan in the mid-1990s, followed by its successful penetration into the Japanese music market in the early 2000s, as evidenced by BoA becoming the first K-pop singer to reach No. 1 on the Japanese Oricon music chart in 2002. The popularity of K-pop continued to expand as it became popular in other regions of the world, including Southeast Asia and Latin America, and to a lesser extent in the West. In fact, since the mid-2000s, many music markets in Asia have been dominated by K-pop artists. K-pop’s breakthrough in Western mainstream media came relatively late in 2012 with the release of Psy’s Gangnam Style and more recently the fascinating aspect of BTS’s extraordinary success breaking the record of US Billboard chart.

What characteristics of K-pop make it unique and so appealing to its fans? First, K-pop is a mixture of Western sounds, i.e., pop, hip-hop, R&B, and electronic music, with a Korean flavor. In addition, foreign musical elements have also been integrated into both the songwriting process and music video production in order to broaden K-pop’s appeal. It is not uncommon now for K-pop songs to be written by American or European songwriters and producers, and collaborations between K-pop idols and American hip-hop stars have become more popular over the years.

K-pop is led by idol bands whose members are trained by entertainment management companies, which employ an apprenticeship model, a tightly supervised trainee program. Through this practice of apprenticeship, which often starts around the age of ten and usually lasts five years or longer, trainees hone their voices, learn professional choreography, and study multiple languages, especially English, Chinese, and Japanese, all the while living together and attending school. Because entertainment management companies fully subsidize and oversee the professional career of trainees, they reportedly incur relatively large expenditures to train and launch a new artist.

Another distinguishing aspect of K-pop is that its success is largely owed to the advent of social media networks, such as YouTube, Facebook, and Twitter (Kim 2013). Among these, YouTube is particularly noteworthy since it has become one of the most, if not the most popular music sharing platforms since the mid-2000s. Given this, it can be argued that the popularity of K-pop coincides with the growing acceptance of social media networks. As noted by a New York Times article, “attempts by K-pop stars to break into Western markets had largely failed prior to the proliferation of global social networks” (Choe and Russell, 2012). The sizeable overseas audience of K-pop was solely facilitated by this phenomenon, as social media networks made it easier for K-pop stars to reach a wider audience. The advent of the Internet has also facilitated a much easier, faster, and greater communication among fans. Online fan sites and fan cafés, many of which are launched by individuals, play a major role in spreading the news about their idol groups. By serving as a forum through which information about the groups is shared, the Internet is believed to enhance loyalty and solidarity among fans.

The other unique feature of K-pop is its fandom. K-pop fandom in and outside of Korea is characterized by its very committed and dynamic fan clubs (Park, et al., 2019). In fact, the nature of K-pop fan clubs is quite different from



their counterparts in the West. They are much more organized and systematized in their activities and play a much more active role in the affairs and activities of their idols. On behalf of entertainment management companies, for example, they carry out publicity stunts and devise ways to sell more CDs and expose their idol groups' appeal to wider audiences. In Korea, they are also engaged in philanthropic and goodwill activities, such as donating rice to the poor, donating money for a good cause in the name of their favorite stars, and doing volunteer work in order to help improve the image of their favorite idols (Korean Economic Daily, April 11, 2013). It would also not be an exaggeration to say that the success or failure of new idol groups hinges largely on the role of fan clubs. All of this has prompted some observers to argue that K-pop's staying power will depend largely on the actions of fans (Ramstad, 2012).

As to the more direct reasons for K-pop's popularity, K-pop is marked by easy-to-follow, catchy tunes, particularly the K-pop chorus. Typically, K-pop songs have repetitive and memorable choruses which contain simple Korean or English words so that international fans can sing along without difficulty. K-pop songs which have a strongly repetitive melody and electrical sound are called "hook-songs," indicating their ability to peg the listener. Visually, performances by K-pop stars, both live and recorded, are characterized by slick dance routines or synchronized dance moves, which are appealing to the fans. K-pop singers often switch their positions within the group line-up to create different group formations within a song, and the movements of singers and dancers are promptly harmonized and perfectly synchronized. While these performances boast complex gestures and systematic group formation, parts of the dance routines are typically simplified and repetitive so that fans can easily emulate them. K-pop music videos are also famous for their colorful, sophisticated, and extravagant visual effects, which highlight their dance moves.

One of the key issues facing K-pop is whether it can last as a cultural phenomenon, which will be able to continue on to the next generation and even possibly challenge the dominance of Western popular culture. It remains to be seen whether Hallyu has the creativity and universal cultural appeal, as well as the systems in place to carry out its dissemination on a global scale. Western and Eastern scholars alike have often held the view that Hallyu lacked creativity or universal cultural appeal. For example, Abelman (2013) and Ho (2012) argue that Hallyu is a side effect of a “fragile cosmopolitan striving” that demands the tragic sacrifices of young people who have no other option but to devote their youth to the fulfillment of parental and nationalistic desires to convert them into global export machines. However, K-pop has all of the necessary elements needed, the creativity, universal appeal, and global system of dissemination, to elevate Hallyu into a sustainable multicultural phenomenon.

One of the ways in which K-pop’s potential can be assessed is to examine the connection between the dynamism of globalization and K-pop’s production structure. By analyzing the K-pop phenomenon under the purview of cultural globalization, it can be argued that K-pop has successfully combined new elements of creativity and local variations into a new music genre. The manufacturing side of creativity, the concept of cultural technology, and the new system of disseminating K-pop through YouTube are all facets of the global music industry that Korea has been the first in the world to master. In sum, K-pop is an icon of contemporary globalization containing sustainable vigor.

## **Chapter 2. Aftermath of the Financial Crisis**

### **Restructuring, Betral, and Response**

#### **Comprehensive Restructuring<sup>2</sup>**

The 1997 financial crisis and the ensuing dominance of the IMF governance regime are often touted as a turning point for Korean society. It is high time to examine how memories of the crisis remain now in the minds of Koreans, as well as reflect upon what meaning the crisis had for Koreans as a whole. A good starting point for the answer is an examination of the changes the crisis brought to the everyday life of Koreans.

First of all, the crisis forced Koreans to throw away their past, as the IMF regime chose to recognize no value whatsoever in the ways of old. The regime was a verdict that stated everything the Koreans held sacred was wrong, and this judgment came just as Koreans got used to the notions of high-levels of economic growth, lifelong employment, faith in the community's consideration for its constituents, and pride in its own model of economic growth. Everything Korean had to be abandoned, whether it was rapid growth, lifelong employment, sense of community, sanctity of family, Korean model of modernization, or compressed economic growth. The recent history that Korean society held close to its heart was destroyed amidst the shockwaves of

the financial crisis.

Second, the crisis spread throughout Korean society the sentiment that no entity would be sacred enough to be spared from being let go, whether that be the nation, government, tradition, organization, or ideology. As a result, the ideas of post-nation, post-state, post-tradition, post-organization and post-ideology spread rapidly. This is in stark contrast to the previous era when for a long time Korean society had been widely mobilized upon the politics of identity, or more specifically the nation, state, tradition, ideology, and organization. In particular, during times when foreign pressure or stress was applied to the country, it was common to see domestic consolidation sought by asserting the national identity. This process was made easier by the fact that Koreans had always thought of the state, society, and the individual as a single organism with the same characteristics. At least until the breakout of the financial crisis, that is. The crisis then became the spark plug for inciting Koreans to reconsider who would take care of them when times get rough. Questions were being asked about things that were taken for granted in previous times.

A third change brought about by the crisis was the extent to which stability and acquiescence became the dominant lifestyle choices of Koreans, at the cost of adventure and challenges in life. While the latter two served as the primary engines for the compressed growth in Korea's past, the financial crisis crippled the sense of future-oriented adventure and challenge that used to permeate throughout society, paving the way for the penchant for pragmatic stability and survival as the new dominant motivational forces. Of course, this change did not come about all in one conforming wave, as even in the aftermath of the crisis many Koreans sought success based upon the notion that there is opportunity in crisis. Nevertheless, with the structural transformations taking place in society, many were forced to deal with real dilemmas in life,

such as the job security, family commitments, and eligibility for marriage that inevitably drove many to settle for more pragmatic stances in the end.

The other major change was that authority in society had collapsed while trust amongst society's constituents collapsed in the aftermath of the financial crisis. The IMF governance regime had vehemently dismissed the existing Korean methods for social management, resulting in an extreme debilitation of the authority that had sustained the country until then. The people's trust toward its public institutions such as parliament and government had already hit rock bottom even before any discussion took place on who to blame for the crisis. In a 2001 survey on quality of life immediately after Korea had settled all debt with the IMF, 88% of Koreans expressed mistrust towards its National Assembly, 79% towards government, and 72% toward large conglomerates. The legal institutions responsible for administering the law of Korea were also found not to be trusted (52%). On the other hand, educational institutions were trusted by a hair at 52%, bested by 54% expressing trust toward religious institutions (Park, 2003:174). The myth that many of Korea's conglomerates were "too big to fail" collapsed miserably, resulting in spreading general public sentiment that there is no one in society to trust any more. Even the traditional social safety net communities that relied upon mutual cooperation between its constituents were not able to fulfill their roles properly. As a result, perhaps the preeminent message left behind by the IMF regime for Korea was that of 'there is no one but myself to rely upon.'

The crisis has meant not only a comprehensive restructuring process in the institutional dimension but also a halt to Korean way of thinking and behavior in the cultural dimension. In post-financial crisis Korean society, moreover, there seems to be a sense of urgency to do away with traditional values and practices that hamper efficiency and competitiveness (Kim and Park, 2003: 37). It is true that uncertainty also existed in pre-crisis Korea, as

did the need to implement immediate change for its economy. However, such needs, even during turbulent times, were followed by a national consensus on what solutions there shall be, on what Korea's national identity is, and where the source of new growth should come from. Now, with no such consensus on such things, uncertainty has become a major cause for concern.

The most striking aspect of the post-financial crisis is that the message of restructuring is not limited to the financial sphere. Every agent of Korean society, including corporate, bank, labor union, government, and state-run enterprise has undergone tremendous transformations and significant changes with totally inexperienced and unexpected outcomes. Furthermore, the financial crisis has affected the social attitude, value, worldview and identity of Korean people. The financial crisis has drawn attention to negative aspects of traditional values and practices heavily hinged upon Confucianism. For example, it has been noted that family loyalty has justified nepotism, while respect for authority has engendered passivity, which allowed political and economic leaders to indulge in corruption. Moreover, reliance on personal networks rather than production competitiveness has eventually constrained the growth of firms. Reliance on relationships rather than in business transactions, especially in the banking sector, has also fostered widespread corruption (Kim and Park, 2003: 47). These changes urged Korea to removal of traditional values and pre-modern practices that might get in the way of increasing transparency and efficiency (Kim and Park, 2003: 47). In this sense, the crisis meant not only a halt to Korea's decades-long, phenomenal economic growth but also its subjection to comprehensive restructuring processes in every aspect of the society.

Controversies and debates over the causes of the crisis notwithstanding, Korea has undergone profound transformation, swallowing a bitter pill prescribed by global capitalism in general and IMF in particular. The IMF,

being a self-appointed agent of global capitalism, not only advises explicitly that something should be done about economic structure related to the financial crisis but also demands implicitly that all social actors must shrug off the past routines and take up a new way of thought and behavior.

Perhaps the preeminent lesson left behind by IMF-instituted governance structure following the 1997 financial crisis was that Korean society would have to learn and adopt global standards as was presented to them. Korea was told to aggressively abandon the 'local' and replace it with the 'global.' In other words, Korean standards were to be forcefully thrown out in favor of global standards. This pressure included not only the previous economic policies employed by the government but also Korea's tradition, customs, and even its value system and rules of society. It is not difficult to see the arrangement made between the Korean government and the IMF within which bailout funds would be provided in exchange for Korea's abandonment of local standards. The resulting decade that followed the IMF bailout saw Korean society pressured from two fronts. One was foreign capital pressuring Korea via international financing and international credit ratings. The other was pressure coming from the uncertain environment following globalization (Park, 2008a: 13). Such dual pressure can be widely observed in Korean society even today.

As such, the 1997 financial crisis and the ensuing IMF governance regime resulted in a major transformation to Koreans' habits of the heart. In other words, the governing values that sustained society up until the crisis had been replaced by others. As a result, the crisis brought upon not only a change in institutions and systems but also ignited an identity crisis that led Korea into a new era of social conflicts. The restructuring of Korean society that started with the financial crisis accelerated the country's absorption into the market system, meanwhile, widely imprinting upon Korean minds that competition is the only principle that is to be held sacred. The growing influence of the market

in society also gradually dwarfed any discourse on basic morality or values. In effect, the restructuring of Korean society since the financial crisis were the result of both the 'forced adjustment' placed upon the country by outside forces and 'contentious coordination' that took place in Korea's domestic sphere.

When the financial crisis was taking place in 1997, the image of Korea as perceived by Wall Street as well as the IMF—the entity that forced the abandonment of local standards—was an extremely negative one. The filters by which these outsiders viewed the country were of crony capitalism, government-directed financing, anti-market order, and moral hazards. The forced adjustment toward global standards that resulted from such a view basically was an ultimatum for Korean society to cut ties with its past. Put in a different way, Korea's trademark characteristics of compressed growth, lifelong employment, communitarianism, and Korean development model were all regarded as having past its expiry dates. For Korean policymakers back then who desperately needed the bailout funds, it was impossible to refuse the IMF's call to abandon local standards, but it was equally difficult to adopt global standards that weren't even well-defined at the time.

Globalization presented itself as a call for macro change in Korea by asking society to restructure itself. Since financial institutions and large companies were designated as the culprits of the financial crisis, they were placed at the center of restructuring. Whereas the 1980s financial crisis of Central and South America had its reasons in the failure of macroeconomic policy, the 1997 crisis in Korea was largely the result of weaknesses in the financial and corporate sectors. Of course, the most immediate culprit for the crisis was the government's rushing of globalization policy when the country simply wasn't ready, but the main problems were reckless investment by Korean companies and the insolvency of financial institutions stemming from many years of government-led financing. Accordingly, the IMF governance



program was, on one hand, brought in to provide relief loans that would stabilize the short-term foreign capital market, but more importantly it advocated mid to long-term restructuring in the financial and business sectors (Lee and Lee, 2007: 44). Considering how the crisis started with insolvency in the financial institutions, it was not surprising to see how financial institutions were the first to go under the knife.

The restructuring of the financial sector showed tangible results, as many banks were shut down while others were merged with other banks. The financial regulatory system also saw many positive changes, while financial institutions were also enlarged and consolidated. However, with these changes being led not by the private sector but the government, the practice of government-led finance sector of the past developmental state era was ever present.

Restructuring the financial sector in Korea showed the following characteristics (Hahm, 2007). First, it was the Korean government that led reform efforts. Second, financial institutions were separated into banks and 'the others' with banks taking priority in terms of reform efforts. Third, the restructuring of companies took place by indirectly utilizing banks as a conduit. Fourth, an intentional enlargement and consolidation of financial institutions took place. Fifth, the Anglo-American model was adopted in the nurturing of a market-based financial system. Finally, the financial sector and capital markets were almost fully opened to the outside world. In effect, the Korean government's restructuring of the financial sector, immediately following the financial crisis, dealt with insolvent financial institutions as well as insolvent bonds and normalized the financial market in its early days, conforming to the rules of market economy that adhered to international standards, while also establishing the rules for responsibility based upon transparency (Park et al., 2007: 132).

The restructuring of Korean society following the 1997 financial crisis brought upon the same challenges for the business sector as well. Strenuous structural reforms and adjustments became expected for the business sector, and the restructuring of the business sector took place on a wide scope and on many different levels. For instance, during the course of business restructuring, the paid leave regarded as the traditionally peripheral issue was brought on to the table as a target for management and innovation. The restructuring of corporate following the financial crisis did not only take place in the realm of the production side but also that of reproduction. The structural reforms thus took place in the workplace in terms of working hours as well as that of the individual lifestyle during free time. Within a very short period of time, the notions of competitiveness, flexibility, structural innovation, and core competency become the rules of the game for corporate restructuring.

What is noteworthy in conjunction with the business restructuring is the change in both workplace and vacation. The age-graded seniority system, familial structure, and lifetime employment, at least as an ideology, used to be the hallmarks of Korean corporate culture, were placed at the center of restructuring in workplace, which is the one of the most substantive unit in everyday life. Following the financial crisis in 1997, however, the layoffs, early retirement, job insecurity and increased competition have become the realities of the workplace. All uncertainties and harsher corporate environment changed the way Koreans think about work. Koreans' perception of work has become more realistic and self-centered, as they are much more conscious of their future potential and working conditions. The sense of identity is no longer primarily based on the work and job. Not surprisingly, job satisfaction has conspicuously declined. What is also noteworthy is how the heartless world of work, as it is now popularly perceived, has inspired changes in job selection considerations. What all of this show is that Korean workers' identities are no

longer homogeneous and work-oriented. Following the financial crisis, the working conditions and types of employment have become much more varied, leading to the gradual diminution of collective consciousness.

With the restructuring that followed the financial crisis, the very notion of vacation changed enormously. Within the many layers of restructuring that had taken place, the concept of vacation, which had been a residual category subject for a long time, had also been brought into the realm of management. The very notion of vacation has changed amidst the business restructuring in the aftermath of the financial crisis, changing from an opportunity to refresh by way of individual rest to productivity-raising reproductive time that is to be planned and managed. If the vacation of past concentrated on the concepts of rest and relaxation, the new one required a more active meaning of refreshment or reproduction. In other words, the motives of escape and relaxation became self-improvement and refreshment. If the old one meant an escape from the hectic schedule of the workplace, the new meant a time for refreshment and self-improvement by way of new ideas and creativity. Within this context, it is natural that businesses would attempt to actively manage its employees' vacation, and such management of non-working hours can be found in many diverse forms.

The financial crisis was a rude awakening, prompting Koreans to reflect on their values, worldviews, and the overall Korean way. What was disheartening was the fact that their prized way, at beginning in the economic sphere and subsequently in the whole sphere, proved to be inefficient and to a certain extent, even irrational. Koreans have long prided themselves in having embraced Korean values – i.e., deference to societal or group interests, emphasis on self-cultivation and education, respect for probity and loyalty, emphasis on social harmony, respect for authority and consensus over confrontation – and believed to a certain degree in their superiority

over western individualism in achieving rapid industrialization and sustained economic growth. In a word, the financial crisis highlighted the dark side of the cherished values (Kim, 2001: 16-7). In other words, the financial crisis and its subsequent impact could have triggered as a big challenge for Korea to overhaul the rationality of Korean society in responding to hard times.

### **Second Betrayal of the Global Standard<sup>3</sup>**

When the global financial crisis hit in 2008, Koreans, who experienced its own financial crisis in 1997, were unable to shake off the feeling of being betrayed by the global standards it was forced to adopt over the past decade. This ethos dates back to the decade since the financial crisis of 1997 when Korea poured its heart and soul into conforming to global standards. Yet in the aftermath of the 2008 global financial crisis, it is difficult to deny the sense of betrayal in realizing that the global standards Korea worked to adopt were less the textbook measures that the country thought they were.

Just as Korean society was getting over the long tunnel that was the financial crisis and its side effects, the 2008 global crisis caused much confusion as Korea immediately found itself locked in a labyrinth. Korea had just finished its forced study of global standards, and was on the cusp of habitualizing those standards in society when the global financial crisis hit. Soon, the U.S.-based global standards that led the world during the 1990s were given a death sentence. While it was apparent that the economy itself would eventually recover based upon the cyclical history of capitalism, forming consensus on which direction to steer the economy was difficult. Traditionally, the U.S. model for economic recovery stressed low taxes, light regulations, and small government as the engines for economic growth. The Reaganism of the 1980s had reversed the course of large government that had been for the past

century. Deregulation itself became not only a U.S.-based trend but a global one as well. Many believed that the financial market itself was capable of self-restraint (Fukuyama, 2008). Yet, Alan Greenspan who served as the Chairman of the Federal Reserves has stated in a recent congressional hearing that the financial institutions ended up not protecting its shareholders and investors in spite of strong expectations that they would. Such is the doubt now placed upon the U.S.-based model of sustainability. All this came as a major betrayal to the Koreans who believed and implemented the textbook global standards with such strong fervor.

The adjustments to global standards forced upon by outside interests were not limited to the economy. The demands placed upon Korea were to not only conform its standards of business, finance, and labor to international standards, but also change Korea's general customs, values, as well as social norms. To be fair, the adoption and spread of global standards in Korea have had limited success in changing its backward practices, but the process of forced adjustment brought upon side effects, namely the rapid deconstruction and fragmentation of society. The sense of identity that defined who Koreans were at the time had been shaken to its roots, while the notion of trust that had been the basis for reproducing mature social relationships fell rapidly. In particular, the Korean public's level of trust toward the public sector had fallen to levels so low many became skeptical whether society itself could hold together for long (Park & Jang, 2005: 172).

The process of forced restructuring by outside interests led to the Korean public's general acceptance of the inevitability of globalization, and that global standards would become the norm. In other words, many began to feel that as long as they adhered to these new concepts there would never been another financial crisis like that of 1997. The strange and awkward terms that were heard often during the IMF governance regime soon became

mainstays in conversation. Yet, the cost of learning had been enormous. For example, terms such as AAA credit ratings, BIS ratios, bailouts were more than just financial jargon but symbols of how Korea's economic system had been completely overhauled. They also meant that the Korean social structure had been overhauled and replaced by a new order. The rapid shift is evidenced by the sudden popularity enjoyed by such difficult and new terms as derivatives, de-leverage, current foreign debt, currency swap, and knock in knock out. The borrowing of such new economic terms, mainly financial term, foreshadowed a new era where the social system of Korea was about to go through a sea change.

In Korea, the decade starting with the 1997 financial crisis and ending with the 2008 global financial crisis saw both progressive and conservative political parties winning the presidency. Several distinct governing ideologies were propagated by different presidents under the mottos, 'politics of the people,' 'politics by participation,' and 'politics of pragmatism.' Although all three governments had vastly different ideologies and were elected to power by different voting bases, the one thing they surprisingly had in common was the neo-liberalist globalization agenda under which society was managed, resulting in an accelerated breakdown of its social structure. The Kim Dae-Jung government(1998-2003) that launched itself immediately following the financial crisis brought in neo-liberalism as a major governing ideology, while the Roh Moo-Hyun government(2003-2008) simply expanded neo-liberalism's reach in Korea. Ironically, the Roh government that expounded 'politics of participation' ended up promoting the limitless competition of neo-liberalism, evidenced by and culminating in the Korea-U.S. free trade agreement. The ensuing Lee Myung-Bak government(2008-2013) then became the incarnation of neo-liberalism itself by concentrating on deregulation in the market, while pulling its support in building social safety nets, and instituting neo-liberalist

rule based upon an authoritarian regime (Chung, 2009: 128).

The economic crisis and the neo-liberalism that emerged as the antidote to the 1997 financial crisis eventually weakened the foundations of Korean civil society, resulting in the destabilization of the basic social units of family and work. With the polarization of politics taking place at an accelerated rate, the public's sense of belonging to a community or sense of unity had taken a big hit, resulting in a dramatic reduction of the participation in public interest endeavors (Chung, 2007; Cho, 2007). With the resolution to social issues now being forcibly searched for in the realm of economics, the emergence of conflicts loomed ever stronger in society, with the mechanisms for managing such conflicts shrinking by the day.

### **Social Response to the Crisis<sup>4</sup>**

There are generally two ways to respond to an uncertain future. One is to respond with a sense of adventure or challenge. The other is to respond with stability while adhering to what general flow of things. Between these two choices, it would not be wise to say that one response is better than the other, as the answer would vary according to time and space in a historical context. For the case of Korea following the IMF regime, the keywords that cut through society can be divided into two groups. On one hand, the adventurous ones such as venture capital, startups, entrepreneurship, all-in, and bonanza. On the other hand, the stable keywords such as civil servant boom, risk aversion, family, and pragmatism. Immediately following the financial crisis, the preeminent trends that emerged in Korean society were a sense of adventure and challenge. In other words, when the initial shock and panic had waned, the spirit of adventure and entrepreneurship had emerged, with soon everyone talking about the methodology of turning one's life around. Once in a while,

the business sector would produce an example of great success, upon which the government and media would publicize its architects with the grandiose title, new intellectuals. All this took place without the ideological divide that always had been present in Korea, as all Koreans were mobilized to overcome the crisis at hand.

However, as time passed, bubbles were burst in the venture capital sectors and holes were exposed in the startup businesses, greatly transforming the trends of entrepreneurship and adventure into those of safety and pragmatism. Investment into startup companies were then perceived to have a higher chance of failure than success, while the spirit of going all-in on any given project for the chance of big pay days often left one in debt and possible imprisonment. The romantic notions of finding opportunity during crisis or seeking a reversal of fortune were inevitably and structurally abandoned and replaced by the desire for stability at all costs. This choice had little to do with not favoring adventure nor favoring stability but more with the social environment not having the resources to support such initiatives.

The KOSDAQ (Korean equivalent of the NASDAQ) market alongside venture capital-supported businesses had for a brief while become the saving grace for the adventurous types looking for financial success. However, no one would be hard pressed to find any of the major players from then still enjoying the same level of success. The stock market is not the only place where one could find the spirit of adventure replaced by that of stability. It also shows in the top sellers lists found at bookstores. In the immediate aftermath of the financial crisis, the top sellers dealt with the subjects of venture capital, entrepreneurship, investments, and future scenarios. Yet in recent, such subjects are snubbed, especially in the aftermath of the bursting of the venture capital bubble, which at one time been the savior for Korean society let alone the business sector. The difficulties of setting up startups, as well as constraints



associated with the structural reforms that followed the financial crisis led many to abandon any sense of adventure in favor of mere survival within an organization or workplace.

Within such a context, the best sellers' lists turned a page and were unexpectedly inundated with books that show pragmatic skills. The fact that such books only started selling in droves three to four years after the financial crisis shows how this is the second wave of social consciousness who just recognized how the first wave of adventure and challenge was never going to be a solution to the problems following the financial crisis.

No other trend shows the Korean penchant for stability more than the rise in popularity of civil service. Civil service has risen to become among the most favored jobs in the country, with applicants for 7th and 9th level civil service exams rising every year at a rapid rate. Trends in larger society show this newfound enthusiasm for civil servants as they have recently been ranked as the most sought after as spousal candidates for both men and women. The reason behind this popularity is the loss of confidence towards the private company as a provider of lifetime employment in the aftermath of the financial crisis. Civil service is among the few sectors that still do guarantee such.

While it was not uncommon in the past to see a man marry a teacher or a civil servant, it is a relatively new phenomenon in the aftermath of the financial crisis for women to do the same. According to marriage matchmaking service data, the pre-crisis era (1996) had Korean women preferring men who worked for large conglomerates and this trend persisted until right before the year 2000. Yet, in 2005, civil servants ranked at the top, followed by teachers. Such is a huge change in Korean society. When a newspaper surveyed potential applicants for civil service exams, the applicants' reason for applying was 75% due to stability of the profession, while only 13% said it was because of interest in the type of work. This shows how the motivation for becoming

a civil servant in Korea is very passive yet pragmatic. A Samsung Economic Research Institute's 2003 report also states that for Koreans in their 30s, 40s, and 50s, job stability was the primary concern for a profession while only those in the 20s thought aptitude and enjoyment were important factors.

As a matter of fact, university students rank civil service as the most popular profession, as well as consider civil service the most preferred job for a potential spouse. In other words, stability has beaten money, promotion opportunity, and sense of achievement as the Korean standard of success. Even with the recent calls for reform and merit/incentive system brought into the civil service, job security still acts as a very strong pull. The enduring popularity among science-based university undergraduate students toward graduate programs in medicine is also reflective of this trend toward seeking job stability. On the other hand, bankers, who suffered the most during the financial crisis and had bowed out of the top spousal rankings back in 1998, came back into the fold in 2006, ranking number three among all professions. However, no other job has been able to dethrone civil service with its guarantee of job security.

There is no question that the financial crisis and ensuing decade shook Korean society's structure of trust down to its roots. Starting with the mistrust towards government, trust or loyalty towards one's workplace would also be very different from the past. In addition, the various social communities that traditionally acted as a cooperation-based social safety net have become impotent in terms of providing real help. As a result, the popular saying of recent in "There is no one but family and myself to trust," speaks of the level of social responsibility that has emerged throughout the ten years since the financial crisis. Traditionally, Koreans had regarded the nation, society, and state to be one organic structure, at least until the financial crisis erupted. Now, workers across the country trust no one but themselves, irrespective of

whether they have experienced structural reform or layoff or not. The notion of a lifelong workplace had long been gone, as anyone can be laid off at any time. There is no more mutual cooperation among social units to provide social safety nets, and the government's support is also timid. Given these constraints, it seems only natural that one should look after him/herself.

The notion of family also rose to the fore following the financial crisis. In a society where the extremes of efficiency and competitiveness are stressed left and right, the only social units where any sense of a caring community can be found is that of the family. The family unit is rising. The family itself also had to change much in the aftermath of the crisis, as its strategy for responding to uncertainty took a toll, forcing everyone to rethink what it means to be a part of a family community.

The trend of avoiding risks and adventure was not limited to the individual but also infected the business sector. The IMF regime required Korean business to undergo qualitative transformations. As a result, the business sector had to be sensitive to even the slightest changes in global standards. Of course, an enormous price was paid throughout the process of financial crisis and ensuing IMF regime to learn these prerequisites to becoming a global business. Korean businesses had to adopt a change of strategy different from before, as the mythos of the great Korean conglomerates collapsed, with its seemingly ironclad banks also falling alongside them. The new strategy consisted of concentrating strongly on protecting ownership, consolidating internal structures, expanding soluble fund reserves, and adopting conservative investment scenarios. In terms of the guidelines for business investment, a clear break from the past was made in that risk-averse investments were the forte. With the rules of economics becoming dominated by those of the market, the methods for calculating interest not only changed from the previous but also became less certain and the standards for business

activities also became stricter.

In an unprecedented break from the past, much more concentration was placed upon reading the signals coming from the markets. In other words, the traditional merchants' saying that "the more dangerous business the more profit it yields" was no longer a rationale that was easy to put into practice. From the business' point of view, it was naturally preferable to counteract uncertainty with a strategy of stability rather than adventure. That the 2006 investment in plant and equipment for Korean companies had only a 0.4% increase shows how risk-averse the businesses have become which, in turn, is a reflection of what lows.

The power of a business is often imbued upon by the consumers' choice. The taste and choice of a consumer in these modern times is different from the past in that they are quite turbulent and short-lived. Such is the reason why the developmental state model of past and its attached high growth can no longer be expected in this day and age. Many experts agree that Korea has no choice but to embrace a low growth economy from hereon, thus the function of aggressive investment leading to profit can no longer be counted upon as a realistic option for its economy. Without the dynamism of its glorious past present in a low growth social environment, it has become less likely for even the most ambitious new business in Korea to find its niche and grow like they used to in past.

All things considered, Korean society experiencing since the IMF regime and returning to a culture of stability is a most rational choice based upon the motive of self-preservation. One cannot fault the Koreans for choosing so. Whether it is the popularity of civil service exams, conservative investment portfolios, or reducing spending to prepare for the future, these are all most natural responses. However, there is a problem of a tipping effect when it comes to the desire for stability in Korea. The rush towards young people

becoming civil servants for stability purposes is more than just a phenomenon by itself, as it also foreshadows a loss of potential social dynamism in Korea's future that can be directly traced back to the tipping effect of extreme risk-averseness and self-preservation now.

When it comes to the desire for stability by the Korean individual or business, it would be wrong to assume from these that society itself has become more conservative. This is in spite of the general fact that stability and conservativeness go hand in hand, while change is often regarded as the result of progressive trends. In the case of Korea, one must examine the backdrop to the stability/change in order to arrive at the correct conclusion of whether it is trending conservative or progressive. The key is to examine whether the decision to choose stability was an active decision or a passive one. If it is the former, then the voluntary nature of it can correctly lead to the assumption of a conservative trend in society. However, if the choice of stability is a passive and reluctant one, then one cannot discount the possibility that the choice was made from dissatisfaction with social unrest, which could later on explode into a revolutionary spirit. As such, it is clear that the desire for stability in Korea is not of the same nature as the penchant for stability and its institutionalization as observed in mature societies.

## **Chapter 3. History of Globalization**

From Enthusiastic to Coercive and Mimetic globalization<sup>5</sup>

### **From Enthusiastic to Coercive**

In the decade since the early 1990s, Korean society had experienced both globalization's dream and burdens. In fact, it is not easy to find a society that has experienced such a dynamic mix of acceptance, rejection, and institutionalization of globalization as Korea. Korea is one of the typical cases of now not only practicing massive globalization but also confronting huge anti-globalization. Globalization has passed through the prism of national legacy and historical contingency of Korea and came out the other end as a varied spectrum of restructuring outcomes. The core message of globalization claim was that Korea was lagging behind in the world time, and that a fundamental change to the existing social structure was necessary to catch up with the global standard. Such message was the predominant social pressure exerted upon Korean society especially after the 1997 financial crisis.

Korea's launching of globalization project actually started in 1994 when the President Kim Young-Sam (hereafter YS) visited Australia in 1994. Under the name of *seggyehwa*, the YS government (1993-1998) attempted a top-down reform to cope with the environmental uncertainty of the rapidly

changing world.

Globalization is the quickest way to build the Republic into a first-rate nation in the coming century. This is way I outlined a concept of segyehwa (globalization) last November and why the administration in now concentrating all its energies on this task with the aim of globalizing political, diplomatic, economic, social, educational, cultural, athletic and all other fields. Our perspective, attitude, institutions, and practices must all be elevated to global standard. Globalization cannot be achieved overnight, however. It will require hard work, great endurance and true courage. It is the only way for us to go. There is no other choice. Therefore, I set globalization as the foremost national goal for this year (Present Kim Young Sam, New Year's press conference on January 6, 1995).

As a crucial effort to accomplish this grandiose national goal, the YS government decided to become a member of the OECD, while it was not fully ready with institutional measures in preparation for the unfettered inflow of international capital that was an unavoidable outcome of joining the OECD. Moreover, unfortunately, the globalization project of Korean society encountered the financial crisis, whereby the country was placed under the auspices of IMF. Given this past, it has been difficult for Koreans to disassociate globalization from negative perceptions with regard to the IMF bailout loan, financial crises, economic struggles, and breakdown of society.

In retrospect, Korean society's march toward globalization started not even with basic understandings of its definition nor a strategy on what interest to seek from the process. The push toward globalization merely launched as a top-down catchphrase and political doctrine invented by the central

government. It may be even appropriate to argue that the Korean government had a 'romantic' view of globalization. As much as Korean globalization started out as mere aspiration without preparation, it had left behind a brutal reality, a financial crisis that was the furthest from the government's earlier romantic vision. In this way, Korea's globalization experience started with a regretful catastrophe. The reality of globalization perceived by Koreans was not a possibility for another economic take-off but a harsh challenge of restructuring all aspects of society to accommodate major principles of neo-liberal global capitalism.

The YS government as the instigator of globalization made rushed attempts to make economic reforms under the slogan of globalization without sufficient preparations for a crucial transition to a more comprehensive market economy. The YS government was not fully ready to undertake necessary reforms in that it was not able to handle the local resistances from various interest groups including the Chaebol. Because of the overwhelming resistance from big businesses, the Chaebol reform ended in fiasco. Many substantive restructuring programs were suggested but left unimplemented. Only capital market liberalization was hastily undertaken, while the government failed to supervise excessive foreign borrowing activities, especially by inexperienced merchant banks (Jung, 1999: 79). As in result, \$150 billion of external debts were piled up, with sixty percent of the obligations having less than one year to maturity and over twenty-five percent maturing in ninety days (Piper and Taylor, 1998: 57-8).

After joining the OECD, the Korean government progressively liberalized its financial market. As deregulation on capital inflow proceeded, the domestic financial system was more exposed to dynamic influences of international financial markets. Nevertheless, monitoring mechanisms became even looser. The crisis was intensified by the gradual weakening of regulatory



control over the liberalizing financial market in the 1990s (Haggard, 2000: 138; Cho, 2003: 258-262). All these circumstances meant that domestic financial institutions tended to be more vulnerable to liquidity crisis. It can also be pointed out that necessary structural reforms were not implemented expeditiously enough by the government to forestall the impending crisis.

To summarize, the YS government decided to join the OECD and liberalized the economy, while it did not launch proper institutional measures in preparation for the unregulated inflow of international force and standard. As if it were a reckless knight to the world. In this sense, we can characterize the YS government's globalization project as 'enthusiastic propaganda globalization' (Park, 2004). The YS government played a great role of the instigator of globalization. The enthusiastic globalization ended in coercive isomorphism from outside pressures. Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may be felt as force, as persuasion, or as invitation to join in collusion (DiMaggio and Powell, 1983).

Korea also witnessed subsequent economic restructuring processes in the post-financial crisis period, passively accommodating the demands from strong global capitalism, in which especially the American version of global capitalism has invariably served as the model. The globalization project orchestrated by the Kim Dae Jung (hereafter DJ) administration (1998 - 2003) can be described as continuous efforts of overcoming economic crisis through neo-liberal transformation of Korean society. The DJ government accepted almost all textual prescriptions recommended by the IMF as if it were a docile student of the IMF school. In this sense, we can characterize the DJ government's globalization agenda as 'forced and coercive globalization.' As a matter of fact, the government was more eager to learn and emulate the

American style of economic management than any other Korean governments, accommodating the IMF's guideline and textual prescription.

The IMF not only advised explicitly what should be done about economic restructuring with regard to the financial crisis but also demanded implicitly that all social actors must give up the past routines and take up a new way of thoughts and behaviors suitable to so-called global standards.

The IMF's textual prescription for restructuring Korean society, however, was ready-made and therefore lacked flexibility (Kim, 2000). When the IMF provided rescue funds for Korea, it also attached conditionality terms that requested macro-economic stabilization policies and radical restructuring processes. The terms were the typical same stipulations that IMF imposed on many debtor countries all over the world with which it pushed the logic of market oriented neo-liberalism worldwide. The IMF program is now often criticized as "one-size-fits-all approach" or the "same old belt-tightening adjustment" (Lee and Rhee, 1999), worsening the credit crisis of already struggling corporations, triggering a chain reaction of bankruptcy, and driving the economy into deeper recession.

The standard prescriptions of the IMF were indiscriminately applied to the Korean case as well, although the country showed few of the symptoms typically associated with the austerity measures. Unlike the South American countries, Korea recorded low inflation rates and balanced budgets. In addition, the economic fundamentals underlying Korean crisis differed in many respects from the crises in Southeast Asian countries. The crisis in Korea was not a fundamental structural problem but a less complicated currency crisis. In fact, Korea's domestic economic fundamentals before the crisis were relatively sound. The GDP growth was strong and steady, unemployment rate was fairly low, saving rate was high, and the government budget was in balance (Bank of Korea, 2001; KDI, 2001). Foreign liabilities were not mainly composed

of speculative asset positions or excessive imports of consumer goods but mostly of financing investments in export sectors. The major problem was the excessive short term borrowing by banking and corporate sectors and a mismatch between short-term borrowing and long-term investment.

The IMF proposed a series of comprehensive reforms suggesting that Korea build up a competitive market system, create effective corporate governance, and deregulate capital markets. However, the IMF prescriptions of macroeconomic reform packages turned out to be less adequate and even detrimental to the Korean economy in the face of temporary illiquidity. Unstable firms suffered from even worse credit crunch which lead to a chain of bankruptcies and drove the national economy toward depression. IMF's five percent inflation rate target was already too strict, given that the economy had to deal with a big rise in import prices due to devaluation (Park 2004). A common problem found in many IMF packages was that nominal fiscal targets become much tighter in real terms than had originally been foreseen (Feldstein, 1998; Piper and Taylor, 1998: 58).

The IMF's ready-made program packages apparently suggest restructuring the whole economy and society of the recipient country. The IMF program for Korea was not an exception, requesting radical structural and institutional reforms, although they were not critically needed to resolve the temporal currency crisis (Wade and Veneroso, 1998). The IMF's strong pushes in the name of global standards were apparently harsh for the nature of the crisis. The reform programs not only worked to sort out weak sectors and inefficient firms, but also victimized many viable sectors and firms.

Accommodating the IMF's guidelines, the DJ government puts out a slogan of parallel development of democracy and market economy as a theoretical foundation of its economic policies (Kim, 2000). With regard to practical action items for specific policy formulation and plan implementation,

however, it provided fairly unrealistic and unclear directions. In theory, the principle of democratic market economy aimed to remove unfair economic policies and practices and to form a healthy market economy in which fair rules of free competition were observed. But that was all and the principle did not go any further. And restructuring of the DJ government can be characterized as 'enforced restructuring', since it followed very nicely neo-liberal restructuring processes under the condition of external coercion. Of course, the neo-liberal reforms of the DJ administration should not be ascribed exclusively to the external pressure of the IMF's prescriptions alone. The concrete demands of the DJ government were, more often than not, much more liberalistic than the abstract guidelines of the IMF conditionality terms. The nickname of the DJ government is 'the docile student of IMF school'.

In terms of economic reform and societal restructuring, the policy essentials of the DJ government were in continuum of those of the YS administration. Although the two governments are chronologically separated from each other, one coming to power before the IMF control and the other after, as weak local actors vulnerable to strong global pressures both share the same essentials of externally driven reforms and passively emulating policy-making processes.

### **From Coercive to Mimetic**

The mechanism for the response of Korean society to hard times is twofold in globalization context: coercive one in response to external pressure and mimetic one as means to respond to an uncertain environment. The responding mechanism, of a society that has experienced globalization through a financial crisis, was on one hand, much affected by the pressures from the IMF, international financial institutions, credit ratings companies, and Western

capital, but on the other hand, imitation of foreign examples to guard against the uncertainties created by global capitalism. The former can be described as coercive globalization as related to political influence and legitimacy, while the latter is mimetic globalization arising from the standardization of responses to uncertainty. Coercive one is, in essence, an asymmetrical relationship of one side being unilaterally dependent upon the other—rapid in pace, and results in much opposition from within society. Mimetic one is the process of moving away from the asymmetric dependence—much slower in pace and with both opponents and proponents within society. Both isomorphisms are outgrowths of restructuring that takes place without due diligence toward neither economic appropriateness nor efficiency.

Korean society's globalization following the financial crisis is peculiar in the speed of transition from forced adjustment to its general adoption. Initially, the globalization under the DJ government was a forced adjustment with coercive manner implemented by pressure from the IMF governance regime. It worshiped the endless expansion of the market as well as the creative destruction that resulted from it, resulting in the forced adoption of neo-liberalist values such as liberalization, deregulation, and privatization. The DJ government's socio-economic policy was to transform Korean society into a neo-liberal one. It sought to overcome the crisis by allying with global standards. Accordingly, the DJ government was extremely eager to adopt the demands of the IMF, resulting in Korea becoming the country whose methods of economic management were the closest to that of the United States (Park, 2003: 134-135).

Uncertainty is a powerful force that encourages imitation. Theoretically mimetic globalization works where uncertainty encourages imitation. When goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organization. The advantages

of mimetic behavior in the economy are considerable, facing a problem with ambiguous causes or unclear solution (DiMaggio and Powell, 1983). Organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful.

From thereon, Korean society entered the phase of mimetic and then normative globalization, under which society itself would be sometimes wholeheartedly and sometimes reluctantly accepting of global standards. Alongside a change in perception towards foreign companies or products entering the country, Koreans have accepted global standards as a major pillar for its social order. As such, Korea's globalization shows a shift from forced adjustment to general adoption within a relatively short period of time. In terms of the breadth of globalization in Korea, it is safe to say that no social aspect has remained immune to the forced readjustment of global standards. Global standards were not only forced upon in business and finance but also government, academia, and even nongovernmental organizations, seeking legitimacy through a more subtle and more consensual way.

Most of the global standard norms and systems that were forced upon Korea were of the American brand, or market-centric and capitalistic methods and culture of the United States. Capitalism of the United States has the following characteristics (Park, 2003: 96-99). First, it is a shareholder-based capitalism. Second, the system has the financial market at its core. Third, the system was designed to shut out moral hazards from taking place. However, these three pillars of U.S.-based capitalism have, over time, been shown to be weaker than initially thought. Shareholder capitalism concerns itself with shareholder interest, but mostly short-term interest. In other words, it seeks to maximize share values by instituting ruthless restructuring for the sake of cost-cutting, bold selling off of assets that do not guarantee short-term interest, performance-based pay, and stock options. In the aftermath of the global

financial crisis of 2008, much self-reflection and criticism has been placed upon the shareholder capitalism that expounded the maximization of share values.

In the capital market, the traditional role of banks was reduced while the role of bonds and funds were increased, mutual funds receiving many accolades for its role in increasing private assets. In the financial markets, the presence of institutional investors dwarfed private investors. Banks themselves became less commercial banks that served traditional roles of deposits and loans, but more investment banks that aimed for much larger profit margins by way of stocks, bonds, M&A, and consulting opportunities. The new system of greed that had the financial market at its core reached its peak with the introduction of derivative products.

Another reason why the U.S.-based management and corporate culture became the global standard was the belief that the system would prevent moral hazards from taking place. U.S.-based capitalism supposedly had an airtight system of keeping moral hazard from taking place, through its various systematic mechanisms based upon the theory of separating owner and agent. External and internal controls would guarantee healthy corporate governance while flexibility in the labor market would prevent moral hazards in the labor market. Such systems were praised for its ability to prevent moral hazards.

In effect, the system of U.S.-based shareholder capitalism and financial markets were adopted as the global standard that Koreans had to learn. In retrospect, it was fortunate that the global financial crisis of 2008 hit before Koreans were able to learn the practice of utilizing derivatives, which was found to be among the main culprits behind the crisis. One can only imagine the fallout that would have come if Koreans had learned how to create derivatives as financial product.

The global financial crisis in 2008 was revealing of how U.S.-based

capitalism, that would strictly control moral hazards, had faults of its own. In the meanwhile, the remedies employed by the U.S. government to resolve the problems associated with the crisis were notably un-American in nature, as insolvent enterprises were being supported with public funds as opposed to being marked for restructuring, and the neo-liberal approaches were being replaced by protectionism. For Koreans, there exist no textbook that explains what this new phenomena meant, as the model for Koreans to emulate was simply gone (Kim, 2009). The Korean government, desperately seeking foreign capital in order to get out of the crisis on hand, had no choice might be an answer. But the problem is that injection of foreign capital continued well beyond the level inevitable to bail out a cash-strapped government. In the meantime, the spread of global standards widely observed in everyday life, resulting in the phase of normative globalization was not enough to be regarded as a well-established normative phase yet.

The next stage is slowly emerging where there is an easier accommodation of global social operating norms as well as its rules and institutions. Such evidence and reproduction of normative isomorphism is commonly found in Korea these days. At last, globalization has been accepted as the operating norms for Korean society as well as daily life. As shown in several surveys, there is a change in perception toward foreign companies or products in Korea that is evidence that Koreans are more accepting of the domestic changes taking place as result of the adopting of global standards.

In a survey of university students(The Yonsei Annals, April 2001), the question was asked on their views toward news of Starbucks or JVC entering the Korean market. 51% of the respondents answered no opinion, 21% responded favor, while only 23.2% were in disfavor of the news. On the subject of free trade, 40.9% responded positively in that it would lower costs for consumer products and have them anticipate economic growth, while only



16.9% responded negatively. When asked of the pace of Korea's globalization, 63.9% responded maintain current level or must become faster, while 19.9% responded must slow down. A survey of the general public also reveals that the perception toward foreign companies in Korea after the financial crisis has greatly changed to become favorable and open (Hankook Ilbo, December 13, 2001). On the topic is the role of foreign companies on Korean economic development: 70.6% of a survey responded favorably, while 79% expect foreign companies to become a larger part of the Korean economy in the future. However, when asked on what companies are favored, 12.7% answered foreign companies, while 47.5% answered Korean venture/small to medium size industries, and 38.0% answered large Korean conglomerates. This reveals that while Koreans accept the positive role of foreign companies, there still exist psychological impediments that keep them from accepting whole-heartedly. Meanwhile, on the topic of adopting English language as the basic foundation for globalization, 54.0% are positively inclined (Munwha Ilbo, December 21, 2000). Another survey states similar results: 56.7% of Koreans favor using English as a second official language while 39.3% are not (Donga Ilbo, 1999). On allowing dual citizenship, it is relatively evenly divided as 31.2% favor while 36.0% disfavor (Munwha Ilbo, December 21, 2000). Overall, these suggest an active turn toward cultural openness.

Korean society is gradually showing more positive responses toward globalization. Such shows both the acceptance of global economic order as well as a need to respond to it. Hence, it can be deduced that Korean society's response toward globalization has reached a normative and systematic isomorphism stage.

## **Chapter 4. Theoretical Framework**

### **Globalization and Development<sup>6</sup>**

#### **Globalization View: Interplay between Globalness and Localness**

There is much debate currently about trends of globalization, raising the issue whether or not globalization induces convergence in economic and organizational patterns across countries (Guillen, 2001). In its simplest classification, the body of literature on this issue has been developing in two ways with two different assumptions: one has been with an assumption of increasing convergence and similarity across national borders, so called the worldwide isomorphism; the other has been with an assumption of unique character and long-term resilience of national models, so called national path dependency.

In general, the former is adopting worldwide convergence and isomorphism arguments, emphasizing structural similarities driven by increasingly homogeneous world economic and cultural environments. Traditional modernization theorists argue that nearly all societies are, at difference paces, converging towards the same stage as a consequence of increasing complexity of economic system as well as the emergence of 'industrial man.' (Kerr et al., 1960). For instance, modernization arguments

stress that the structural forms of contemporary national governments become more complex to satisfy increasingly necessary requirements and functions nation-states should fulfill (Jang, 2000). The argument runs with fairly functional tones that the increasing complexity of world modern systems—of trade, of political scope and responsibilities, of production and social reproduction—requires that the national states should be restructured so as to enhance capacity and efficiency. As a result, as the world becomes more modernized, increasingly similar functional and technical requirements make individual nation-states look much alike (Drori et al, 2006).

In contrast, John Meyer and his colleagues pay more attention to the cultural and institutional aspects of increasing worldwide convergence (Meyer et al., 1997). This perspective emphasizes greater similarity among countries in terms of such rationalized features as bureaucratic administration, formal education, human rights, and organized science. Systems of economic organization evolve in response to inescapable demands from institutional environments understood as a set of cultural rules and guidelines. World culture have created wave after wave of standardized national policies, committing countries to the pursuit of collective progress and individual welfare and equality, and to international cooperation (Lechner and Boli, 2005). The extraordinary expansion of world political society results in an explosion of the use of science, various principles of standardized social rationality, and dramatic emphases in individual rights, welfare, and empowerment (Meyer and Rowan, 1977; Scott et al., 1994; Meyer and Jepperson, 2000; Schofer, Ramirez and Meyer, 2000; Drori et al, 2006). The differences across countries are temporary (Djelic, 2002: 353), and similarities in a variety of structural arrangements are frequently found in different countries.

The path dependency perspective is adopting a historic and comparative argument, emphasizing the resilience of local patterns in the face of

Table 1. Comparison between Convergence Perspective and Path Dependency Perspective

	Convergence Perspective	Path Dependency Perspective
Emphasis	Global Similarity	National Difference
Impetus	World Economic Integration	National Legacy
	Global Cultural Guidelines	Local Contingency
Dynamics	Politics of Globalism	Politics of Nationalism
Process	Conformity to Economic or Cultural	Resistance by Local
	Rules(Worldwide Isomorphism)	Actors(National Resilience)
Outcome	Homogeneity	Heterogeneity

globalization (Fligstein, 1990; Hollingsworth and Boyer, 1997). In striking contrast to the arguments of cross-national convergence and isomorphism, research on national variants highlights resilient differences of nation-states. The systems of economic organization are described as embedded in unique institutional environments, historically structured at the national level. Globalization does not necessarily weaken national uniqueness (Featherstone, 1990). Rather, it promotes feelings of national pride and attachment (Evans and Kelley, 2002). More strategic diversity may be encouraged in nation-states as countries and firms seek to differentiate themselves to survive under the threat of economic globalization (Guillen, 2001: 6). Despite increasing global pressure toward the economic integration, unique national recipes for organizing local economy are invented and implemented (Weiss, 2003).

While the convergence perspective can be employed to account for the global diffusion of many sorts of structures and contents, the process of local responses and restructuring will be better understood from the path dependency perspective stressing the historic and comparative variants. In Table 1, we present a compilation of contrasting core elements of two approaches. The convergence perspective is adopting a global point of view while the national path dependency perspective tends to stress social changes

in more local contexts.

While two approaches differ on many grounds, each offers only a partial picture of globalizing reality. The more realistic observation is, we argue, the world becomes more similar as globalization proceeds, but it does not necessarily lead to a homogeneous world. Lechner and Boli illustrates three reasons for that: first general global rules are interpreted by local actors and world models are edited in light of local circumstances; second, increasing similarity at the global level brings about various resistances from the local; and third, cultural diversity and local differences have themselves become more globally appreciated and recognized as valid social facts (Lechner and Boli, 2003). In a similar vein, the pressure of globalization can be proactively interpreted in nationalist movements and goals, and in those cases globalization can intensify, rather than weaken, national identity movements in reaction (Shin, 2006). Local legacy, local category, local standard, and local resistance persist while global similarities among different local systems are undeniably increasing. That means we need a framework that allows us to focus both trends at the same time. The cross-fertilization between two approaches offers significant implications for research on globalization.

In Table 2, we outline a cross-classification to theorize the interplay between the global contents and the local legacies. The strong - strong quadrant indicates there coexist strong global pressures and strong local legacies at the same time. This is the overall tendency observed in the Pew survey described above. The weak global -strong local configuration represents the strong national path-dependency under relatively weak global pressures to make changes. The strong global - weak local configuration implies the strong global pushes of convergence overrule weak national resistance. Finally, the weak-weak quadrant represents extremely marginalized and disconnected nation-states that are seldom found in the modern world.

Table 2. Interplay between Global Contents and Local Legacies

	Globalness (global contents)		
		Strong	Weak
Localness (local legacies)	Strong	Articulation between Global and Local	National Path-Dependency
	Weak	Global Convergence	Isolate

We present different types of interplays between globalness and localness found in the experience of Korea's globalization. We explore, as an example of the dynamics between strong globalness and weak localness, how Korea has submissively managed the national restructuring under the 1997 financial crisis. We argue that Korean government was a relative weak local actor to passively accept the strong global requirements when the crisis hit Korea. In contrast, the strong local resistance and acceptance were simultaneously found in the reformation process of Korean national identity when the strong global pressure of changing social values was introduced by the economic crisis. We, therefore, investigate these dualistic directions of various reformation as a specific outcome of the interplays between the strong globalness and strong localness.

One might argue that only developing countries are under the severe impact of the collision and interplay between the global and local, while undergoing radical social restructuring -- cognitive, discursive, and institutional -- and conforming to the global standards and liberal models. Globalization is generally recognized as a process mostly led by the Western core countries. In fact, it does often mean Americanization: because it is organized along neoliberal economic principles; because it is imposed by American legal, accounting, and technical practices, so called 'American standard and global standard'; because American cultural norms go with key words of today's

competitiveness such as the flexibility and transparency; and because the ideology of free competition and individualism are heavily advocated (Nye Jr., 2002: 78). As Anthony Giddens points out, however, globalization is not just the dominance of the West over the rest. It also affects the Western core countries including the U. S., as it does other countries (Giddens, 2002: 22).

Korean society's restructuring divides into two phases. One is the phase of forced adjustments and the other is the phase of contentious coordination. The globalization that started as a catchphrase and aspiration led to the international and domestic neo-liberalist advancement that culminated in the financial crisis which, in turn, led to coercive adjustment. Needless to say, the economic loss was enormous and the social cost came as an enormous shock and burden for Korean society in many ways: lower quality of life, identity crises, social cleavage, and collapse of social trust. The process that follows is the second stage of coordinating the varied conflicts that arise from breakdown of social structures. One frame of analyzing Korean society is the dynamics between forced adjustment and contentious coordination.

### **Development View: Dilemma between neo-liberalism and developmental state**

The 1997 financial crisis can be described as a joint product of the structural deficiencies of both the developmental state as well as the underdeveloped neo-liberalist notion of globalization. Theoretically, neo-liberalism and developmental state is seemingly oxymoron. The crisis exposed the structural deficiencies of the developmental state that had led continuous rapid growth up to that point. It exposed in one swoop the moral hazards, corruption, and instabilities that were built in to the developmental state, revealing how the Korea, Inc.'s unorthodox but effective model had run its course. The structural

problems of the developmental state such as crony capitalism, cozy relationship between government and business, and governed finance were found in the system of past (Park et al., 2007: 103-5). Hence, the financial crisis brought to Korean society the puzzle of how to resolve the legacy of the developmental state and create a new governance structure that would guarantee all of transparency, responsibility, fairness, and democracy.

In explaining the development of Korean society, the state-centric approach (Johnson, 1982; Amsden, 1989; Wade, 1990; Evans, 1995; Weiss, 1998) reigns supreme among all other theories. The crux of this approach is that the state would exercise a high degree of freedom utilizing the collectivist notion of public goods to build a supreme objective in economic growth, in order to successfully overcome the hurdles of both individualistic pursuit of interest by certain capital-based interests as well as collective calls for distributing wealth, while also bringing in a diverse array of policy measures such as monetary control, system of support & discipline, and selective industrial policy to build capacity, induce productive investment of capital, and strengthen efficiency of the economy (Yoon, 2005: 103-4). The state-centric developmental state theory thus became the theory of success and placed the state in the position of the main actor with absolute freedom and capability in the Weberian tradition. The developmental state's role in social formation is considered a most successful one in explaining the success of the so-called 'miracle on the Han River.' It took the 1997 financial crisis for the irregularities, irrationality, and inefficiency that loomed on the other side of the developmental state's success to emerge.

On the other hand, the 1997 financial crisis also exposed the structural weakness of underdeveloped neo-liberalist globalization. When the YS government began the process of globalization but never reached beyond aspiration or rhetoric, this pretty much assured the arrival of a crisis to come.



For example, the government implemented globalization without even the basic understanding of the definition of globalization, nor what demands international society would place upon Korea in the event of Korea adopting globalization as its main policy. Because the globalization that the government expounded at the time was merely aspiration, nascent in its development, narrowly defined, and rushed to implementation, the government was not prepared for the social effects globalization would bring. The government had neither the social welfare system, corporate governance structure, human resources, nor social norms for globalization but merely unhinged the doors that previously secluded itself from the global financial market, which led to the tide of global interests entering the country that Korea could not withstand (Park, 2003: 4). The YS government concentrated only on opening up the country without first having reformed its internal financial markets and industries. In other words, it took an imbalanced approach of giving priority to the opening of financial markets and freeing capital mobility over the liberalization of the financial industry (Park et al., 2007: 132).

The DJ government that launched itself amidst the financial crisis concentrated mainly on restructuring Korean society under the neo-liberalist banner. An alternative view is that it was structurally impossible to avoid the wave of neo-liberalism while under the management of the IMF regime. However, it would be wrong to put the blame for all neo-liberalist policy upon externally forced adjustment, as the DJ government actively decided to implement strong neo-liberalist policies in spite of their governing philosophy being outwardly defined as that of democratic market economy or parallel development of democracy and market economy. Ironically, the DJ government's image of democratization as well as its motto of 'government by the people' was betrayed by its own neo-liberalist policies that went beyond what the IMF-instituted restructuring programs asked for, resulting in the

entrenchment of hegemonic neo-liberalism in Korea as the governing logic and motor for society as a whole. Thus, in the decade that followed the financial crisis, it can safely be concluded that the country actively opened up itself to neo-liberalism to a greater extent than external interests pressured them.

All Korean governments that followed the financial crisis had given the outward appearance of becoming less of a developmental state, but in reality they've been more of an uneasy marriage between the legacy of a developmental state and the active adoption of neo-liberalism. The DJ government did not have much freedom to move, thus while showing the colors of structural reform, liberalization, and open markets, it carried on the legacy of the developmental state. The following Roh Moo-Hyun government showed more of a stalemate, while the Lee Myung-Bak government brought back the developmental state as the major tool for overcoming the 2008 crisis. All through these governments, the adoption of neo-liberalism spread continuously. The end result was that the social construct of Korea since the 1997 crisis can be described as a dilemma between the legacy of the developmental state and hegemonic neo-liberalism.

Such a dilemma can be observed in most parts of societal formation in Korea. The most noticeable case is the minority shareholders' movement, which is considered to have played an important role in consolidating a new governance structure for Korea in the aftermath of the 1997 financial crisis. Normally, when Korea speaks of a direction for reform, it is important to note that those Koreans arguing for a post-democratization reform of society inevitably run into the dilemma of the developmental state and neo-liberal hegemony. Once the reformers seek to rise above the contradictions of the developmental state—by replacing state principles with market principles—the policies implemented inevitably faces the challenge of neo-liberal hegemony and morph into a form that achieves the neo-liberal objectives. The unfolding

and end result of the minority shareholders' movement shows this very well. The success of this movement goes hand in hand with the emergence of citizens' groups as main actors during the process of restructuring Korea's socio-economic system after 1997. The minority shareholders' movement, which emerged alongside the motto of economic democratization, became a beacon for which the problems of the developmental state could be resolved. Its objective lies in reforming the corporate governance structure from that of being dominated by the large shareholder or owner-centric company management to a minority shareholder-centric one. It sought to keep in check the arbitrary management of large shareholders or managers, while also demanding responsibility for bad management or crony management, all in order that the minority shareholders may guard their own interests. Although this movement was based upon minority shareholders acting upon their own self-interest, the final objectives were to achieve a functioning capital market via the tenets of corporate efficiency, responsibility, and transparency. Unlike the case of Europe where political parties would form a system of checks when it comes to social conflicts or divisions, Korea's political party system had not been developed enough to represent its citizens' interests in the political process. Hence, the citizens' groups had provided a framework that government could not. It just so happened that the financial crisis gave a golden opportunity for such groups to flourish and become perceived as an alternative entity for promoting policy, armed with superior morals and public trust, in contrast to the untrustworthy and morally dubious government, politicians, and business.

However, whether such a movement had gained traction and truly provided alternative models for citizen-based activism must be evaluated by both the facts of whether they achieved their goals and the means by which they attempted to achieve them. Ever since the democratization movements of the late 1980s, all reformers, whether they are government or social

movements, have inevitably been hit with a singular dilemma of dealing with both the 'legacies of the developmental state' and 'hegemonic neo-liberalism.' Every entity that had been given the reigns by the public to reform society had been hit with this problem. More specifically, the problem is that every reformist movement that hopes to deal with the legacies of the developmental state, such as cronyism, corruption, or giving priority towards market forces over state controlled markets, eventually runs into hegemonic neo-liberalism. As a result, all reform-oriented policy or its supporting social movements have either taken on a neo-liberalist tone from the beginning or eventually have taken that tone over time. In other words, the process of reforming the developmental model that brought upon so many problems were easily morphed into or co-opted by neo-liberalist forces that prioritize the exclusive self-interests of one segment or another in society.

The means by which citizens' groups have sought to achieve their objectives also needs examination. The methods which the People's Solidarity for Participatory Democracy (PSPD) employed in spearheading the minority shareholders' movement were to utilize legal action and the media publicity, both useful in reeling in clear results as well as garnering the general public's interest. However, such an approach can lead to self-promotion of the activists themselves, or limit issues to the most salient and simple ones. Within this context, the issues that are not so visible, one-off, or conflicting—in other words weak in the face of hegemonic neo-liberalism—can be abandoned.

As such, the minority shareholders' movement that sought social legitimacy, deal with the legacies of the developmental state, and promote the status of shareholders became entwined with hegemonic neo-liberalism, ending up eroding the public interest function of Korea's financial sector. The minority shareholders' movement that sought to eradicate the reasons behind the financial crisis (crony capitalism, government-controlled finance, and the

system of large conglomerates) sought to change the corporate governance structure of Korean companies by allying themselves with and giving moral legitimacy to foreign capital interests. They also attempted to deal with cronyism while fostering financial institutions' interest and guaranteeing minority shareholders' rights, but ended up dissipating the public interest functions of financing. Such attempts in the end coincided with the trends of maximizing shareholders' interests, flexibility of labor market, and widening gap between the rich and poor, contributing towards a stronger grip by capital-based vested interests in Korea. Thus, the forces for reform and liberalization of the developmental state's legacies in Korea eventually ended up selectively siding with the hegemonic neo-liberalist arguments that grew in Korean society since the financial crisis.

In general, the policies that are expounded by hegemonic neo-liberalism are the establishment of property rights, strict adherence to healthy finances, neutral taxation & spending policy, liberalization of finance, opening up to foreign trade and investment, privatization, and deregulation (Williamson, 1990). The method by which neo-liberalism typically plants its roots in a society is the result of a specific historical event and the political interplay that results from it. Although neo-liberalist policies are made as result of political processes, it manifests itself not as a uniform bundle of policies but often vary in form depending upon the cultural and social context of the country (Kim, 2008b: 191). Korean neo-liberalism was peculiar in that it started out with voluntary aspirations, followed by forced adjustments towards globalization, but ended up in the generalized adoption of globalization. It is not often that a country could go through all three stages in such a short amount of time.

Hence, both the neo-liberal hegemony established strongly in Korea since the 1997 financial crisis as well as the legacy of the developmental state end up bearing a heavy dual burden upon Korea's shoulders. In the meanwhile,

the recent calls for a revival of state-led social and welfare policies as well as industrial and financial policies to counter the recklessness of the self-propagating market mechanism will probably not work since the dynamics of political power has changed so much. The private associations in Korea that would have had a stake in developing good policy have been destroyed during the developmental state period. In addition, Korea never developed a party system enough that would lead to a responsible government and good policy. Even if one were to set aside the neo-liberal pressures from globalization, the developmental state has another legacy to deal with, namely the public's low level of trust toward the state and public sector. This will undoubtedly become a hurdle in the government's formulation and implementation of social protection policies. On the other hand, it is doubtful whether the current batch of Korean technocrats, whose abilities have been in doubt since the developmental state of the 1980s, could in fact come up with industrial and financial policies with befitting responses toward the fast-changing changes in the global economy. In order to overcome the problems associated with the developmental state, the neo-liberal hegemony must be faced, and when trying to overcome neo-liberalism the developmental state legacy holds Korea back. In the epigram of a famous theorist, Korea suffers not only from the living but from the dead.

**PART II**

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**ECONOMIC AND SOCIAL  
RESTRUCTURING**

## Chapter 5. Corporate Reformulating

### Governance Structure and Workplace<sup>7</sup>

#### **Fall of the myth of corporate authoritarianism**

The myth is no more, as the immortals have fallen. The myth of 'too big to fall,' Korea's large business conglomerates being too large to ever fail was no more. As these mega-sized businesses started crumbling in the aftermath of the 1997 financial crisis, exposed were inner workings of these companies that had previously been hidden towards the outside world. Fraudulent accounting practices were uncovered amongst many other irrational practices. No other example illustrates this event more than the 1999 fall of the Daewoo conglomerate. While Daewoo was not the first conglomerate to fall, the story of its epic demise is significant for several reasons. Daewoo was ranked among the very top of Korea's conglomerates, with its rise often positively touted as being most symbolic of the Korean developmental model of compressed growth. Yet, the size of its fraudulent accounting reached a total of 41 trillion Korean Won. In other words, Daewoo had lost roughly 2 trillion annually for the past 20 years, destroying any ounce of added value they seemingly created in the process.

Another myth that was destroyed at the time, to the dismay of many



Koreans, was that the nation's banks would never be able to fail. Prior to these events, few Koreans have ever considered the possibility that banks, which were the symbol of financing during the days of developmental economics, would ever fail. Nevertheless, all five of the largest mega-sized banks in Korea fell without exception. The five major banks prior to the financial crisis were Cheil Bank, Hanil Bank, Choheung Bank, Sangup Bank, and Foreign Exchange Bank. Both Hanil and Sangup are currently out of business, while Cheil was sold to foreign investors, Choheung sold to Shinhan Financial Group, and Foreign Exchange Bank was sold to a foreign bank, resulting in not one of the big five surviving in its original state. The bankruptcy of Korea's banks then became the turning point by which the effectiveness and rationale of the developmental economics era's conglomerate-centric finance market and government-led financing came under scrutiny.

The reputation garnered by big business during the age of authoritarian rule was that of both strength and simplicity. The image and authority of the company owner often was equated with those of the company itself. Hence, the fate of the company was a direct function of the company owner's method of management. As such, the myths associated with a company's rise in Korea were pretty much those of its owners, as opposed to the stories of professional managers elsewhere around the world. These myths in Korea spoke neither of organizational structures nor branding successes, but merely the paternalistic presence of, for example, Kim Woo-choong at Daewoo and Chung Ju-young at Hyundai. The formation of this paternalistic ownership structure that has also been a mainstay of the Korean economy for so long dates back to the 1970s. It is interesting to find that this trend was engraved in stone during the mid-1970s when the large conglomerate structure was fully consolidated. This structure of corporate governance continued without much change until the 1997 financial crisis.

The market power in Korean society, which should have been accompanied by societal acceptance based upon guidelines of fairness, was greatly damaged by crony capitalism. Companies were relying upon rigid business networks and building corporate governance structures that were lacking transparency and responsibility. Investment risks that should have stayed in the realm of the company were being shifted towards society by a system of luring the public to take on risks, even as the profits made from such investments were often not shared with those outside the company. This system of using society to hedge risks unfortunately encouraged companies to often take part in business ventures that may yield profit but not so much productivity gains (Kim and Im, 2000: 8). Within the framework of crony capitalism that was rampant, companies expanded its reach by often poaching the government or plundering banks, making it difficult for rational market power to properly function. Meanwhile, civil society had no structure to counter such problems. As a result, society's trust in the business sector narrowed, and social norms and value systems were beginning to be adversely affected by this mistrust. In retrospect, the structural flaws in business practices were accelerating the clock towards a fall of the conglomerates, even as nobody predicted the downfall of the so-called immortals. The structural flaws, of course, were revealed all too strongly when Korea was dragged through the worldwide transformations of globalization, information revolution, democratization, as well as the 1997 financial crisis.

The 1997 financial crisis forced Korea implement a severance with past history, as the country before and after the crisis showed completely different patterns. The crisis compelled Korea to throw away the developmental models from the previous era and forcefully adopt a new era of restructuring, based upon new frameworks for reform and conflict resolution. The financial crisis also made Koreans disapprove of its own past. The IMF's manual for

restructuring forced Korean society to cut its ties with the past and make changes to, but not limited to, its economic structure. The IMF asked the country to throw away its past practices not only relating to government, business, finance, and labor, but also daily customs in the Koreans' way of life. Korean value systems and attitudes were also asked to change. The resulting disassembling of society proceeded at an enormous pace. In the process, the Korean self-identity was shaken to its roots, even taking a devastating toll on social trust that used to be collateral for mature social relationships in the past. In particular, the public's trust toward large conglomerates and government sunk to a level that made one doubt whether there was any mechanism at all that would prevent total anarchy in the near future. This trend eventually led to a rationale among Koreans that any entity that cannot guarantee livelihood of the individual should be abandoned, whether that entity is the nation, tradition, political party, or the government, resulting in a wide spread phenomena of post-nationalism, post-tradition, post-government, post-organization, and post-authority in Korea (Park, 2003).

Amidst these processes, the authoritarianism of past was dismantled quickly, yet without a new paradigm of authority to take its place. Although the oppressive and unilateral authoritarian politics was thought to be completely gone via the process of democratization, the country lacked the reasonable institutions and new authority to deal with the social conflicts that were to come. That Korean society now experienced several eruptions within business, organizations, intelligentsia, educational institutions, and the family is most likely due to this lack of new authority. Conventional authoritarianism had no place in Korean society any more, and nowhere did this statement ring truer than in the political arena, or more specifically, the 2002 presidential election and the 2004 national assembly elections. The problem here is that even as the authoritarianism of the past was undergoing dissolution, Korea had a hard

time finding a new structure of authority to replace the old one. Nevertheless, the one thing that stood true was that the new authority would never be able to form without the consent of or shared governance by civil society.

Large companies were never free from such sea changes in Korean society. In fact, some would argue that in several ways the large companies were at the core of the dissolution of old authoritarianism. This argument is strengthened when considering the endless stream of debates in society about corporate governance as a tool to protect the stakeholders of large companies. As discussion on corporate governance evolved over time, the values of transparency and responsibility emerged as the main principles for evaluating corporate governance. Simultaneously, corporate governance expanded its reach from originally concerning only the welfare of company stakeholders to all aspects of Korean society itself; leading to the rationale that a company's responsibility extends to the society within which it operates. Accordingly, companies were asked to expand its responsibility from the most basic and general function of creating added value for the company itself to adding value to the social community within which it is a member. Hence, the terms, corporate social responsibility and socially responsible investment rose to become keywords for the companies of our time. Owing to these trends, the resulting most fundamental pillars upon which sustainable corporate management and creation of a new authority should stand have become economic profitability, social ethics, and environmental integrity. Also emerging during these times to become part of the historical context was the concept of corporate citizenship.

The current chapter seeks to discuss the social ramifications imbedded within the concept of corporate governance amidst the change in Korean companies' corporate governance. Most scholars would agree, as rare as that may be, that improved corporate governance will lead to an improved

company. In other words, it is the socio-economic perspective that we assume as it point of view for identifying the root significance and inherent issues of corporate governance.

This chapter attempts to differentiate the truth and falsehoods associated with both corporate governance, which was subject of endless social discourse during times of turmoil after the financial crisis, as well as the modified corporate governance that came as a result of such discourse. There will be mention of the structural problems that continue to exist even after reforming corporate governance, while accentuating the important role played by civil society groups in the institutionalization of corporate governance. In addition, the following topic will be given intense scrutiny, related to the controversies surrounding corporate governance and the search for new institutions: whether controversies surrounding corporate governance is an issue limited to Korean society alone due to its experiencing of a major economic crisis in comparative perspective

### **Truth and Falsehoods behind Corporate Governance**

Most eminent change is the fact that new rules were made concerning corporate governance: introduction of the system of outside directors, introduction of the recommendation committee for outside directors, introduction of auditing committee, strengthening of minority shareholders' rights, strengthening the system of public announcements, ban on mutual shareholding, system of limiting the total amount of investment, abolished limitations on foreign investors, allowing of hostile mergers & acquisitions, introduction of the establishment of holding companies, and the establishment of the Securities Supervisory Board.

The rights of minority shareholders was also strengthened, as the right

Table 1. Shares need to exercise minority shareholders rights

Right	1997	2002
Representative suits	1% (0.5%)	0.01%
Convocation of extraordinary shareholders' meetings	3% (1.5%)	3% (1.5%)
Proposals	1% (0.5%)	1% (0.5%)
Concentrated vote systemsxc	-	3%
Dismissal of board member/auditor	1% (0.5%)	0.5% (0.25%)
Access to accounting records	3% (1.5%)	0.1% (0.05%)
Appointment of auditor	3% (1.5%)	3% (1.5%)

\* Figures in brackets "( )" are conditions for companies with larger than 100 billion Korean Won in capital. [Source: Commerce & Securities Transaction Laws]

to representative suits, convocation of extraordinary shareholders' meetings, shareholders' right to proposals, concentrated vote systems, dismissal of board members or auditors, access to accounting records, and appointment of auditors were all strengthened. As represented in Table 1, the conditions for exercising all these rights were relaxed significantly between 1997 and 2002. In other words, the barriers for minority shareholders to exercise rights are now significantly lowered. For example, in regards to the right to representative suits, the minimum number of shares to exercise the right was lowered from 1% share ownership to 0.01%.

The internal organization of companies also changed according to the new corporate governance. Most important among these changes is the board of directors, an entity that in past had little power, suddenly rose to prominence as the true managers of a company. In the past, there had been little separation between company managers and the board of directors. Whereas in the past, executives would have titles such as managing director or executive director that encompassed both the executive and board of directors, now only members of the board of directors are allowed to use the term director. The

introduction of outside directors also brought about many real changes. In spite of the fact that many of the outside directors brought into the board had preexisting amicable relations with company officials, thereby threatening the independence of the board, the fact that outside directors were made to share the same legal responsibilities as internal directors acted as a failsafe mechanism in the event that an outside director acted in the unilateral and improper interest of a company official. The semi-official office of structural reform replaced the company chairman's secretariat, which in the past acted as an arbitrary corporate governance organization. In addition, the past practice of company heads not registering as part of the board of directors for the purpose of avoiding legal responsibility was fixed to have the head register as an official board member during the Kim Dae-Jung administration.

Corporate governance in Korea eventually showed signs of change, especially with the large business conglomerates. It is interesting to note that the conglomerates' new corporate governance reforms proceeded in many different forms, which can be summed up into five different types: 1) keeping the traditional business leadership intact, 2) transforming into a holding company, 3) transforming into a small group-led system, 4) privatized former public enterprises, and 5) all affiliates going independent.

Samsung and SK are prime examples of conglomerates keeping the traditional business leadership. Nevertheless, Samsung was not immune to change, as its automobile manufacturing and heavy industries affiliates were siphoned off. The automobile sector was sold to Renault, and heavy industries was moved to Volvo. In retrospect, even though Samsung chose to preserve its previous corporate governance structure, the myth of Samsung being too strong to fail was to be no more. On the other hand, SK is a case where the company head's powers were strengthened and conglomerate's reach expanded following the financial crisis. However, these attempts eventually led to crisis caused by

accounting fraud and illegal trading by the company head. The second model of adjustment in transforming into a holding company is prominently represented by LG. In response to the demand for transparency and proper investment practices by society, LG made changes, for which its subsidiaries performed admirably with the newfound independence, allowing for constant and quick adjustment or structural reform, scrapping non-performing businesses whenever necessary. This model is understood to be a clear evolution in business practice as result of the change in corporate governance structure. The Hyundai group is most representative of the third model of transformation being a company led by a small group. The conglomerate had divided into the three large parts of Hyundai, Hyundai Motors, and Hyundai Heavy Industries. While the split seemed a result of changes in corporate governance at the time, it was in fact a result of the second-generation owners fighting for their own shares of the company rather than market forces. The fourth model of companies transforming with an independent board at its center are POSCO, KB Bank, and Korea Telecom. These are all formerly public enterprises that went through the process of privatization. Daewoo best represents the fifth model of all affiliates going independent. The Daewoo Group, as it was called, is now collapsed but that doesn't mean its former affiliates have gone out of business as well. Many of Daewoo's affiliates that went independent have survived on its own and successfully transitioned to become independent companies. As such, the forms of corporate governance-induced change exhibited by the large business conglomerates show quite the variety.

Nevertheless, the problems of corporate governance still persist, as can be found in Table 2. With shares owned by the company head's family reducing from 9.54% in 1997 to 4.63% in 2002, it may seem that things have gotten better, yet closer examination reveals that is not necessarily true. The smaller number of the owner family shares have been offset by the increase in mutual



Table 2. Distribution of share  
(listed and non-listed companies of the ten largest conglomerates)

Year	Head's family shares	Affiliates' shares	Head's leveraged shares
1997	9.54%	29.29%	39.57%
1998	7.82%	35.36%	44.16%
1999	5.76%	40.99%	48.07%
2000	4.30%	38.79%	44.72%
2001	4.29%	38.94%	47.61%
2002	4.63%	38.14%	49.19%

Source: Fair Trade Commission Republic of Korea

ownership between affiliated companies via cross-shareholding, resulting in an even stronger leverage in the hands of the heads. The actual controlling share of the company head in 2002 is 47.61%, which is a significant increase from the 39.57% in 1997. In other words, although the company head's personally owned shares have dropped over the years, the actual leverage the head has over company decisions have increased when taking into account internal shares owned by special affiliates, treasury stock, and owners association shares.

Table 3 shows the shares of company heads in relation to shares owned by affiliates. 2002 figures show that on average 37.9% of affiliates have the company head owning at least one share, whereas affiliates that the head owns no shares is on average 62.1%. In the case of Samsung, the company head and his family owns share in 17 of 63 affiliates, amounting to 27% of shares. On the other hand, Lotte's head and family has shares in 22 of 32 affiliates for a total of 68.8% of shares. SK, Hyundai Motors, Keumho, and Doosan all fall below the average, whereas Hanjin, Hyundai Heavy Industries, and Dongbu all have heads and families owning share in more than half of its affiliates. In general, Koreans refer to the heads of these conglomerates as owners, thus Lee Kun-Hee is thought of as the owner of Samsung. When the head does

Table 3. Owners that do not own (twelve largest conglomerates, 2002)

Group	# of affiliates	Head or family-owned affiliates		Non-owned affiliates	
Samsung	63	17	27.0%	46	73.0%
LG	51	20	39.2%	31	60.8%
SK	62	13	22.2%	49	77.8%
Hyundai Motors	25	9	36.0%	16	64.0%
Hanjin	21	12	57.1%	9	42.9%
Lotte	32	22	68.8%	10	31.3%
Hanhwa	26	11	42.3%	15	57.7%
Hyundai Heavy Industries	5	3	60.0%	2	40.0%
Hyundai	12	6	50.0%	6	50.0%
Keumho	15	3	20.0%	12	80.0%
Doosan	18	5	27.8%	13	72.2%
Dongbu	21	12	57.1%	9	42.9%
Total	351	133	37.9%	218	62.1%

Source: Fair Trade Commission Republic of Korea

own shares, the miniscule amount of it makes them not owners but minority shareholders. It is a unique characteristic of Korea's corporate governance that the companies have owners who do not own shares of the company.

A recent comparative study of corporate governance across countries is represented in Table 4. According to the internationally respected figures published by the Institute of Management Development (IMD) and World Economic Forum (WEF), Korea's corporate governance ranks near the bottom. Although there are problems with the research method itself, the end result is a very negative opinion from international society about Korean companies' corporate governance.

Table 4. Asian countries ranked on corporate governance

Country	WEF Corporate governance	IMD			
		Independent board	Value on shareholders	Inside trading	Shareholders rights
Singapore	8	4	3	4	7
Hong Kong	13	6	10	16	10
Malaysia	21	9	7	21	27
Taiwan	23	17	35	35	30
Japan	31	53	59	14	58
India	32	37	48	55	38
Korea	33	58	54	45	57
Philippines	43	42	45	53	53
China	44	32	46	52	54
Indonesia	46	55	57	56	56

\* The WEF survey was conducted against 49 countries in 2003. The IMD survey was conducted in 2003 against 59 countries.

Source: WEF, IMD Competitiveness Report 2003

## Corporate Governance as a Global Agenda: Not limited to Korea

The issue of corporate governance in Korea in the aftermath of the financial crisis had always been associated with social discourse on reform. This is natural when considering that the large conglomerates were touted as one of the culprits of the crisis, as it is also natural to have strong pressure from society towards reforming their corporate governance. In response, the conglomerates did show a variety of responses, at least on the outside, to the very strong demands placed upon them by civil society and government. Whatever the truths or falsehoods are behind Korean companies' attempts at reform, there can be no denying that it brought upon many changes to its corporate governance. Whether it was caused by internal family dynamics, privatization of public enterprises, or social pressure for transparency of business practices,

Table 5. Changes in corporate governance among Asian countries

Country	1997		2003	
	Outside board members	Audit committee	Outside board members	Audit committee
China			Y	Y
Hong Kong	Y		Y	Y
India			Y	Y
Indonesia			Y	Y
Malaysia	Y	Y	Y	Y
Philippines			Y	Y
Singapore	Y	Y	Y	Y
Korea			Y	Y
Taiwan			Y	Y
Thailand			Y	Y

Source: B. Dominic, et al., 2004

change did take place. Yet, it would be a big mistake to think such change was unique to Korea. The relevance of corporate governance was definitely not limited to this country, which had to undergo an IMF-led governance regime after a major financial crisis. In other words, improving corporate governance had been a common issue among many countries operating within the system of global capitalism.

Table 5 shows changes in corporate governance among Asian countries. When examining the practice of outside board directors, only Hong Kong, Malaysia, and Singapore among Asian countries had such a system in 1997 when the financial crisis hit. In regards to audit committees, only Malaysia and Singapore had such a system. Yet in 2003, most countries have adopted these two systems that are most representative of good corporate governance. All of East Asia had gone through corporate reforms. Of course, implementing new systems of governance is an institutional prerequisite for countries whose

economy depends upon capital infusion from other countries. It could be viewed as a mimetic process for the purpose of claiming legitimacy. Korea, which submitted itself to the IMF's governance regime following the crisis, experienced a coercive isomorphism, particularly as requested by international financial institutions, credit rating agencies, and foreign capital. However, countries that did not go directly under the knife of international financial institutions' governance regimes had the option of a mimetic isomorphism, as a method of instituting corporate governance, because it was judged to be the best standard response toward its own uncertain future. In summary, although the motivation and background to adopting corporate governance may have been different, in the end all countries did end up choosing to implement the isomorphic form of it.

Malaysia was an interesting case. Many in international society regarded Malaysia as a closed-door nationalist country due to it refusing the IMF's prescription in the aftermath of the financial crisis as Korea did. In accordance, its leader Mahathir was regarded as one at the center of the anti-globalization movement. However, both impressions are quite wrong. In regard to both corporate governance as well as level of corruption, Malaysia's record was quite satisfactory, unlike how many foreigners described it to be. Table 5 shows how it adopted advanced systems well before the financial crisis, and as a result its central bank was also highly developed and independent. It also had advanced corporate governance, evidenced by the country hosting the largest number of Islam funds in the world.

The aforementioned isomorphism in regard to corporate governance was never a trend that was limited to Korea or East Asia but a worldwide one. Even the United States that had advanced corporate governance at its disposal had to undergo major reforms after the bankruptcy of Enron. In the U.S., strong measures on transparency and responsibility were adopted, such

as the institutionalization of the company manager confirming the accuracy of business reports and signing his/her name and assuming legal responsibilities in the event that there is wrong information.

The Eastern European countries that had just turned to the system of market-based competition following the collapse of the Soviet Union were also affected, as did Latin America which experienced economic difficulties for a long time, as well as the new market countries such as India or South Africa. Each of these regions all had to adopt reforms in order to improve corporate governance.

In the meanwhile, the OECD announced its corporate governance principles in 1999, and followed it up with a more strengthened and universally applicable version in 2004. Both OECD member and non-member countries now regard these principles as bibles for corporate management, even though the OECD is not an organization that would force a country's hand to reform. The OECD's strongest weapon is the customary adherence to its principles by its member countries. The strong adherence to these principles by many countries around the world speaks of the global presence of corporate governance. Some countries, including Korea, went on to draft their own principles or guidelines on corporate governance.

## **New World of Workplace Realm**

Of all the sectors that were impacted by the financial crisis, it is the world of work that has underwent one of the most significant changes. What is noteworthy in conjunction with the workplace restructuring is the change in workplace. The age-graded seniority system, familial structure, and lifetime employment, used to be the hallmarks of Korean corporate culture, were placed at the center of restructuring in workplace, which is the one of

the most substantive unit in everyday life. Following the financial crisis in 1997, however, the layoffs, early retirement, job insecurity and increased competition have become the realities of the workplace. All uncertainties and harsher corporate environment changed the way Koreans think about work. Koreans' perception of work has become more realistic and self-centered, as they are much more conscious of their future potential and working conditions. The sense of identity is no longer primarily based on the work and job. Not surprisingly, job satisfaction has conspicuously declined. What is also noteworthy is how the heartless world of work, as it is now popularly perceived, has inspired changes in job selection considerations. What all of this show is that Korean workers' identities are no longer homogeneous and work-oriented. Following the financial crisis, the working conditions and types of employment have become much more varied, leading to the gradual diminution of collective consciousness.

Most businesses chose to innovate themselves after the crisis in the name of the competitiveness and efficiency. Flexibility in business practices was encouraged while many human resource management techniques based upon meritocracy were brought in as innovative practices. Perhaps the most significant innovative measures in business were team-based work, annual salary system, merit-based pay, and the sigma six movements (Park and Yeom, 2008: 27-54). To be sure, such innovations were also examined by businesses in the pre-crisis era but it became rapidly adopted and disseminated in the late 1990s around the time of the financial crisis. Team-based work is the measure that most directly affects the structure of a business, and stands as the most representative organizational innovation in human resource policy since the late 1990s. It is also the policy that was systemized the most among all recent business innovations. The other measure that affected the organizational structure of corporate was functional flexibility, adopted for the purpose of

actively responding to the changes in the crisis environment.

The changes are of course strengthened by the discourse of competitiveness which is much emphasized in the aftermath of the financial crisis. The new era that stresses liberalization, openness, privatization, and deregulation also calls for a creative destruction of the old market system by way of introducing competitiveness in new degrees, units, and methodology. All to the extent that it would not be a stretch to call competitiveness is the new ideology of our times. The management of time had become a core concept within the new competitive environment, and as the concept infiltrated our personal and individual lives, the concept of hyper-competitiveness had become a main engine for the capitalism of our times (Park, 2003: 94-5). The meritocracy-based discourse of competitiveness drove much of the non-working hours to become programmed in one way or another, in addition to the working hours. This is because the competitiveness discourse assumes that only the fully rested and refreshed worker may perform creatively and increase working capacity. If one can make the assumption that a discourse emphasizes a certain concept at the cost of other concepts, it is not difficult to imagine what elements are brought to the fore by the competitiveness discourse and what elements are left behind.

The restructuring that followed the financial crisis had not only brought upon large scale changes in organizational structure and systems but also compensation policy, based upon the principles of competitiveness and merit. The annual salary and merit-based pay system spread rapidly throughout the country as innovation practices based upon evaluation and compensation. For example, prior to 1996, corporate with annual salary or merit-based pay systems were a mere 1.6% and 5.75% for each type. However, in 2005, those numbers rose to 48.4% and 32.1% (2005 Annual salary & merit-based pay system survey, Ministry of Labor).



The human resource policy in the post-financial crisis era saw much experimentation of flexible programs based upon the principle of competitiveness. The efforts to raise competitiveness in human resources have played out in many different forms. The recruitment that used to take form of peer recommendations or public announcements have been replaced by recruitment exhibitions and job fairs, while the process of selection also saw a change from written exams to non-structured interviews. Regarding compensation, a shift took place from the fixed seniority-based salary system to an elastic one that is based upon individual capability and achievements. In addition, multi-faceted innovation programs were established, such as the more prevalent usage of outsourcing for non-essential human tasks (Lee, 2005: 176-7). Such are examples that illustrate how far flexibility in hiring and salary had made in-roads into society (Kim et al., 2005: 68-9).

In fact, the financial crisis is the critical juncture from when work as Koreans knew it fundamentally and irreversibly changed. This came about largely because of IMF conditions for its bailout loans, which included a demand that called for a more flexible labor market. The demand for greater labor flexibility eventually led to an amendment of labor law that opened ways for layoffs, hitherto illegal. Needless to say, the elimination of the proverbial lifetime employment and the legalization of layoffs brought about significant changes in employment patterns. In addition to outright layoffs, companies have used early retirement and honorary retirement schemes to scale down their pay rolls.

As a result, the starting retirement age of Korean workers is found to be about 10 years younger than that of the member countries of the OECD. The age at which more workers lose their wage labourer status than those who gain the status is 35, while the average age at which the same process happens among the workers of OECD countries is 45 (Jang, 2003). Jang also shows that

Korean workers in their early thirties have only about 60 percent chance of still being employed by the time they turn 50 years old. What all of this means, of course, is that retirement and layoff begin much sooner for Korean workers than their counterparts in other OECD countries.

Despite all these changes that brought about the greater uncertainty in the job market, Korea has maintained an impressive unemployment rate that has hovered below 4.0 percent since early 2000. The unemployment rate may have dropped to an impressive level, but it has been achieved through a conspicuous proliferation of various forms of nonstandard employment, including temporary workers, short-term contract workers, contingent workers, temporary help agency workers and daily hires. The increase in irregular forms of employment became more pronounced since the financial crisis, happening for the first time since labor statistics have been compiled. What is noteworthy about all of this is that while the number of nonstandard workers in other OECD countries has gradually increased, Korea witnessed a rapid expansion in the last few years.

Instability of employment and underemployment are thus the core of the social crisis. Under the pressure of the so-called structural adjustments, the labor market began to be extorted. The proportion of involuntary unemployment has steeply increased, and unemployment of youths has become a severe social problem. Long-term unemployment has increased absolutely and relatively, while duration of unemployment has been systematically extended. The percentage of non-regular job workers also has increased greatly. Furthermore, the Korean labor market has made the cleavages even more crystallized between the employed and the unemployed and between regular and non-regular jobs, accelerating a polarized society (Park, 2004:158-160).

The emerging questions are how all of these uncertainties and harsher

environment have changed the way Koreans think about work and how their work ethic has changed. To put it another way, the question that concerns us is how the 'cruel' world of work has inspired a change in the perception of work among not only those seeking jobs but also those with jobs. In view of these questions, we examine how Korean workers' work ethic has become more realistic and self-centered. For instance, this chapter shows how layoffs and job insecurity have forced the workers to become more self-interested and practical about their work and job, developing the attitude of 'I work only as much as I am paid.' It is also apparent that the camaraderie that used to rule supreme among colleagues is increasingly being replaced by competition. Now, the 'us' versus 'them' mentality is being increasingly, albeit discreetly, replaced by the 'I' versus 'You' attitude within the new work environment.

### **Less Commitment to Work and Company**

It was noted above how lifetime employment and job security of Korean corporate culture have given way to layoffs, early retirement, and job insecurity following the 1997 financial crisis. In reaction to all of these uncertainties and harsher corporate environment, workers have become more realistic about their career and more self-centered: the thought of lifetime employment and blind loyalty has changed to the one of 'I work only as much as I am paid or 'the only things I can trust are myself and money.' Indeed, the fear of being laid off has inspired many Korean workers to be more concerned with making a lot of money in a short time. That was one of the reasons for a relatively high job turnover rate during the boom of venture firms between 1999 and 2001, when many young workers at conglomerates left their jobs to work for venture firms that promised a large financial reward in the form of stock option on top of the salary. The rationale for the workers seems to have been that although job

insecurity does not become any better by switching to the new company, they can at least hope to make a lot more money by doing so.

In the rapidly changing work environment, it seems that workers' anxiety is intensifying over the uncertainty of their future and that money—having a lot of it—is the only way they can feel secure about themselves. What this example indicates is that Korean workers' loyalty to their company seems to have greatly diminished in recent years (Kim and Park, 2003). This is particularly true for white-collar workers, who are now much more conscious of their pay and future than ever before and are prone to calculating whether they are getting paid enough for the amount of work they put in.

Korean workers are also well aware that hard work alone no longer guarantees that they can remain with the same company for a long time. The prevailing thought is that one can be deserted by his or her company as easily as he or she is ready to leave. The declining loyalty or attachment to the company is attested to by the fact that a substantial number of workers are constantly looking to switch jobs that offer better pay and benefits. It is said that workers today, while working hard, always carry with them a letter of resignation and resume. Surveys readily demonstrate that Korean workers' commitment to their work is low. It must also be noted that some of the changes in attitude toward work are not directly related with the economic crisis. Rather, it is partly associated with generational issues; younger generation workers typically dislike the rigid hierarchical corporate culture and prefer a more autonomous work environment. Despite the Korean workers' reputation as hard working, a poll of 20,000 workers in 33 countries by the multinational survey firm Taylor Nelson Sofres (TNS) found Korean workers to be the least committed to their work (TNS, 2002). In the TNS survey, which assessed employees' commitment to their type of work and company, Korea ranked last in employee commitment to work, with just 36 percent of the

respondents expressing their dedication to their work. The score was far less than global average of 57 percent. The survey also showed that only 35 percent of Korean workers were committed to the company they work for, putting Korea in 31st place in the category. Moreover, only 25 percent of Korean workers was found to be committed to both their work and company, which was much lower than the global rate of 43 percent.

The industry-sector with the most committed employees in Korea was the public sector, which is quite understandable given its reputation for job security, relatively high salaries, and generous fringe benefits. The least committed Korean workers by sector, on the other hand, were in manufacturing, while the company type with the least committed workers was transportation. A 1997 survey by KRIVET and a follow-up survey in 2002 also reveal the declining workers' commitment to work. When asked about their willingness to use their personal money for carry out their occupational task and to work overtime, the respondents' answers declined considerably from 1997 to 2002. On a related question of whether they were willing to participate in family affairs during working hours, more respondents were affirmative in the 2002 survey.

Another change that is indicative of workers' lower commitment to work is how their sense of priority has changed. Workers now value their family more than work, which has not always been the case. That is why it is said that the idea of home has changed from being a place to return to from work to a place one leaves to go to work. Such change in attitude is likely to have led to more workers leaving their office not long after the required working hours. In the past, of course, Korean workers' boasted of their long working hours in the office. This greater emphasis on the family also has led to their desire for more quality time to be spent with the family as well as becoming more concerned with various quality of life issues, among which

job satisfaction has become an important factor for switching jobs. A popular saying in this regard is 'I like my job, but I don't like my work' or 'I like my work, but I don't like my job,' either of which now serves as a main reason for quitting a job to start a business or switching jobs.

Collectively, what Korean workers seem to be expressing is their discontent over the rigid hierarchical company culture and the unsuitability of the types of duty and task they perform at work. They keep on questioning how their unsatisfactory and mind-numbing work can complement their lives. They also complain about the lack of free time to develop other skills and aptitudes. All of this reflects the conspicuous change among the workers' perceptions in which work is increasingly viewed in terms of one's inclination, preference and desire as well as quality of life issues.

### **Concluding Note: Toward new governance and workplace**

In the aftermath of the 1997 financial crisis, the first entity to become target of structural reform had been business entities. This is due to the perception that business practices had been at the core of the financial crisis. Hence, businesses were subjected to intense structural reforms, with the restructuring taking place on a wide scale and on many different levels. The attempts to restructure the old system had taken place not only in production, workplace, and labor time, but much further in the realm of reproduction, extra-workplace space, and free time as well.

The business restructuring in the financial crisis took place on many levels. The Korean government strongly pressured for the structural reform of corporate of large conglomerates, so called chaebol in order to overcome the crisis, allowing for layoffs on a large scale. Although there is some reservation about whether the government's IMF-induced reforms in corporate

governance, financial structures, designation of core competency, dissolution of mutual guarantees, and transparency of business practices have yielded true results, there is no doubt that, at least on the outside, the course of large corporate has changed drastically and very suddenly. As a matter of fact, in the five years following the crisis, one half of the top 30 conglomerates have either been reduced in size or liquidated by way of bankruptcy, workouts, as well as mergers & acquisitions. A statistic that illustrates this point is that two-third of the top 30 conglomerates in 1999 were not part of the top 30 in 1989 (Kim et al., 2005: 127). In comparing the top 30 of 1997 and 2006, only 15 conglomerates have maintained its status over the past decade (Hankuk Gyeongjae, December 31, 2006).

Corporate governance is emerging as an important issue that may decide the future of Korean society. Ever since the 1997 financial crisis, the issue of corporate governance had always been front and center in public debates. Over time, there have been many changes to corporate governance in Korea. Civil society groups have certainly played their part, much aided by the sea changes taking place on a global level as well as aided by the urgency created by the economic crisis that took place in Korea. Within this dynamism, new rules on governance structures were made, while minority shareholders rights were strengthened, and internal structures at large Korean companies were also changed much in order to improve corporate governance. It is also worthwhile to note the diverse forms of corporate governance emerging from and evolving within different companies.

However, the owner-centric hierarchy, which had traditionally been at the heart of the need to improve corporate governance, actually showed signs of strengthening, still contributing much to Koreans negative sentiment toward big business. Nevertheless, it would be wrong to pigeonhole Koreans as being anti-corporate, as evidence on Koreans' enormous respect for professional

businessmen and positive evaluation of large conglomerates' role in the economy suggests the opposite. Negative survey results can be explained less by anti-corporate sentiment but more as dissatisfaction with the backwards corporate governance.

The reason corporate governance is so important in predicting the road ahead for Korean society is because its value is not limited to mere maximization of company worth: corporate governance is an important variable whose function leads to no less than the creation of values in society itself. This is due to the preconditions of corporate governance in transparency and responsibility having direct ties with social values. This is proven by noting the amazing almost identical findings between corruption indexes and corporate governance indexes, in spite of the fact that the two use different units of measurement. Such is no coincidence.

The restructuring of Korean society following the 1997 financial crisis brought upon the same challenges for the workplace sector as well. Strenuous structural reforms and adjustments became expected for the workplace sector, and the restructuring of the business sector took place on a wide scope and on many different levels. The attempts to restructure the old system had taken place not only in governance structure, but much further in the realm of workplace.

Most businesses chose to innovate themselves after the crisis in the name of the competitiveness and efficiency. Perhaps the most significant innovative measures in business were team-based work, annual salary system, merit-based pay, and the sigma six movements. Team-based work is the measure that most directly affects the structure of a business, and stands as the most representative organizational innovation in human resource policy.

The other measure that affected the organizational structure of corporate was functional flexibility, adopted for the purpose of actively responding to



the changes in the crisis environment. The human resource policy in the post-financial crisis era saw much experimentation of flexible programs based upon the principle of competitiveness. The elimination of the proverbial lifetime employment and the legalization of layoffs brought about significant changes in employment patterns. In addition to outright layoffs, companies have used early retirement and honorary retirement schemes to scale down their pay rolls. Corporate-provided welfare, as a non-salary labor cost category, also underwent change within the context of financial flexibility of businesses.

During the course of business restructuring, the vacation and paid leave regarded as the traditionally peripheral issues were brought on to the table as a target for management and innovation. The restructuring of corporate following the financial crisis did not only take place in the realm of the production side but also that of reproduction. The structural reforms thus took place in both the workplace in terms of working hours as well as that of the individual lifestyle during free time. Within a very short period, the notions of competitiveness, flexibility, structural innovation, and core competency become the rules of the game for corporate restructuring.

## **Chapter 6. Civil Society Responding**

### **The Case of Minority Shareholders' Movement<sup>8</sup>**

#### **Introduction**

The minority shareholders' movement has become the most symbolic and representative case of civil society activism in the process of social restructuring following the 1997 financial crisis. The beginnings of minority shareholders' movement in Korea can be traced back to March of 1997, when the non-governmental organization People's Solidarity for Participatory Democracy (PSPD) attended the shareholders' general meeting of Korea First Bank and stood against the extending insolvent loans toward the company Hanbo Steel. This particular episode in Korean history had become perhaps the most representative case of Korea's citizen-based activism in the field of economic reform following the 1997 financial crisis. Aided by progressive intellectuals arguing for corporate reform as well as the media's continued focus on related themes, the minority shareholders' movement yielded results that could not be overlooked. Ever since, the victory in 4 year-long court case against the Samsung conglomerate, active participation in shareholders' general meetings, and legislative petitions—most strongly represented by the

PSPD, have served as evidence that NGOs have arrived as main actors in the process of reforming corporate governance in Korea.

The success of the minority shareholders' movement goes hand in hand with the emergence of activist groups as main actors in the process of restructuring the political and economic systems of Korea since the 1997 financial crisis. The fact that Korea's political parties were not able to serve the role of representing the concerns of the people in Korea laid down a structural framework for the rise of NGOs, unlike the cases of Europe where political parties institutionalized social conflict and cleavages in society (Lipset and Rokkan: 1967). The financial crisis has meant not only a comprehensive restructuring process at the institutional level but also a halt to the Korean way of thinking and practice (Park and Kim, 2005: 37). The historical context of the country having just experienced a financial crisis also laid fertile ground for the growth of activist groups and their activities, as Korean society's corruption, incompetence, absurdity, irrationality, and inefficiency were all exposed. Hence, the activist groups were able to investigate the causes for the crisis as well as present alternatives for resolution, by explicating those responsible (Hong, 2000:124). They had emerged as the morally superior and trustworthy alternative, in relative terms, to the untrustworthy governmental, political, and market-based establishment of Korea. In this vein, the NGOs were able to gain legitimacy as the bastion of reform in Korea, while their work on minority shareholders' rights was perceived as true economic reform.

There is no doubt that the minority shareholders' movement gave birth to many new possibilities and hopes toward civil society in Korea. With political parties in Korea yet inadequate to represent the grassroots interests of the masses, the activist groups served the function of quasi-political parties in their place. Over the years, the alliance between the state and market forces that developed throughout the period of the developmental state had

revealed problems, notably ending up serving only the interests and extended rule of those with power or capital. The lack of public sector mechanisms to monitor, criticize, and check eventually threatened the system of capitalism in Korea itself. The NGOs and their activities such as the minority shareholders' movement, based upon the motto of economic democratization, provided the initial step for resolving these aforementioned issues.

Although much has been mentioned about the successful story of minority shareholders' movement in media, only scant attention has been paid to the mechanism of the movement including its formation, method, and social consequences. To make the generalization that the NGOs had gained influence and provided a true alternative model for reform requires further strict examination of whether these groups had been able to reach their initially laid out objectives, as well as examination of the methods for achieving those objectives. The reason for this is the inevitable dilemma faced by all reformers in the post-democratization era of Korean society regardless of whether it is a democratic government or social activist sector: the dilemma between 'the legacy of a developmental state' and 'hegemony of neo-liberalism.' All actors with discretionary powers to reform society are destined to be faced with the above-mentioned dilemma. When reformers seek to establish themselves against and upon a past history of a developmental state, the most convenient reform policies such as breaking the government-business collusion, fighting corruption, or applying market-based regulations in place of state-based ones inevitably run into the risk of neo-liberal hegemony. Further, the reform policies or movements themselves end up having neo-liberalist characteristics or at least sway in that direction. In other words, the reforms to correct the problematic ways of a developmental state system can easily veer off its original course and be engulfed by neo-liberalism.

The methods of the movement also need examination. The direction

taken by PSPD in utilizing law and the mass media was very effective in reeling in results from law suits while garnering interest by the larger public. However, it created the risk that reform efforts will become further activist-driven in characteristic, while the issues handled became salient and single-issue focused. Hence, issues that are weaker in focus, non-media friendly, individualistic, or conflicting were weak in facing the hegemony of neo-liberalism is destined to be pushed aside.

Based upon the issues presented thus far, the chapter first examines objectives of the minority shareholders' movement as linked with the interpretation of what caused the 1997 financial crisis. Although minority shareholders' movements were present in Korea before the financial crisis, it was only during the immediate aftermath of the crisis that it received support and interest from the mainstream public. The question that needs to be asked is why PSPD chose the minority shareholders' movement as an alternative to latch on to and promote. The chapter also analyses the dynamics of the movement and its social consequences in conjunction with the diffusion of shareholder capitalism and the conflicting dilemma between the legacy of developmental state and the hegemony of neo-liberalism.

### **Basic Position of Minority Shareholders' Movement**

The minority shareholders' movement ultimately has its objective in the reform or reorganization of the shareholder-centric corporate governance structure, as opposed to the traditional owner-centric or executive-centric structures. The movement was organized to protect the interests of minority shareholders by way of consolidating the otherwise scattered separate votes (Jang, 1997:2). In other words, tyrannical administrative practices of business executives were to be checked and accountability called for in the case of bad

management in order to protect the interests of minority shareholders. Hence, such a movement is perhaps the most democratic and capitalistic means of public interest advancement within the market economy. The minority shareholders' movement in its essence is a means toward individual interests of each shareholder yet results in promoting the openness and transparency of a corporation as well. This, in turn, enhances the role of the capital market in market mechanisms. In essence, this logic is a very useful and convenient way for minority shareholders to assert their rights that are too often eclipsed by the tyranny of large shareholders. All the while, it promotes public interest alongside the private interest of shareholders (Kim, 1999:60-61).

The answer to the question of why PSPD chose the minority shareholders' movement as an alternative to latch on to and promote in conjunction with the financial crisis can be directly derived from what perspective PSPD had towards the problems of the Korean economy, and more specifically, how they diagnosed the causes for the 1997 financial crisis.

The reason Korea's foreign currency reserve went into a tailspin toward the latter half of 1997 was because the sharp credit ratings crash of Korea's financial institutions and businesses in the international financial market. This situation led to a general financial crisis, and once it was known that Korea's financial institutions were unable to deal with the crisis, it became a foreign currency crisis. Although the fallout from government-led financing of businesses as well as the outdated administrative practices of financial institutions contributed to insolvent obligations, it was mainly the large conglomerates or chaebols' poor administrative practices that created most of the insolvent obligations. In conclusion, the economic crisis was brought upon by poor administrative practices. Thus in

order to overcome the crisis, the insolvent obligations of the financial institutions must be forgiven for the sake of normalizing the financial market, while simultaneously reforming the chaebols' governance structure, for that is where the root cause lies (Jang, 2001: 52-53).

As such, the addressing of government-led economy and chaebol system—legacies of the developmental state—as the core cause of the financial crisis was found as a common thread within PSPD writings (Lee, 1998; Kim, 1999; Kim, 2004a). Specifically, the 1997 financial crisis was portrayed as a realization of the risks associated with the chaebols' state of corporate governance. These explanations for the reasons behind financial crisis differ significantly from other ones: the outside pressure theory that asserts that the globalization of finance that came with the lowering of profit rates around the world since the 1970s (Krugman, 2000; Stiglitz, 2003; Dumenil and Levy, 2004); the sharp rise in current account deficit as result of the exchange rate adjustment that was the 1995 Reverse Plaza Accord (Brenner, 2003); the absence of regulations following the fall of developmental state structures in the post-1980s (Chang et al, 1998; Shin and Chang, 2004). They were one with the position of the IMF and mainstream economists that saw the problem as stemming from past developmental states in the forms of cronyism, government-controlled finances, or the chaebol structure. As result, they placed the target for reform on the chaebol system, which was the legacy of the developmental state, while the method for reform became the most effective minority shareholders' movement under the mission of economic democratization. The minority shareholders' movement had become the symbolic and most representative standard for Korea's economic reform in the post-financial crisis era.

## **The Unfolding of Minority Shareholders' Movement and Its Methods**

The minority shareholders' movement started with the March 1997 of stockholders' general meeting of Korea First Bank where questions were raised toward the insolvent loans provided to the Hanbo Steel Company. The illicit internal trading and loans amongst chaebol subsidiaries, in addition to shady methods of transferring ownership to owners' family members, illicit accounting practices, and faulty accounting audits were among the issues mentioned. In the meanwhile, the exposing of the Hyundai group's stock price fixing of its subsidiaries, with Hyundai Securities at its center, pointed out the infringement upon shareholders' interests, that had been considered a norm up to that time, and the litigation against those practices yielded great results within a short time. At the same time, there was much movement to reform laws especially in regards to establishing better protection for shareholders' interest, board members independent from the company executives and company owners, and auditors to be appointed for companies. The minority shareholders' movement struck an effective blow against the chaebol owners infringing upon the interests of subsidiary companies as if they were all under his/her private ownership in spite of the fact that the subsidiaries are independent corporate entities (Cho, 2000: 7-8).

PSPD was the first to embrace the issue of minority shareholders during the 1997-99 periods as their main theme, initiating a comprehensive watchdog movement toward Korea's top five chaebols. In June of 1997, they brought the executives of Korea First Bank to court for the losses inflicted upon the company, in effect exercising for the first time the right of shareholders to make company executives liable for mismanagement. In September of 1998, not only did PSPD expand the number of targeted companies for minority shareholders'



movement but they also attempted a more systematic and professionalized movement by publically announcing the targeted companies while establishing the framework for a chaebol watch by instituting a supervisory watch over one key subsidiary of each of the top five chaebols in Korea. In addition, PSPD instigated a nationwide 'National Movement to Own Ten Shares for Chaebol Reform' where the public was encouraged to purchase ten shares of the five targeted chaebols and delegate their rights as shareholders toward a single entity when deemed necessary. As result, the general public's identification and consensus with the minority shareholders' movement was greatly expanded, as 3,000 citizens who identified with PSPD's objective of 'reforming the chaebol with people power' took part in this movement (Kim, 2004a: 204).

PSPD's law suit against Samsung, which had been ongoing since 1997, was a snapshot of how a citizens' activist group had emerged as a major actor in changing the corporate governance structure of Korea. In October of 1998, PSPD filed a law suit against Samsung Chairman Lee Kun-Hee and ten other executives for illegal political contributions as well as wrongful support of subsidiary companies, for which the minority shareholders were awarded 99.7 billion won on a December 2001 verdict (Park and Jang, 2005: 177). That Samsung, who symbolized the power of capital in Korea as well as held power that was perceived to exceed that of the government since the mid-1990s, lost in court speaks to what extent the minority shareholders' movement had influence, as well as the possibility of how it could affect Korea's corporate governance structure and general management of companies.

Afterwards, PSPD sought further mainstream chaebol and regulation reform movements based upon the popular support and political influence accumulated via the minority shareholders' movement. Public campaigns and legislative lobbying was sought after to inscribe regulatory reforms as law. Unlike the previous eras when petitions and recommendations were submitted

to the government but generally not followed up with active pressuring, from the 2000 National Assembly session onwards a diverse array of legislative campaigns were conducted not only toward parliamentarians and government but also the general public. For sure, such activities did yield great influence. The scope of PSPD's activism that had started with the top five chaebols was then expanded to the general corporate sector that included the financial institutions. The result was a push toward a more comprehensive corporate governance reform and more intense economic democratization. In other words, PSPD's watchdog role then included not only the top five chaebols but also financial institutions—including banks, mid-level chaebols, as well as 50 or so public corporations that had been privatized.

Soon enough, from 2002 onwards, PSPD greatly modified their strategy for sitting in on shareholders' general meetings. This can be attributed to the fact that the general public's understanding of the need for corporate governance reform had then been strongly established, thus the need to simply sit in on the shareholders meetings on a regular basis was much reduced (Kim, 2004). Hence, such instances were then limited to special cases where attending the meetings were absolutely necessary. In the meanwhile, a significant development in the regulatory reform movement took place when the National Assembly passed the 'Code for Shareholders' Class Action Procedure' in December of 2003. In the following year, PSPD concentrated on regulatory reforms for realizing the principle of separation between industry and financial institution, as the chaebols' dominance over non-bank financial institutions was viewed as a decisive hurdle to the corporate governance reform of not only the chaebols themselves but also financial institutions.

These movements, aided by popular support, were able to affect the government's own chaebol reform measures, while also receiving support from investors home and abroad. The distinct method of activism by PSPD was

essential to realizing these. Largely, the characteristics of PSPD's activism are twofold (Hong, 2004: 113-114). First, the most striking characteristic is that declaratory statements, including editorials, were heavily relied upon. PSPD's editorials and statements were, of course, were officially aimed at government ministries, political parties, and chaebols, yet in reality they were aimed at alerting the national media. PSPD sought to enlighten the general public and other social actors of its objectives by way of raising social issues or expressing opinions as editorials and declaratory statements which, in turn, were reported by the media.

The second characteristic of PSPD's activism was that most of it utilized the legal channels made available by law. Whether it is request for audits, litigation, demand for legislation, opinion pieces, or request for public viewing of documents, these were all legitimate legal tools. If one review the law suits brought upon by PSPD over the past decade, 216 cases are found, which amounts to 5.4% of its entire activities. Other than the 216 legal suits, there were 21 requests for audit, 394 opinion pieces, 76 requests for legislation, and 63 requests for public viewing of documents (Hong, 2004: 114). Added together, 770 instances or 19% of total activities had utilized legal mechanisms. As such, PSPD utilized mainly the media and legal mechanisms to achieve its objectives. In selecting law suits as a mechanism for activism, PSPD not only was able to raise awareness of an issue but also bring about real results through the victories won in court. In addition to such characteristics, PSPD was also able to present to the Korean public easily persuadable concepts such as economic democratization, chaebol reform, and reviving the economy in its quest to realize the minority shareholders' movement. PSPD was also able to form a very flexible and slim core of university professors and financial experts who would contribute to the cause.

However, while such methods of activism yielded real results, they

also revealed limitations. Obtaining public support by way of appealing to the media asks that the issues that can be classified as highly salient and unifying (Smith, 2000: 38), for these issues can make a unity among substantial majority of the people. That is, issues should be singular, tangible, and easy for the public to take a singular stance. In other words, such activism is powerless in promoting issues that are not accessible by the public's basic common sense, non-tangible—arising from the non-accessibility of information, particularistic, or controversial issues.

The leaders of the minority shareholders' movement sought a strategy of systemic change through court verdicts, as was seen in their law suits against Korea First Bank and Samsung Electronics. In effect, not only were they able to raise issues by way of attending shareholders' general meetings, but also went to legal battle to exercise their legal rights. The resulting legal victories brought upon much more striking change in Korea's market and corporate sector than any measure the government-led efforts were able to achieve. Put most dramatically, it would not be an exaggeration to say that Korea's change in corporate governance was only made possible by having NGOs groups become its most central actor (Park and Jang, 2005: 180).

## **Social Consequences of Minority Shareholders' Movement**

### *Proliferation of shareholder capitalism*

As such, the minority shareholders' movement saw the reasons behind the Korean economy's stagnation and the financial crisis to be the legacy of the developmental state—notably the flawed corporate governance operated by the chaebols. If so, how successful was the effort to reform the Korean economic system by way of winning popular support to reclaim the rights of the shareholders? As it stands now, the popular perception toward the chaebol

has changed and the chaebols themselves realize they could no longer remain a fortress in confronting the activism of NGOs. Yet the objectives of economic democratization or economic reform were less successfully implemented, as shareholder capitalism that seeks to maximize the worth of shares, ended up the winner in the end. The reform and liberalization measures designed to overcome the legacy of the developmental state took a new turn in the post-financial crisis era, as it started to show signs of selective agreement with the neo-liberalism that had a hegemonic grip on Korean society.

It is not fair to say that shareholder capitalism became established in Korea wholly due to the minority shareholders' movement. Other influences such as the very specific historical challenge presented by the financial crisis and the resulting maneuverability of government-initiated market-oriented economic reforms (Sohn, 1999: 209), as well as outside pressure from foreign capital entities such as the U.S. or the IMF (Johnson, 1998; Wade and Vernoso, 1998) were also very important. However, the turn toward neo-liberalism, represented in Korea by shareholder capitalism, was not result of unilateral and automatic outside pressure (Kim, 2008). The fall of the labor sector during the fervent class struggles of the late 1980s and early 1990s, the fundamental and structural limitations of the state in handling the capitalism system (Block, 1977), as well as the fundamental limitations of representative democracy that do not allow for a guarantee of efficiency, accountability, and equality (Przeworski, 1999), have all been important conditions that led to neo-liberalism. Yet, these conditions alone could not explain the grafting of shareholder capitalism on to Korea.

The PSPD, while standing at the forefront of the minority shareholders' movement, did not voice for Korean companies to increase dividend payments. The lowered rate of infrastructure investments was not the result of minority shareholders' movement-induced shareholder capitalism applying pressure

as some critics have asserted (Chang and Jung, 2005). However, it is a fact that the minority shareholders' movement sought an alliance with foreign financial capital when it took on the Korean chaebol. Further, it is hard to deny that the success of the minority shareholders' movement's in legal battles have enforced more market-based principles, including helping the cause of shareholder capitalism that gave priority toward dividend payments at the cost of infrastructure investment. As result, the minority shareholders' movement, which sought to overcome the legacy of the developmental state in order to reform the economic system and achieve economic democratization, ended up establishing the hegemony of neo-liberalism across the sectors of politics, economics, and society. We will concentrate upon three major outcomes that arose from the success of minority shareholders' movement and its relationship to the entrenchment of shareholder capitalism in Korea.

#### *Exits for foreign capital guaranteed*

Foreign capital started rapidly entering the Korean market since the regulatory changes of the Kim Young-Sam government that included the comprehensive opening of the country's capital market. In the meanwhile, the minority shareholders' movement, which sought to change the chaebols' corporate governance structure, joined forces with foreign capital during the shareholders' general meetings. This alliance ending up legitimizing the notion of share-based interest seeking while coercing the Korean companies to operate based upon the principle of maximizing share costs. Hence, the proportion of foreign-owned shares based on market price that was 14.6% prior to the financial crisis and immediately after the first opening up of the Korean stock markets in 1992 rose to 30.1% in 2000 and then 40.1% in 2003. This figure propelled Korea past Japan (17.7% in March 2003), Taiwan (23.1% in November 2003), and Thailand (32.8% in September 2003) to become

the fourth highest in the world behind Hungary (72.6% in September 2003), Finland (55.7% in November 2003), and Mexico (46.4% in November 2003) (Jun, 2005: 299). When accounting for the chaebols' rotation of investment financing between affiliated companies—designed to protect ownership of chaebols—the proportion of foreign capital can be argued to be excess of 60% of all mobile capital (Lee, 2007: 392). The important characteristic of this new situation is that foreign capital no longer remained a mere creditor on the outside asking for repayment from Korean companies but became shareholders demanding the maximization of interest. The catalyst for such had been the minority shareholders' movement. With most foreign shareholder capital being institutional investors, such investors were pursuing short-term maximizations of shareholder interest based upon their portfolios' risk-reward analysis, rather than supporting the development of the companies they invest in (Lee, 2007: 393).

One important point to note is that the national origin of the capital is not important when examining the problems of Korea, even as the chaebols and their affiliated research institutes have asserted the argument for nationalism when it comes to capital investment. In addition, not all threats to governance as result of foreign capital are as serious as others. To be sure, there is the possibility that the proportional increase in foreign ownership of major Korean shares may lead to foreign investors' hostile takeovers of Korean companies or banks. Yet such a scenario would be dependent upon the characteristic of the foreign shareholder as well as the strength of the Korean chaebols' ownership structure. Hence, the possibility of a foreign hostile takeover should not be generalized. In fact, many chaebols use this as an excuse to rollback reform measures such as limitations on the total amount of shareholding by chaebol companies or counter regulations concerning the voting rights on affiliated financial and insurance companies (Jun, 2005: 300).

One important fact to note is that the aforementioned strategic marriage between the minority shareholders' movement and foreign capital still continues to this day and helps expand the influence of foreign capital over the governance of the chaebol system. The end result of such, ironically, has been a confluence between the chaebol system itself and foreign capital.

Within this line of reasoning, the emergence of foreign capital in the Korean market, aided by the protection of shareholder rights in Korea, has two problems (Yoo, 2004: 218-219). First, foreign capital that entered Korea since the financial crisis tends to stress short term arbitrage trading and maximization of dividend payment. Second, the expanded proportion of foreign capital shares in chaebol affiliates is actually making the preferred model of chaebol reform more difficult. What happened was that foreign capital itself learned to enjoy the profits that emanate from a chaebol monopoly system, thus it started to resist the chaebol reforms themselves. In other words, foreign capital had expounded the dismantlement of the chaebol monopoly and called for transparency when they had no access to chaebol profits, but once that access was secured, they learned to think first of the profits that emanate from keeping the chaebol structure intact, but at the cost of becoming timid toward promoting transparency.

### *Loss of publicness in finance*

Since not too long ago, the publicness in finance had been faltering. This can be traced back to the minority shareholders' movement as well as the sudden retraction of financial supervisory functions that took place after the financial crisis. The most necessary government supervisory organizations' corrections of a failed market or preemptive measures for market stability have been steadily disappearing. The penchant toward share price-based business practices as well as the leaning toward short-term profit, and the foreign capital



Table 1. Stock market capital flow for listed companies (2003; unit: 100 million won)

Inflow			Outflow		
	Korea Stock Exchange	KOSDAQ		Korea Stock Exchange	KOSDAQ
Sale of own stocks	17,791	55	Purchase of own stocks	98,696	3,081
New offerings	5,247	5.777	Dividends	48,988	3,081
Issuing of new shares	71,662	11.154			
Total	94,700	16.986	Total	147,684	3,873
Sub-total	111.686		Sub-total	151,557	

Statistics: Financial Supervisory Service

Source: Jeong, 2004: 363

takeovers of Korean companies are also adding fuel to the flame.

Foremost, the stock market nowadays, much affected by the respect toward minority shareholders as well as tolerance toward mergers and acquisitions, is actually eating up the funds that would otherwise go to companies (Jeong, 2004: 364). As seen in the table 1, in 2003, listed Korean companies were able to receive about 11 trillion won from the stock market, while handing out about 15 trillion won through dividends and purchasing its own stocks. In other words, 4 trillion won was released from the companies to the stock market.

Come 2004, this reverse functioning of the stock market became more pronounced to the extent that the listed companies had an outflow of 7.3 trillion won. According to the Financial Supervisory Service, the first half of 2004 saw companies finance themselves, through issuing of new shares and public offerings, a mere 4.2 trillion won. On the other hand, during the same period, the purchasing of own stocks was 4.3 trillion won, while the December figures for the first half of 2004 saw dividends paid out to shareholders reaching an all

Table 2. Ratio of bank loans to households and business sector (unit: trillion won, %)

	Late 1997	Late 1999	Late 2001	Late 2003	Late 2005	Late 2006
Household loans	48.1 (32.6)	63.3 (34.3)	133.0 (49.1)	214.7 (53)	251.6 (56.3)	283.9 (55.8)
Business loans	95.5 (64.5)	114.0 (61.9)	132.2 (48.9)	184.5 (45.5)	188.1 (42)	215.9 (42.4)
Won currency loans	147.9	184.2	270.7	405.1	446.8	508.5

Note: ( ) indicates proportion of won currency loan

Source: Financial Supervisory Service, 「Bank Management Statistics」

time high of 7.2 trillion won. During the first half of 2004, the listed companies released 11.5 trillion won to the stock markets while the stock markets took 7.3 trillion won from the companies, even counting the 4.2 trillion won that that stock market delivered to the companies (Jeong, 2004: 364).

The banks have also become much more profit-oriented and risk-averse in their style of management, with the result being a transformation from entities for corporate lending to that of household financing and facilitating investment into government bonds. This process was aided by the mergers between banks, infiltration of foreign capital into Korea's banks, and the strengthened regulations regarding forward looking criteria. Table 2 shows that the 1997 figures for the ratio between business loans and household loans was 64.5 : 32.6, but towards the end of 2001, household loans exceeded business loans by a ratio of 48.9 : 49.1. This trend continues to this day, with the 2005 ratio being 42.0 : 56.3.

The Korean financial sector no longer applied in their managing practices past notions of contribution toward the national economy but only stressed short term net income as well as raising share value. These banks ignored their function of publicness and asserted market principles and share values, all the while, protected by the large barrier for other banks entry

into the market. When market-collapsing crises hit with the downfall of companies such as Daewoo, Hynix, and LG Card, several banks fought the finance-governing bodies of the government for these reasons, while other actors in the financial sector fanned the flame. Such a tendency was not only observed in banks whose number one shareholder was foreign capital but also Korea's own largest Kookmin Bank (Kim, 2004b: 155). The disproportionate concentration of resources committed toward private banking—primarily for the high income population—resulted in excessive competition to win customers, while the lower income public suffered a significant drop in level of services. In certain cases, some banks even pursued a de-marketing strategy where the low savings customers that do not bring in much income were simply let go (Jang, 2007: 7).

These large trends in the financial sector resulted in the collapse of banks like Choheung Bank which primarily concentrated on high risk business financing. As things stand currently, the majority of banks are heavily concentrating on the safer consumer financing, at the cost of eroding the foundations of domestic industry. Such an environment not only discourages investment toward small and medium-sized industries but invite financial difficulties as well. In such a situation, large companies with large internal reserves would be less affected by the tightening of loans by banks, but the small and medium-sized or newly established companies that do not have much internal reserves have become heavily affected (Cho, 2004: 118).

Regarding household loans, the loans that go toward purchasing real estate inevitably start off real estate speculations, which eat into the economy's growth potential while also polarizing the haves from the have-nots in society. Attention must be paid to the fact that a mere 2% of Koreans own 80% of the bank savings in the country. The foreign capital's assault on Korean banks following the financial crisis also brought along profit-oriented policies for the

financial institutions while also promoting indiscriminate layoffs. All of this change bringing upon much stress in the national economy.

The diffusion of share price-maximizing management also called for the minimization of various other operating costs, which led to the worsening of working conditions. As Jang pointed out, the proportion of contingency workforce in Korean banks rose from 11.7% (15,043) in 1997 to 20.1% toward the end of 1998, and 26.8% in 2002, while the regular workforce were reduced in half during the same period. As of December 2006, the contingency workforce was 32,232, representing 32.4%, which is one third of all bank workers. This problem was made worse by the performance based differentials in compensation and the resulting job insecurity. Even when insolvent companies are being processed, the domestic financial institution creditors choose to seek short term interest, thereby designating speculative investors as the fixers but without consideration toward industrial policy. Such is due to the fact that the focus is placed upon early insolvency elimination measures, such as loan refusals and recovery, with little attention given to the sacrifices of the company (Jang, 2007: 7).

As a result, the Korean banks are enjoying a boom even as the economy as a whole is not. In other words, the boom experienced by the banks is neither the result of creating value nor improvement of management through innovation. Basically, the financial market is more at risk of market failure when compared with other sectors due to information asymmetry, and the fallout from an unstable financial market is usually enormous. The worldwide financial deregulation that took place from the 1980s onward brought volatility and linkage between the variables of interest rates, stock prices, and exchange rates, while the increased competition between financial institutions made entire financial systems increasingly vulnerable to within certain individual financial institutions or finance markets (Kim, 2004b: 149). As such, the

use of the minority shareholders' movement to gain legitimacy, abolish the developmental state, and promote higher stock shareholders' value synced with the neo-liberal hegemony to result in the decline in the public welfare function of finance.

*Capital-owning class rules again*

In addition to the aforementioned social changes, the minority shareholders' movement ironically ended up strengthening the advantage of capital when it came to the competition between social classes. It was true that the minority shareholders' movement started by PSPD was a citizen-led movement to resist the enormous power of the chaebol by democratizing it and limiting its free reign. In this light, it is worthwhile to note Jeong's words, "We originally wanted economic democracy. Yet what we gained was shareholder capitalism" (Jeong, 2004: 373). Proponents of the minority shareholders' movement continually fought against the chaebols' non-transparency and illegal slush funds, while Korea's lower income earners, who were enraged by the affluent chaebols' antics, supported the activist groups' shareholder capitalism. Yet it has become very valid to assert that, in reality, the public gained not economic democracy but merely liberated the several hundred thousand Korean stock investors and 20,000 American or British investment funds, resulting in jungle capitalism where hostile mergers and acquisitions as well as speculation ran rampant (Jeong, 2004: 373-374), even if this argument did exaggerate the results of the minority shareholders' movement.

A key fact is that the shareholder, whom the minority shareholders' movement saw as the principal body for creating value, is not the owner of a company but merely one of many parts that have a stake in the company. Just as the market is embedded within society, the company is embedded within society. A company can not be described without mentioning its laborers,

consumers, local organizations, subcontractors, and debtors, since they all share a stake in creating company assets as well as the risks. The shareholder is often stated as the owner of an incorporated company because of the capital that is provided, yet the shareholder is concerned mostly with the limited area of financial interest (Dahl, 1985). In addition, the shareholder stands not only outside a company's production process, the shareholder is often not interested in such a process. Hence, rather than be a proactive participant to a company's work, they remain a passive investor (Jun, 2005: 302).

Nowadays in Korea, the process of growing share value, as result of the minority shareholders' movement, often takes place without concern toward society's stakeholders, most notably labor and subcontractors. The continuation of this process makes necessary new allurements and regulation changes for freer accumulation of capital. The answers to such call are the rapid quantitative flexibility of the labor market and capital-dependent labor regulations. Ever since share value maximization became entrenched in Korea, it is interesting to note that the salary disparity between executives and other staff within a company has widened much like in the United States. In addition, concepts such as the employment and salary have fallen to become unrestricted regulatory variables of capital power, while flexible labor markets, job instability, income disparity, and the resulting general anxiety toward the future give rise to lowered spending (Lee, 2007: 44). The end result thus far has been a restructured economic system that sees low consumer spending and demand which, in turn, gives rise to a larger possibility for chronic recession and polarization of income levels.

## **Concluding Note: Half-way Success and Limitation of the Other Half-way**

This chapter addressed the rise of NGOs becoming major players in society after the 1997 financial crisis. In particular, the minority shareholders' movement and its resulting social implications were examined as their most representative activity on their way to becoming the standard for change. By asserting strong uncompromising voices against large capital, the minority shareholders' movement was able to provide Korean civil society with many possibilities and hope for reform.

The PSPD's method of mobilizing the law and mass media was able to bring about much change within a short time, yet it also weakened other issues in society that were either weak in an environment of neo-liberalism, non-tangible, individualistic, or conflicting. Most important is the social impact brought upon by activism, namely the overwhelming advantage secured by capital, legitimization of foreign capital, and loss of publicness of finance. The minority shareholders' movement that blamed crony capitalism, state-led finance, and chaebol system as the reasons behind the financial crisis, sought to disassemble the chaebol leaders' corporate governance structure. This led to their joining hands with foreign capital as a way of gaining legitimacy. Yet during the course of abolishing the state-led finance and guaranteeing of the financial institutions' interest and minority shareholders' rights, the financial sector's role in public welfare declined. Nevertheless, the movement contributed immensely toward the maximization of shareholders' interest, and flexibility of labor, but also helped the established interests in society expand their wealth by worsening the gap between the rich and poor. These, in spite of being promoted under the umbrella of economic democratization and reform, have been hijacked and morphed by the hegemony of neo-liberalism seeking to

reestablish the rule of the capital-owning class in the process of escaping from the frame of the developmental state.

Normally, when Korea speaks of a direction for reform, it is important to note that those Koreans arguing for a post-democratization reform of society inevitably run into the dilemma of the developmental state and neo-liberal hegemony. Once the reformers seek to rise above the contradictions of the developmental state — by replacing state principles with market principles — the policies implemented inevitably faces the challenge of neo-liberal hegemony and morph into a form that achieves the neo-liberal objectives. The unfolding and end result of the minority shareholders' movement shows this very well.



## Chapter 7. Social Conflict Exploding<sup>9</sup>

### A Few Scene of Conflict

Conflict is exploding in Korea today: large, numerous, deep, diverse, and serious. Yet the system of managing conflict is seriously weak. In other words, the measures for social cohesion are weak and few in numbers. The question is how large, how numerous, how deep, how diverse, and how serious conflict is. Also how weak the capacity of managing conflict is.

If there were an exhibition hall of conflict, one would be hard-pressed to not name contemporary Korean society as its title. Conflict has become a fact of life. Such is the extent to which conflict has become an everyday form of life, habitual occurrence in Korean society. Conflict is on the precipice of becoming entrenched as a structural part of Korean society.

According to the social survey, 8-9 out of 10 Korean adults consistently respond conflict in Korea as a serious problem. Conflict today is thought to be a much more serious problem than in the past. Korean expatriates visit his or her homeland Korea and express often in interviews, "Why are there so many demonstrations in Korea even as the country is so developed?"

According to the Judiciary Yearbook by Supreme Court of Korea, one out of every eight Korean citizen is mired in a lawsuit at some level, making it

most fitting for the country to be labelled “the Republic of Lawsuits. “Korea’s infamy of being the Republic can be noticed vividly when comparing the number of its legal lawsuit to Japan, a country with a similar legal system: Korea’s number is 60 times that of Japan. Having a low rate of resorting to lawsuits, in itself, is not always a good thing, as in Japan, the lower number is largely due to the strong mechanism of social pressure from community or organization based upon a culture of loathing lawsuits. In this context, one could argue that Japan is a society that excessively represses conflict while Korea is one that excessively expresses it.

The cost of conflict is also astronomical. According to a study by Samsung Economic Research Institute in 2009, the lowering of Korea’s conflict index to the average of OECD countries would result in a 27% (USD 5,023) rise in GDP per capita.

## **Entering the Era of Politics of Conflict**

Judged by the wisdom of hindsight, the development of Korean society until the late 1990s has been enough to be recorded as a chapter of world history in view of the modernization. The process of development was so great that Korean experiences could be used as a textual guide of developmental projects. First of all, the rapid economic growth, exemplified by the fact that per capita income expands one hundred times (from less than one hundred in mid 1960s to ten thousand dollars in mid 1990s) only within one generation, is remarkable enough to make Korea a top candidate for the title of model country in the modern history of capitalism on the developing arena. Such a rapid speed of economic growth seldom have we witnessed among any developing countries, and hardly shall we in the near future either. If a successful transition to democracy and an integrated formation of civil society were to be added to that

wonderful economic performance, Korea would become not only a model for economic development but also an exemplar of social development for the late development countries.

Of course, Korea has suffered from the conflicts and clashes brought about by the condensed modernization processes. Even though Korea achieved historic record of democratization, the establishment of substantive democracy is still required as the most imminent task. A large part of the sharp conflict now rampant in Korean society can be ascribed to the precipitate social and political modernization. Moreover, after the financial crisis and IMF trusteeship, confidence in the development of Korean society began to be undermined. Simultaneously, the operational rules and integrative structures of Korean society are rapidly losing their strength and vigor. Norms of trust are being shaken and the cleavages of conflicts are deepening. Now, a solution to make up the dark side of Korean modernity could never been more urgently needed.

Words such as competitiveness, structural adjustments, flexibility, and restructuring were not those forced only upon business nor a mere few public institutions in Korea but became key words for society as a whole. The value of everything in this world was to be defined by the rhetoric of neo-liberal restructuring. This trend of redefining the structure applies to not only production, workplace, working hours but also reproduction, non-workplace, frees time in people's lives.

The spread of the neo-liberal global standards had the effect of clearly defining who is ahead and who is falling behind in society. This inevitably leads to a polarization of society in many aspects. The supply of public resources that was supposed to help those who fall behind in society is now left to market forces, resulting in even more severe inequality. In the end, the neo-liberal restructuring that expounds the vitalization of market mechanisms have

led to the fall of the middle class and rise of new poverty that eventually led to a very polarized society (Kim, 1999; Lee, 2000; Kim & Park, 2001; Kim, 2007; Lim, 2007). The breakdown of society will accelerate under this trend, leading to intensified conflict in society.

The defining characteristic of Korean society, since the 1997 crisis, can be summed up as that of mixed conflicts, which are explained as follows. In Korean society, there is now an economic conflict that is easily observable in the aftermath of the financial crisis. Korea is also a society where the pre-modern, modern, and the postmodern coexist within the same time and space—a synchronism of asynchronism that bleeds throughout society. The class-based conflicts as well as traditional culture-based conflict between genders, age groups, and generations are hidden within the Korean psyche, always ready to exert its struggles to the fore when historical circumstances become ripe. The distorted political mobilization of the masses based upon regionalism is also a challenge that Korean society faces. The power shift of real politics also brought about a very wide-reaching transfer of power that led to more complex conflicts in society. In addition, while globalization calls for a social environment of multiculturalism, it is apparent that Korean society does not have the tolerance to actively engage in such. Much like the case of Western society, Korean society is also seeing a spread of postmodern ideology that, in turn, is breeding an increase in social minorities. As a result, the inequalities of modern society can never be defined exclusively by economic factors but will be a result of mixed interactions with political and social variables (Shin, 2009). As such, the fixing of Korea's mixed and transitional social conflicts are no easy task.

Currently, many actors in Korean society are politicizing daily issues, resulting in new conflict structures, resulting in the generalization and habitualization of conflict in society. The transformative values of globalization,

democratization, information revolution, and postmodernism have given birth to warring notions of liberal marketization, democratic separation of powers, and information across multiple platforms, and postmodern needs. Needless to say, Korea stands on the frontline of these issues. The conflicts one observes in Korea today are not limited to the traditional income level or social class struggles but also span the wide range of ideology, regionalism, gender, generation, education, the environment, safety, health, and minorities. With diverse actors increasingly politicizing daily issues to produce new conflict structures, Korean society is now entering the era of 'politics of conflict.'

The traditional conflicts of social class, labor movements, ideology, regionalism, and gender roles are joined by conflicts in the arena of environmentalism and generational differences, all manifesting complexities that go beyond a single issue or a specific grievance. Ironically, in accordance with the diversity in values, social conflict itself has also become divided into many complex and different forms. For example, the regional standoff in politics based upon regionalism is now mixed and compounded by class issues arising from environmental policies and its resulting effect on regional asset prices. As such, conflicts becoming linked with other conflicts have created a wide variety as well as complexity of new conflicts. The methods for resolving these conflicts have also moved away from oppression and forced resolution to more pluralistic resolutions.

It is inevitable that within a society of mixed conflicts, the basis for social cohesion would be much weakened. Social cohesion can be defined as the power of national unity where diverse members of society, each with its special characteristics, can feel a sense of community, share a common vision, and maintain positive relationships with one another. There is a recent research report based upon this notion of social cohesion that shows Korean society in a state of social conflict rather than social cohesion since the 1997 financial crisis

(Rho, 2009). According to this report, 1998 was the turning point when Korean society's weakening of social cohesion switched to active social conflict.

The reason crises breeds conflict lies less in the existence of conflict itself but the spontaneous generation of uncontrollable conflicts in society. While it is certain that conflict is based upon social fragmentation, conflict also functions as a provider of tension appropriate for social development as well as development of new energy sources that allow for a higher level of social cohesion. Unfortunately, in terms of the capacity for managing conflict, Korean society is not so well equipped. Conflict in Korean society has been wide spread and habitualized for some time, yet the system of managing conflict has been very weak. Hence, it is more essential than ever before that conflict be understood for its appropriately motivating tension and as well as a source of new energy in order to seek mechanisms that would manage the habitualized conflict in Korea's modern society (Park, 2008b: 23).

### **Mapping the Social Conflict in Korea: Compound, Complex & Compressed Conflict**

Conflict in Korean society can be summarized by the 3Cs of 'compound,' 'complex,' and 'compressed:' compounded in configuration, complex in structure, and compressed in formation. Within compounded conflict, an impossibly diverse array of conflicts has arisen simultaneously. The complexity of structure comes from the multilayer of pivots from which conflicts arise. Finally, the compressed nature of conflict in Korean society comes from the condensed time within which everything developed. If the causation for compounded conflict can be found within the 'synchronism of asynchronism,' then the complexity of conflict has its roots in the 'multilayered piling' of conflict's appearance, and compressed conflict is the result of the 'over

Table 1. Map of conflict in Korean society

Characteristic	Arrangement	Cause
Compounded	Configuration of conflict	Synchronism of asynchronism
Complex	Structure of conflict	Multilayered pivots
Compressed	Formation of conflict	Overspeeding and inclining

speeding and inclining' of conflict's appearance (see Table 1).

### *Compound Conflict*

Recent observation of the configuration of Korea's conflict shows that is compounded in nature. The structural reason for why Korean society keeps heading towards a state of conflict and is unable to alter such a course lies within the synchronism of asynchronism, which can be otherwise described as the multilayer of pre-modern conflict, modern conflict, and post-modern conflict all simultaneously existing during a transitional period in society. The synchronism of asynchronism refers to the phenomena where elements that should not exist simultaneously co-exist within the same period of time. Hence, the synchronism of asynchronism in having the pre-modern, modern, and postmodern exist within the same time is manifesting itself as conflict in Korean society.

Pre-modern conflict in Korean society is best represented by the conflict between genders based upon traditional Confucian patriarchy, generation-based conflict, and regionalism based upon outdated notions of political mobilization. Modern conflict has more to do with the class struggles that grew out of the growth of capitalistic industrial society. On the other hand, postmodern conflicts of Korean society comes from the spread of postmodern values in society, as well as the environment and ecosystems within which the quality of life and its sustainability are hotly debated. The conflicts in society

witnessed in Korea these days are manifested from the conflicts associated with compounded transition arising from the synchronism of asynchronism. This is not surprising when considering that there has been no other society throughout the history of mankind within which the waves of industrialization, democratization, information revolution, and globalization have spread concurrently within such short time. This phenomenon signifies social formation based upon compounded transition that, in turn, served as the structural basis for the cultivation of conflict based upon compounded transition.

The roots of compounded conflict are largely twofold. One is the conflict of economic interests, and the other is the conflict of identity. The map of conflict in Korea today shows the dual conflicts of economic interest and identity simultaneously arranged across all aspects of society in a complex manner. This is quite different from the West, where conflict in society has been showing the pattern of migrating from a conflict of economic interests towards a conflict of values, under which different value systems and lifestyles are clashing. In Korea, the two conflicts occur compounded and simultaneously (Kim, 2007: 104). For example, the ever-present political regionalism in Korea, under which regional in habitats have been exploited as mobilized political capital, sees no end in sight due to its interweaving with economic interests as well as regional identities. In other words, Hirshman's concept of divisible conflict and indivisible conflict are manifesting simultaneously (Hirschman, 1994). On the other hand, there is also coexistence between the conflicts of the traditional 'collective and centralized' alongside a new 'individualized and decentralized,' further contributing to the compounded nature of Korean conflict (Kim, 2008; Chung, 2008).

In Korea, the politicization of various issues by an equally diverse set of actors amidst a landscape of complex conflicts is constantly giving birth to new conflict structures, resulting in the general acceptance as well as habitualization



of conflict in society. Korea is without doubt at the forefront of this trend among all countries in the world. In most modern industrial societies, social conflict formed around the notion of social classes, while in the political sphere the main conflict was between the citizen and the state. However, in more contemporary times, social conflict has become a compounded and mutually affecting mix of divides in identity according to class, state/citizen, gender, age, generation, religion, race, and nationality. The landscape of conflict in Korean society is not limited to class issues based upon traditional income and wealth but pretty much all sectors of society including ideology, region, gender, generation, education, environment, safety, health, and minority issues.

The traditional struggles in class, labor relations, ideology, regionalism, and gender, as well as the more recent issues of environmentalism, multiculturalism, and generational differences have all manifested beyond singular issues or that of a certain social group to become a much more complex mix. Ironically, social conflict in Korea reveals itself as a disaggregated and complex mix, as if it is revealing the diversity of its new value systems. For example, the regional conflicts that manifested as regional confrontation based upon one's regional origin have been mixed and expanded with environmental conflicts based upon environmental issues and policies as well as interests arising from discriminatory rises in real estate prices based upon region. As conflict over a certain issue spreads extensions beyond its original boundaries, it becomes more varied and complex, consequently requiring its resolution to also improve upon the past temporary practices of oppression or forceful measures and seek more pluralistic or combined approaches.

Korean society's tendency for path dependency also aggravates the complexity of its conflicts. Social conflict generally has its structural roots in historical process (Lipset and Rokkan, 1967). Cultural and historical

conditions as well as contextual conditions often determine the form and characteristic of the conflict. One such example is the nepotism in Korean society, which is often manifested in the form of regionalism. Koreans have habitualized nepotism to the extent that it is now compulsory in explaining not only the values and attitudes of Koreans but also its methods of resource mobilization and political leanings. Such nepotism is apparent in the regional favoritism in recruitment and replacement of social elites, which over time aggravates conflict associated with regionalism. In short, the nepotism displayed in Korean society nowadays distorts the distribution of social resources while amplifying conflict between social groups, resulting in inefficiencies in society's management and hurdles to social integration (Park and Kim, 2003: 109).

Nepotistic collectivism carries within itself double standards towards social judgments and evaluation. It carries within a liberal attitude toward members of its own social group, which is based upon a strong intra-group-oriented nepotism, while showing closed-door attitudes towards outsiders, resulting in a severance of communication with outside groups as well as double standards in general social criticism. As such, nepotism, as it exists in Korea today, is the principle by which a given group promotes unity, a powerful tool for gaining both social acclimatization and procuring social resources but also one of the main culprits behind social conflict (Park and Kim, 2003: 115). In short, nepotism in Korean society shows strong characteristics of being an instrument or an unofficial institution for distributing social resources within the country. Such a strong trust in private relationships is the structure under which social capital is formed yet it falls short of demonstrating effectiveness on a macro level.

The regionalism that runs rampant should thus be seen less as an intrinsic conflict in Korean society but the result of elite politicians amplifying

and personalizing regionalism for the purpose of gaining political power. This stems from the peculiar socio-political characteristic of past Korean society where the authoritarian government needed an alternative mechanism for political mobilization that would make up for the shortcomings in political legitimacy. To this day, the absence of proper party-based politics can find its cause in the region-based allocation of power and the parochial relationships it breeds.

### *Complex Conflict*

Korean society these days is very complex for the reason that the pivots that create conflict are layered on top of each other. The three pivots by which conflict in Korean society is consolidated are as follows (see Table 2). First, there are the worldwide trends of globalization, democratization, and information revolution. Second is the historical contingency of shockwaves that emanate from 1997 financial crisis. The third is the wide pendulum shift shown in the recent transference of power in real politics.

These three pivots can be interpreted as the points of time upon which conflict in the global, nation-state, and politics-civil society spheres began. The frameworks within which these conflicts arose have been the 'forced adjustment' on a global sphere, 'path dependency' of the nation-state, and 'strategic choices' of political and social groups. In other words, the landscape of conflict in Korean society rests upon the multilayer of global transformations as deep structure, the 1997 financial crisis as historical contingency, and transference of power in real politics. The worldwide conflicts that arose from the late 1980s thus became interlocked with the conflicts from the financial crisis and conflict structures within Korea's real politics, resulting in a more intensified and complex set of conflicts.

At the core of the macro transformations taking place on a worldwide

Table 2. Components of Complex Conflict

Axis	Level	Mechanism	Contents
Global transformations	Global level	Forced adjustment	Globalization, Democratization, Informatization
Historical contingency	Nation-state level	Path dependency	Financial crisis
Real politics	Politics-civil society level	Strategic choices	Regime change, Power Shift,

scale lies the three concepts of globalization, democratization, and information revolution. The tension of globalization is generally associated with the spread of neo-liberal marketization. The so-called creative destruction of the market based upon the ideas of liberalization, opening up, privatization, and deregulation have arisen to become the governing principle of our times, dramatically drawing a division between those with competitive advantage from those without. Because globalization inherently carries within the conflict between global and local standards, conflict is never limited to those associated with domestic conditions but the entire array of related worldwide issues can become a source for conflict at the local level.

The spread of neo-liberal global standards clearly distinguishes between those who lead and those who fall behind, thus contributing to a worsening polarization between the two sides. This inequality is augmented by neo-liberalism placing in the hand of market principles the responsibility of providing social public goods for those who fall behind. Neo-liberal structural reform, with its core notion of facilitating the market mechanism, has thus led to the downfall of the middle-class and expansion of a new poverty-class, both leading to further polarization. Within such a context, social deconstruction will accelerate and conflict will intensify.

The democratization that took place in Korea after 1987 allowed the country to leave behind the state-led unilateralism and growth-first tendencies of compressed industrialization and rushed modernization for political and economic democracy as well as pluralistic autonomy of civil society. The social conflicts that were strictly suppressed prior to democratization rapidly came to the fore and spread throughout society once the democratization of late 1980s came around. In particular, labor conflicts and class conflicts exploded in many directions and starting spreading. Yet in spite of the success during this era of springing forth the previously suppressed and dormant conflicts, an appropriately rational and democratic new authority structure for the post-authoritarian era failed to form, resulting in none but amplified and more complex than ever level of conflicts.

On the other hand, the information revolution that took place over time created a social order that intensified its demand for democratic reform, by tapping into the mechanisms of interactive communication and participation (Han, 2006). The expansion of communicative channels and multiplication of communicative mediums also served to breed new forms of conflict-related grievances as well as resolutions. With the new hegemony of information led by the internet-based new media, new forms of political influence and conflicts were added to the previous. Information, which in previous eras had been owned by a special minority, had become open and disseminated over real time, thus leading to added demands of transparency. The newfound dynamism of information society facilitated mutual interaction between the public and private spheres, effectively bring forth fundamental changes in the nature of conflict based upon the blurring division between public and private interests. However, knowledge and the power it creates were found to have an additional peculiar quality during the information age, namely a newfound 'instability' of knowledge-based power (Kim, 2005). This is based upon the tendency of

knowledge having a shorter life span in the new age, in spite of its empowering qualities. The time required to produce, disseminate, and consume information is becoming shorter, resulting in a quick fall or loss of value in any previously attained knowledge. In addition, the information age also ushered in a reverse-generational effect where for the first time in history the younger generation were able to attain more resources than the elders, which in itself became a source for future conflict.

Korea is entering a situation where it could no longer shield its economy from the prospect of jobless growth, which is not unlike the situation with the rest of the world. Many are worried about the possibility that growth in GDP that is not accompanied by growth in jobs may become an entrenched pattern in Korea. If growth no longer becomes a mechanism for creating jobs, then it is inevitable that society itself will polarize on the issues of both employment and income. In fact, Korean society's employment coefficients show that the GDP of a fixed 1 billion Korean Won took 43.7 persons to create in 1995, but shrunk to 36.6 in 2000, and 30.6 in 2006 (Naeil Shinmun, 2007). Laborsaving technological progress is rapidly taking place in the human resource-intensive and lucrative sectors of large conglomerates, manufacturing, export-oriented sectors, resulting in the reduction of job creation per added productivity value. The reduction of jobs in these sectors is being replaced by the less laborsaving and less technology-intensive small enterprise, service, and domestic consumption sectors. Although the task of creating new jobs have moved to small and medium enterprises and the service sectors, productivity improvement in these sectors in Korea have been woefully lacking, thus resulting in the general reduction of places for quality employment. For example, the aftermath of the financial crisis in Korea has seen an explosion of service sector employment in retail, food, and hospitality, which resulted in excessive competition among these poorly financed service sectors, and

dramatic lowering of the quality of employment.

The restructuring of Korean society following the 1997 financial crisis accelerated its move towards marketization, leaving the impression in all sectors of society that the only rule worth trusting is that of competitiveness. The strengthening of the influence of market forces left discussions of basic morals or value systems in the dust. If the democratization movements of past left Korean society lusting for power more than ever, the financial crisis, in similar fashion, left Korean society lusting after money more than ever. This most worrisome situation is not unprecedented in its occurrence but the magnitude and reach in all aspects of society is quite serious.

The financial crisis and its seriously adverse effects on the landscape of Korean social conflict can be observed in the issue of poverty. During the mid-1990s, there was a time when Koreans proudly proclaimed that 'There is no more poverty.' Enjoying the fruits of continuous economic growth at the time, poverty was regarded by many as a problem only of vulnerable social groups, and not one concerning the lives of the social majority. However, the financial crisis brought upon many situations where no amount of hard work could help one escape from poverty, resulting in the spread of an impression that no one is free from poverty any more. The poverty level of Korea's senior citizens ranking at the top of OECD countries is but one example that illustrates this point. Poverty is being rediscovered and is becoming a structural problem in Korean society. It is naïve to think a recovery in the economy will lead to a reduction in poverty to the levels it was before, because the institutional mechanisms of family, company, and state that stood at the forefront of reducing poverty in the past is no longer functional due to the restructuring of society that followed the financial crisis. It is imperative to acknowledge that the poverty issues of today cannot be served by upturns in the economy as it had in the past. The traditional development theorist or policymakers' thinking

of economic growth as a one-stop solution to poverty or polarization in society must be criticized for its inability to read the new reality.

The other large pivot for social conflict can be found in the transference of power in real politics. Namely, these are the transferences of power that took place during the 'replacement of mainstream' elites under President Roh Moo-Hyun's participatory government (2003-2008) and the 'return to conservatism' under President Lee Myung-Bak's pragmatic government (2008-2013). Roh's participatory government arose to the fore by rattling the monopoly of power that certain conservatives had for a long time. The Roh government's rise to power was accompanied by change to the landscape of power in Korea where the incumbent mainstreams were to be replaced. This change was not limited to the political realm but was felt in all aspects of society, as multiple concepts rose to prominence to become symbols of a new transference of power: post-authority, post-convention, mainstream replacement, historical reconciliation, internet power, progressive power, 386 generation, reform code, institutional reform, and balanced development (Park, 2006). The dynamism of the launching of the new government was inevitably accompanied by a change to the landscape of power, a process that had larger social conflicts built within. For example, the so-called replacement of mainstream were manifested in the trends of shifting power from Seoul to the local governments, from Gangnam to Gangbuk, from U.S.-centric diplomacy to non-U.S.-centric diplomacy, from ministry-based policy to committee-based policy, from conservative to progressive, and so on. The conflict in ideology spread beyond politics to all aspects of society such as economics, education, and culture. Such a wide-reaching change to the landscape of power led to a more complex unfolding of social conflicts. Nevertheless, Roh's participatory government was neither able to create a new governance structure for power nor institutionalize wider communication between the public and its government, in spite of the fact



that these were the core values associated with the objective of participatory government. In reality, the end result of participatory politics became no more than merely inviting in traditional outsiders as a new power in society. Although the Roh government may have relished in having debates about social issues, it was quite weak when it came to effective communication.

The transference of power that took place under the Lee government shows roughly the exact opposite of the Roh government. This resulted in the most worrisome habitualizing and intensifying of conflict in society. Herein lies the reason why the Lee government had been requesting for its entire five years a grand social pact that would include the minimal agreement towards public value.

### *Compressed Conflict*

Korean society's conflict is high in density, because it was formed under compressed time. The trademark concept for today's Korean society is without a doubt 'compressed modernization.' Because modernization was compressed, the conflict in its society also takes place in compressed form. Compressed time is often used as a term synonymous with Korean society's development over the past half century. Much like the case of compressed growth, compressed conflict is the result of over speeding that destabilizes the center as well as the tilting resulting from that speed. Simply put, the inherent over speeding and tilting means that when problems explode in society it does so with unstoppable force. Korean society has been known to run toward whatever it finds to be successful. For Koreans, it is psychologically comforting to even wander in close proximity to success. However, compressed growth did not allow for consolation prizes, as the winner take all mentality was the only one that became valid. Bluntly put, Korea was a society in which the victor took everything. This resulted in the empowerment of extreme voices, as there was

no room for opinions in the middle. Hence, it was difficult to expect values and rules that could usher in compromise.

Compressed growth in Korea can be symbolized by the dramatic growth in per capita income from less than \$100 in the mid-1960s to \$10,000 in the mid-1990s, a 100-fold increase within the span of 30 years. Such is an impressive feat on the level of world history. Considering that 30 years is often considered to the unit of one generation, Korea remains the only example in world history where the people's income rose 100 times during a single generation. The power of compressed time in Korea is not only manifested in economic growth but also in social change.

The process of compressed growth saw several shifts of focus in society as follows: communal values over individual values, the supremacy of results over legitimacy of process, and unilateral decisiveness in resource mobilization over the gathering of opinions through consultation. Within the process of high speed and compressed growth, there was not enough social energy invested toward communication or justice. The recent string of problems in Korean society of not being able to find faultless and capable persons for political office is a result of compressed growth where the value of procedures and process were ignored. The development of compressed growth that proceeded under the banner of 'Let's become rich' inevitably placed values such as mediation of conflict or morality-based thinking in the back seat (Park, 2010a). Compressed growth brought upon a number of habits of committing illegal actions as well as exercising special privileges. Illegal acts and circumvention of the law had become a matter of fact in life, partially brought upon by the reality where such were indeed necessary in order to succeed and live prosperous lives.

It may be that the social conflicts Korean society currently faces is mere karma catching up with compressed growth. Regardless, Korean society is experiencing compressed conflict to the magnitude it has experienced

compressed growth in the past. Not only is Korean society experiencing a temporal compression of conflict where many problems arise intensively, but also spatially condensed structure of conflict where the challenges of industrialization, democratization, globalization, information revolution, and postmodernism coexist within the same time and space (Park, 2008: 6).

The principle of growth, under which indiscriminate use of tools and methodology takes place in order to achieve an objective within a short amount of time, had been considered the preeminent value in Korean society for some time. With the legitimacy of process and procedure ignored, society chose to favor risk over safety, outward appearances over inner stability, and quick fixes over careful consideration as the essential ingredients for survival. In some cases, examples of hopeless adventurism had even been praised as legendary success cases for others to follow. With meritocracy now dominating Korean minds, the developmental era's insensitivity for process has now become a habit of the heart.

The recent and unprecedented interest in communication, process, and justice-related issues is evidence of Korean society's numerous problems in communication and process. It was extremely difficult to devise institutional mechanisms that would prevent the loss of process, especially amidst compressed modernization. Compressed modernization and rapid growth simply did not allow room for process to take root as a psychological basis or principled rule for social management. The result is a Korean society with conflicts that are drowning deep in the light and darkness of compressed modernization.

### **Weakening of the Weak and Destabilizing Middle Class**

Since the financial crisis, very unstable circumstances are prevalent in Korean

society where everybody runs the risk of being unemployed or being demoted to non-regular jobs. The crisis is worse because the social safety net is hardly established in this society. While unemployment and low job-security became facts of life, the safety net is too precarious to meet the increased welfare demand. The weakening of the weak becomes more evident when we consider dwindling of the state capabilities. The state capabilities dwindle because not only of the state's inability to escape from the external pressures of neo-liberalism, but also of the lack of material economic foundations necessary for a new integrative restructuring. Indeed, restructuring efforts without a sufficient material basis are bound to trigger a wave of conflicts among various social groups.

Neo-liberal economic restructuring policy, with the free-operating market mechanism at its core, leads to polarization of class structure, magnifying current inequalities among social strata and occasioning the collapse of middle classes and the emergence of a new poverty class. On the other hand, central issues of strikes by labor unions are almost always defensive ones such as avoidance of lay-off and unemployment. The gap between the rich and the poor has widened, urban middle-class households are falling into desperate situations, and lower-income class depends on debts for daily livelihood, all of these reflect the severity of ongoing social disintegration. Under these circumstances, the labor issues become less and less flexible whereas maintaining labor flexibility is the top-priority policy objective.

Instability of employment and unemployment are at the core of the social crisis. Korean society has been immersed in sustained growth for so long that it did not prepare itself for, nor even anticipate the possibility of massive unemployment. An enduring unemployment rate of around two percent level seemed to make Korean society free from the risk of an unemployment crisis.

Lifetime employment or lifelong job security has been a norm symbolizing the Korean employment system. After this unemployment-free period, the unemployment rate skyrocketed to around eight percent and a record number of unemployed amounted to 1.8 million in early 1998. The impact was profound. The monthly average real income per urban household recorded a twenty percent decrease in the third quarter of 1998 from a year ago. In addition to the sharp decline in income level, income distribution has deteriorated at significant depth and speed. The Gini-coefficient drastically rose to 0.3222 in the third quarter of 1998 from 0.3005 in the same period of the previous year (Moon, 1999: 38).

Under the pressure of enforced adjustments, the labor market began to be extorted. Also, extorted patterns of unemployment became fixed. The proportion of involuntary unemployment steeply increased from 35.7 percent in 1997 to 80.1 percent in the first quarter of 1998. Although it gradually decreased after that, it is still higher compared to that of average years (Ministry of Labor, 2000). Among the representative forms of involuntary unemployment are included unemployment of the youth and long-term unemployment. Especially, the unemployment of the youth, aged between 15-29, became a severe social problem. Actually, the unemployment rate among the young people is twice as high as that of the total population. Unemployment of the youth can no longer be regarded as unemployment of cyclical pattern. It begins to show the pattern of structural unemployment. The proportion of youth unemployment increased even after 1999, when the economy slowly began to move into the phase of recovery.

Long-term unemployment also increased both absolutely and relatively. Of the total unemployed people, the proportion of those who have been unemployed for more than one year is getting higher. In 1996, before the crisis, it was 4.2 percent, but it increased to the average of 15.3 percent from 1998 to

June of 2000. Obviously, duration of unemployment has been systematically extended. On top of that, the proportion of the re-unemployed, those who had ever been employed before they became unemployed, was around 50% before the crisis, increased to the average of 92.5 percent thereafter (Bureau of Statistics, 2001). That means it becomes more difficult to get another job after losing one.

The percentage of non-regular job workers also increased greatly. The new structure of labor market that was created by neo-liberal restructuring processes is consolidating the expansion of non-regular jobs and, as a result, the gaps between regular and non-regular jobs are becoming more serious. The fact that in 1999, ninety-two percent of the newly employed workers got non-regular jobs emphatically shows that the Korean labor market is undergoing the process of dual-structuration, which will radically divide labor market into the two sub-sectors. Recent research shows that there are 7,580 thousand non-regular job workers, 58.4 percent of the entire wagedworkers. Nevertheless, the workload of non-regular job workers is heavier than that of regular job workers. The former works an average of 47.5 hours in a week whereas the latter works 47.1 hours. Discriminations against non-regular jobholders are also found in the areas of social insurance and labor conditions. Among the regular jobholders, the percentage of those who took out major social insurances, including national pension fund, workplace medical insurance, and employment insurance, ranges from 74 to 94 percent. But it hardly exceeds twenty percent level among the non-regular job workers (Bureau of Statistics, 2000).

The basic objective of the government's unemployment policy is first to conclude restructuring quickly and successfully, and then to promote competitiveness of firms, and finally to create new jobs. It is modeled after unemployment policies of the United States and the United Kingdom which try

to create jobs by strengthening corporate competitiveness with market-oriented economic policies while keeping the labor market as flexible as possible. If the Korean government keeps on pursuing this kind of unemployment policy, Korean society will invariably wind up with a society of long-term structural unemployment, as was witnessed in Europe. But in Korea, the social safety net is not as well-equipped. Korean government is now rushing head-on toward western-style unemployment policy without a western-style safety net. In other word, the Korean society is in a situation in which serious unemployment is imminent but the safety net is not well-developed. The Korean labor market makes the cleavages ever more crystallized between the employed and the unemployed and between regular and non-regular jobs, accelerating the weakening of the weak in Korean society. A polarized society is threatening to become a stark reality in Korea.

In the meantime, the noticeable decline of middle class identification was observed in conjunction with financial crisis. Over the past several decades since mid-1960s, Korea's middle class has rapidly expanded with the country's successful industrialization and economic growth. For the 1980s and 1990s, Korea's economic growth has significantly resulted in the spread of middle class habits and life styles throughout the country, even blue-collar workers assumed a middle class consciousness. Roughly speaking, Koreans began to take the values and lifestyle of middle class as a yardstick for social order. It is widely accepted the argument that the middle class is inclined to favor a multicultural society where a diversity of values and ideologies coexist, where one can attain one's goals through education and by giving oneself to the burning passion to climb the social ladder. The middle class tends to value equal opportunity more than other classes. The middle class also relatively champions fair competition. It expects to enjoy greater civil rights and political freedom, stressing the role of the state in supra-partisan and national mediation.

Table 3. Self-Identification of Class Membership

	Upper Class	Middle Class	Low Class
Before the Crisis	4.3	61.1	34.3
After the Crisis	0.6	45.1	54

Source: Hankyoreh, April 13, 1999.

Therefore, an upswing of the middle class is a sign of social change toward greater economic growth, democracy, and social integration (Park, 1998). A comparative survey in 1998 demonstrates a marked decline in the number of respondents who identified themselves as belonging to middle class (table 3). Fear is now growing that this social order embedded in middle class may be collapsing in Korea today.

### **Ideology Conflict in Excess**

Among numerous conflicts, this afternoon I will touch ideology conflict which has become overwhelmingly hot issue in Korea these day. In Korean society, ideological conflict is in excess. To be "in excess" is a state where a particular group or power base excessively exaggerates or mobilizes resources for the purpose of amplifying conflict throughout society. The ideological conflict in Korean society today is exaggerated beyond what it actually is. Nevertheless, this is not to say that ideological conflict is not real. Ideological conflict is deep-rooted in Korea's modern history thus it is no easy matter to solve substantially.

Many assume Korean society's ideological conflict to be that between conservatives and progressives. Sector by sector analyses of newspaper articles clearly show this to be the case. Analysis of conflicts reported in newspapers show that articles on ideological conflict are 2 to 5 times more prevalent that



articles on class or labor conflicts. However, the one result that consistently appears in investigations into Korea's social conflict is that when the public is asked, "What is the most serious type of conflict that occurs in Korean society?" the most prominent answer is class conflict based on economic issue.

The excess use of ideological conflict is profoundly attributed to political parties. The ideological conflict that takes place in present day largely owes to political groups utilizing it as a means to win power in government by claiming ownership of ideological positions and amplifying conflict throughout society. Therefore, most arguments have become trapped in bold dichotomous black and white logic.

Polls consistently show the general public moving away from polar ideological extremes, less inclined to identify as progressive or conservative. In contrast, the ideological gap in political sector is much more polarized than that of the general public and it's only getting worse. In other words, ideological gap of the political parties is far bigger than that of general public.

The wide spectrum of positions in ideological conflict is thus gone, leaving behind a very stark confrontation between two political camps. In some ways, the preeminent beneficiaries of ideological conflict are political parties who, in turn, utilize the politics of ideology endlessly for their gain. In other words, the political sector aggravates and amplifies conflict in order to serve the typical role of uniting its support base and maintaining hold on power. Politics and media are polarizing increasingly as ideological extremes, progressive or conservative. All this is much more intensified in Korea than any other societies that I know.

Generational conflict is another theme that dominates discourse in an excessive manner. In Korean society, the notion of generations entails a special meaning. It has manifested as the driver of power shifts, expression of zeitgeist, or the pillar for cultural conflicts. Within the entirety of conflicts in Korean

society, the weight of generational conflict is not that much. In other words, the Korean people do not perceive generational conflict to be a major problem in comparison to other types of conflict. Nevertheless, the generational divide or generational tension are tirelessly mentioned. Discourse on generation in Korean society is made excessive than in actual reality through the commercial project or political project or journalistic project. Compared to ideological conflict, generational conflict is deeply entrenched with commercial interest.

As we all recognized, when opinions and positions have become polarized driven by ideology it becomes incredibly hard for social cohesion.

### **Institutionalization of Compromise Matters**

Korea is in crisis in view of social conflict and cohesion. Crisis can lead to either opportunity or downfall, depending on how it is managed. When Korean society of today is said to be in a crisis, the statement, at its core, is an indictment of the lack of management and control mechanisms to counter numerous and intense conflicts in society. In other words, conflict is both abundant and intense but measures for social cohesion that would alleviate the situation are weak and few in numbers.

Unfortunately, in terms of the capacity for managing conflict, Korean society is not so well equipped. Conflict in Korean society has been wide spread and habitual for some time, yet the system of managing conflict has been very weak. In some ways, social crisis caused by conflict is less about conflicts but more the absence of capacity to manage and coordinate conflict. Thus, it is both a crisis and a crisis of crisis management.

Everybody yearns for grand politics. It is my understanding that politics is the skillset for compromise, negotiation, and settlement. No more, no less. Although the outward goal of democratization has been achieved, social order

is yet not far removed from the authoritarian social order of the era before democratization. The reason is that its politics has never been able to embrace compromise. This is the point.

Politics in Korea neither serves to settle nor reduce conflict but merely inflames it. When one mentions the primitive state of Korean politics, it is referring to the narrow opening for compromise. Slogans are in great abundance while the true life force of politics, compromise, is nonexistent. While the true values of conservatism or progressivism are nowhere to be seen, only the owned interests of the conservatives and progressives are overflowed.

As Theresa May spoke out in her last major speech as British Prime Minister, when opinions have become polarized and driven by ideology it becomes incredibly hard for a compromise. The freedom I enjoy must be able to coexist with the freedom others enjoy. From this perspective, compromise is essential. This is among the universal truths that are applicable everywhere, regardless of time.

The term “grand politics” is politics where opposite two sides mutually acknowledge value of another in reaching of settlement and compromise. What is needed is a shift from the Darwinian “survival by domination” to a more ecological framework of “living together.”

Politics should not be an antagonistic opposite but complimentary opposite and domination interdependence but non-domination interdependence not. To do so, we should strive for common values that lead to solidaristic coexistence. We must search for the minimum acceptable common ground. What we need are winners who can concede and losers who can accept. Seeking the common ground and being prepared to make compromise is necessary to make progress towards social cohesion.

How to institutionalize the compromise is the most urgent mission

in Korea today. The institutionalization of compromise is crucial in meeting conflict, some of the greatest challenges of our time and our society. One of the most compelling notions in the age of politics of conflict is compromise.

## Chapter 8. Identity, Authority, and Trust Reshaping

### Reconstruction of Identity: Dualistic Directions<sup>10</sup>

The financial crisis and its subsequent restructuring have created major ripples all across Korean society. One of major ripples across Korean society due to the financial crisis is the identity in which there is a primacy of otherness over national sameness. Modern history of industrialization tells us that nationalism undoubtedly played a crucial part in the economic modernization of Korea. By equating individual objective with national aspirations, nationalism had galvanized people to commit themselves to the national goal. The situation of financial crisis and the ensuing period of the IMF intervention were, in the middle of the tide of globalization, the very hotbed of identity loss for the Korean people.

The financial crisis is not only an economic problem like introduction of a new market mechanism and labor-capital conflict but also more significantly a cultural problem—the problem of defining identity, of how to redefine the concept of ‘I’ or ‘we’. In a survey, the following question was delivered to a sample of university students; “what do you think is the most harmful effect of globalization on Korean society?” 36.6 percent of the respondents chose loss of cultural identity as the answer, 31.5 percent, instability of employment, and

16 percent, concentration of wealth (The Yonsei Annals, 2001). The survey indicated that loss of identity crisis is regarded as most important in the age of globalization.

Identity is very important for a society to achieve and maintain an adequate level of social cohesion. Especially, in an economic crisis in conjunction with globalization whose inherent feature is instability, the question of how the self-identity of Korean people is constructed and reconstructed is an interesting topic. As a matter of fact, before the globalization with 1997 financial crisis Koreans had many in common, including conventional ways of doing business, expectations of life-time employment, trusts in business culture, beliefs about the nation's international status and prospect, and above all, the pride in being a Korean, all of which contributed to the expansion of the collective consciousness, in Durkheimian notion, of Korean people. The financial crisis requires that Koreans dump everything they have if it lacks competitiveness. Under this circumstance, it might be natural that the meaning of 'we' becomes vague. Trust in social relations that have been ascribed to 'us' or 'we Koreans' is now being rapidly undermined.

According to an international comparative study conducted from September to October in 1997, just before the crisis, national solidarity among Korean people was at a much higher level than for Americans, British, Germans, Italians, and Japanese. Koreans recorded very high ratings on the item that "my country's prosperity is my prosperity" (The Public Information Bureau, 1997). But nowadays we can easily witness a tremendous decline in Korean self-identity.

Koreans' identity was established through the economic modernization process that shaped Korean society in the last half of the twentieth century. Nationalism undoubtedly played a major part in the economic modernization in Korea. Nationalism, when articulated in association with industrialization

and modernization, is an ideological source of massive mobilization. By equating economic modernization with national aspiration had galvanized people to commit themselves to Korean. In a word, modernization in Korea was undertaken through the expression of homogeneous national identity and nationalism (Kim and Park, 2003).

To put it another way, the most conspicuous feature of Korean identity is the absolute sense of homogeneity that is generated by the overwhelming power of national identity. Though there have been many changes recently, still it is true that Koreans take the three separate entities—state, society, and nation—as one and the same thing as if it were a homogeneous organism which has its own life. Actually, national identity and nationalism served in the process of industrial modernization as a spur which stimulated Korean people to work harder. In pursuing modernization, national identity played a role of a catalyst for mobilizing the complete compliance from the people. Nationalism was regarded as a social obligation, patriotic duty and moral duty, replete with the notion that the more each individual works, the better off everyone is, including the company, and more importantly, the country. In addition, the motive force for participation was not identified as self-interest, but rather as a contribution to the state's nation-building. The call for industrial participation stipulated and honor to the company and the country (Kim and Park, 2003: 41). The individual's commitment to economic work and social norm was assimilated with national aspirations. Accordingly, the theme of modernization, as a historical and national task facing the Korean people was adopted as a slogan for a while by the Korean government. In fact, nationalistic elements came to encompass the entire content of development.

While Korean identity, characterized by uniformity and homogeneity which are byproducts of powerful national identity, is seemingly strong enough, it is, paradoxically, very susceptible to external shocks. Identity that

has been formed by pressures of national sameness turns fragile when it is hit by a blow from outside. Therefore, demands of globalization and experiences of the IMF intervention can easily bring about an identity crisis. Koreans, who were equipped with identity of homogeneity and uniformity that formed when the experiences of democracy were meager and the pressures to conformity were so strong, now suffer from a severe identity crisis, having lost sets of meanings ascribed to them. They often show multiple and inconsistent responses to one and the same situation. For example, even though they have been feeling embarrassed at being Koreans, they easily become, whether at an individual or collective level, proud of being a Korean and make up their mind to do their best as a Korean when they are exposed to slogans arousing national identity such as "You Koreans, Get On Your Feet and Run Again!" (Chung, 2000: 16).

Under the crisis and IMF trusteeship, responses of Korean people to the national identity were broadly divided into two directions, the one involving sticking to nationalistic mentality ever more faithfully, the other dismissing the nationalist conceptions altogether. Most immediate responses were to appeal to ethnic nationalism and patriotism. This is evidenced by the fact that Korean people called the day of December 5, 1997 as the day of national infamy because it was on that day that the memorandum to provide fifty-five billion dollars of urgent rescue fund was signed between the IMF and the Korean government. And, Korean people thought that after the day of infamy Korea was put under an IMF trusteeship just as she had been put under the Japanese trusteeship about a century ago. Varieties of movements were resorted to in order to mobilize national identity. Through mass media, people were encouraged to collect gold and dollars, and to refrain from purchasing foreign liquors, foreign cigarettes, and even coffee. Called "Save the nation" drive, it raised 225 tons of the gold in a couple of months, out of which 196.3



tons were exported, bringing in \$1.82 billion in badly needed hard currency (Korea Herald. 1998. 3. 16). "Independent Coke 815" was the brand of a newly marketed domestic product named after August 15th, the Korean Independence Day, to get the upper hand over famous foreign brands, such as Coca-Cola and Pepsi. In a similar vein, the Hangul & Computer company, having narrowly escaped being taken over by the Microsoft with the help of a nationwide donation campaign, made a new version of Hangul named "Version 815". All of these are among the typical cases where the politics of identity were employed.

Under the crisis and IMF trusteeship, responses of Korean people to the national identity were broadly divided into two directions, the one involving sticking to nationalistic mentality ever more faithfully, the other dismissing the nationalist conceptions altogether. Most immediate responses were to appeal to ethnic nationalism and patriotism. However, as time went on, there were undeniable tendencies to escape from the influences of the nationalist conceptions. We know that the reconstruction of identity should be viewed as effects of always-ongoing process. The hard time was a rude effect, prompting Korean to reflect on their identity that results in what is national can no longer firmly serve as a criterion for a primacy of sameness in making identity.

On the other hand, there were undeniable tendencies to escape from the influences of the nationalist conceptions. Attitudes toward emigration, promotion of English as another official language, and attraction of foreign capital became affirmative. Emigration increased persistently from 1962, the year when the emigration act was first legislated, to 1980, when a total of 37,510 migrated to foreign countries. But the opposite trend had set in from 1981 onward, reaching a record low of 12,484 emigrants in 1997. After 1997, emigration increased again. But this time, it is characteristic that the proportion of emigrants who left Korea by an invitation of their relatives

abroad has dropped drastically while the rate of business-or-employment-related emigrations has increased. A survey in 2001 indicated that 45.3 percent of Koreans would consider immigration positively if they had that option (Dong-A Il Bo, 2001. 4. 4). In the mean time, the number of return-emigrants, having increased steeply from 1980 to 1997, slowed down in 1998. Moreover, considering the fact that the emigration of those who have much money and professional expertise increased during the crisis, we can conclude that the recent increase in the number of emigrants cannot be explained only by economic factors and is closely tied to the change of national identity.

Another indicator showing that some change has been taking place in Korean national identity can be found in the controversy over whether English should be made another official language. According to a survey analysis, 56.7 percent of Korean people replied "yes" to the question on English as another official language while the percentage of the opponents was only 39.3 percent (Dong-A Il Bo, 2000. 10. 31). This result evidently suggests that Korean national identity has been weakened.

The financial crisis was a rude awakening, prompting Koreans to reflect on their values, worldviews, and the overall Korean way. What was disheartening was the fact that their prized way, at least in the economic sphere, proved to be inefficient and to a certain extent, even irrational. The controversy over Asian value is the case in point. Koreans have long prided themselves in having embraced Asian values - i.e., deference to societal or group interests, emphasis on self-cultivation and education, respect for probity and loyalty, emphasis on social harmony, respect for authority and consensus over confrontation - and believed in their superiority over western individualism in achieving rapid industrialization and sustained economic growth. However, the financial crisis highlighted the dark side of the cherished values. We can say that the question of what is national can no longer serve as

a criterion for distinguishing between the good and the bad, between 'us' and 'them'. The belief that Korean identity is Korean nationality and vice-versa has gradually been diluted. Koreans are growing out of the old identity based on the concept of 'we'.

According to Durkheim, the weakening of collective consciousness and ensuing identity crisis triggers a series of reactions on the part of the group members. By highlighting the commonality or sameness within the group through various means what Durkheim referred to as 'boundary redefinition' the group seek to strengthen the collective consciousness among members, and thereby to redress the identity crisis. The boundary crisis and boundary redefinition go hand in hand in a period of weakened collective consciousness and identity crisis. Dualism in Korean identity problem in which the episodes of 'the politics of nationalism' is posed against the counter example of the withering away of Korean national identity can be explained by resorting to the Durkheimian conceptions about boundary crisis and boundary redefinition. The dualistic reconstruction of Korean identity crisis can be characterized as a manifestation of the weakening of Korean people's collective consciousness and the simultaneous efforts of Korean society to overcome the identity crisis by emphasizing the similarities most Koreans share in common.

The situation of financial crisis and the ensuing period of the IMF intervention were, in the middle of the tide of globalization, the very hotbed of identity loss for the Korean people. The loss of identity stemmed from the loss of status as a social existence. Social problems and deviations, which steeply increased after the crisis, are symptoms of anomic chaos and identity loss, which signifies that our established modes of life are losing their meanings. According to a survey, the pain index of Korean people increased from 1.5 in 1997 to 20.9 in 1998, which means that after the crisis Koreans suffered from fourteen times as much pain as they did before the crisis (Jungang Il Bo, 1998. 11. 10).

## **Dismantled Authoritarianism and Erosion of Authority<sup>11</sup>**

### *Authoritarianism Persistent in Korean Society*

Most Koreans believe their own society to be authoritarian. Korean society had not been able to move itself away from the authoritarian frame. Whether it is government bureaucrats or citizens, corporate executives or laborers, workplace superiors or subordinates, the social relationship between Koreans is that of authoritarianism. 56.4% of respondents in the survey thought the relationship between bureaucrats and citizens was authoritarian, while 70.0% thought the same of that between workplace superiors and subordinates. The only relationships in which the level of authoritarianism had subsided were family relationships such as between husband and wife, as well as parent and children. Even the relationship between teacher and student was characterized by 50% of respondents as being authoritarian.

Recently, the issue of authority is being raised as an important one that cuts across many sectors of Korean society. The background to this problem with authority is that while Korean society successfully achieved high reputation of industrialization and democratization, the two achievements were not sufficient to move Korean society into the mature category, and the reasons are several. The challenges currently faced by Korean society are never so simple. There is conflict in society, but the measures to control and contain such conflicts are absent. Interest groups call for excessive demands yet the creation of public interest thresholds to counter such demands is lacking. Trust and transparency are mentioned as serious issues to address. Whenever the hurdles to the maturity of Korean society are addressed, authoritarianism is omnipresent. In other words, authoritarianism is perceived as the ever-present order that spans throughout Korea's modern history.

The authoritarianism in Korean society stems from both its socio-

cultural roots in Confucianism as well as the system of mobilization during its history of modernization. The authoritarianism of modern Korean society was largely combined with the Confucian culture of the Chosun dynasty, during which relationships were based upon status-based discrimination, oppression, and hierarchy. In other words, Confucianism was a symbol of a canon-based culture that justifies authoritarian human relationships.

The state-led process of compressed modernization since 1960 had also been an important reason behind the entrenchment of authoritarianism in Korean society. Authoritarianism had clearly established itself during the process of modernization. It became the central principle by which human and material resources were mobilized and consolidated under the objective of economic growth. The resources mobilized under a chain of command that allowed for little exceptions, all organized under a strict hierarchical system that was implemented with coercion. The actors with primary responsibility in designing this process were government bureaucrats, while those who implemented the process, in cooperation with the bureaucrats, were private industries. In addition to the state-instituted centralization of power just mentioned, also mobilized was the Korean cultural identity. Confucian values such as the devotion to country and parents, as well as the teaching of civic values became prominent in the educational and media sectors of Korea. This was augmented by the ideology of being one nation in terms of bloodline, language, and culture, all primal in contributing to the entrenchment of authoritarian structure in Korean society.

According to formal definition, authority is signified by outstanding knowledge or ability as trusted by peers, while authoritarianism is the cognitive state of oppressing others by way of exercising blind obedience. As such, the two definitions contrast in terms of one having positive and the other negative connotations. In other words, authority implies respect and trust

while authoritarianism is based upon obedience and mistrust. At this point, it becomes clear what to absorb and what to throw away. Authority is a necessary component to operating social organizations such as government, company, school, or family. In order to prevent a social organization from wandering as aimless individuals or from crumbling altogether, both a structure with vertical and horizontal components as well as rules to govern are necessary. Authority lies at the basis of those rules. Authoritarianism, on the other hand, lacks authority yet gives the impression of authority through the projection of sheer power.

Only a uni-polar order is allowed under authoritarianism, as it does not recognize the co-existence of diverse factions nor checks and balances between those factions. Hence, finding common ground between opposing factions by way of compromise, negotiation, and adjustment is rather difficult under authoritarianism. The authoritarian way of thought merely believes in the smooth progression of tasks where actors would follow through according to an absolute standard. It arbitrates the superior person from the inferior based upon hierarchy. Authoritarianism is also signified by absolute obedience toward the strong and aggression toward the weak, thus that subjects should obey their superior's orders is considered the natural order. It also utilizes bifurcated judgment and stereotyping mindset that leads to an unflinching sense of strong belief and prejudice toward issues. Naturally, new ideas are shunned along with the practice of making exceptions as well as all sense of adventure or risk-taking.

It is clear that the authoritarianism of past is no longer sustainable in Korean society. The room allowed for such imperialistic, military, or paternalistic authoritarianism of the past has shrunk enormously as result of the world-wide macro trends of globalization, informatization, democratization, and post-modernization. Thus, at least in terms of ongoing processes, Korean

society shows signs of being a post-authoritarian one. However, the problem lies in its inability to create new authority to accompany the authoritarian order of past being disassembled. Currently, Korean society is exhibiting many signs of absent authority. Whether it is parents, teachers, scholars, the politicians, or religion, authority is on a downward spiral, even leading to society's full rejection of authority itself.

In analyzing the dismantlement of authoritarianism as well as the erosion of authority, the historical experience of democratization in 1987 and the financial crisis of 1997 are very important. The democratization of 1987 brought upon the constitutional reform of direct presidential elections that became an important initial step toward the dismantlement of authoritarianism. However, while the outer shell of democratic process was advancing, the actual structure of authoritarianism entrenched in political power, political parties, political process, and political mindsets persisted.

On the other hand, the dismantlement of authority in Korean society can be clearly traced back to the 1997 financial crisis. The 1997 crisis was by all means the end of history in Korea, in that the history before the crisis was very different from what came afterwards. This is largely a result of the financial crisis itself forcing Korean society to cut the link with its past. The IMF-instituted governance requested not only Korean government, private companies, financial institutions, and labor sector to change drastically but also the daily habits of Koreans as well. Over the course of these processes, the disassembling of social structures had taken place at a rapid pace, resulting in a very low level of social trust. The public's mistrust in large corporation, the political sector, and other public sectors was strong to the extent that one would wonder if society itself could sustain itself any more. Under the IMF-instituted governance, it was most natural that the government's authority would fall, as it was the main culprit for the financial crisis. Further, the myth

among Koreans that the Chaebol was “too big to fail” was broken, resulting in the same fate that plagued the Korean government.

What resulted from these epic events in history was a sense among Koreans that whether it is the nation, tradition, state, or organization, if the entity is unable to guarantee the future of the individual self, it would be abandoned without hesitation. In other words, there was a nation-wide trend of post-nation, post-tradition, post-state, and post-organization. That Korean society is having chaotic vibrations not only within its politics, but almost every other social unit imaginable including private enterprise, various organizations, academia, the classrooms, and family. The authoritarianism of past has weakened much faster than anticipated. Yet, the problem has been that while all this was taking place, there had been no sign of a viable rational and new authority to replace the authoritarianism dismantled. The authoritarianism of past is weakening for sure but it has been difficult to find new authority.

The trademark of the Roh Moo-Hyun government is without a doubt post-authority. Roh’s march toward the post-authoritarian order was quite radical in nature. Whether it was his television conversation with young prosecutors immediately following his inauguration or his populist activities of personally meeting social actors to plead for consensus and negotiation had been acts of dismantling vested interests and authoritarianism to the extent that was unheard of in past presidencies. The next step instituted by Roh was vowing to release the so-called Big Four organizations of the National Intelligence Service, Prosecutors’ Office, Police Department, and National Tax Service from being servants of presidential interest to finding their proper roles. The president himself thus thought of the de-politicization of these organizations as his merit toward achieving a post-authoritarian society. Further, Roh’s utilization of email to disseminate pronouncements to his staff, in accordance with the digital age, became further evidence of departure from



the authoritarian behaviors of past.

However, the public is dispassionate in that they have started to equate Roh's post-authoritarian endeavors as the death of authority. Interest groups started voicing demands indiscriminately through the political mechanisms of both the streets as well as established institutions. Almost all interest groups have expressed their separate demands and grievances, resulting in the explosion of group-based self-interests, while voices from all sides started criticizing government-led negotiations as being mere unprincipled concessions. The government's loss of the necessary authority to govern, coupled by its lacking expertise, made mediation of social conflict impossible as it merely seemed confused. The often radical and uncensored comments by the president worsened the situation by having observers doubt whether even the minimal authority for national governance was present at all. In effect, the Roh Moo-Hyun government had collapsed authority along with the dismantlement of authoritarianism.

Restoring lost authority is no simple matter. The main problem is that in the process of dismantling authoritarianism, the authority that governs the notions of respect, trust, and following of rules had also collapsed. Post-authoritarianism, in its mission to break the wrongs of past, had harmed the essential element for social order - rational authority - in the process. As a result, while Korean society was able to reject the old authority and authoritarianism, it failed to create new authority to replace it. In other words, the authority structure based upon personalities is gone, but there is no authority structure based upon institutions and systems created to replace it. Korean society is thus caught in a post-authority trap.

The solution lies in the restoration of authority. In recent, Korean society is exhibiting signs of rapidly moving toward chaos, which can be characterized as the weakening of the rules of governance as well as structure

for social cohesion. Rules for consensus are having trouble being developed, as individuals or groups expound their own voices that exhibit neither regard nor respect toward others. The end result of this is a widening of the chasm of conflict between one another. There is no doubt that authoritarianism is dismantled. However, the authoritarian remnants are strongly present in the consciousness and social institutions of Koreans. The solution is to restore authority based upon the notion of trust. Hence, Korean society's true maturity will be contingent upon overcoming of authoritarian remnants and the finding of rational authority structures for itself.

### **Bifurcating Public and Private Trust<sup>12</sup>**

Francis Fukuyama, one of the leading proponents on trust, arguably proposed a new world geography hinged upon the notion of trust in which all societies in the world could be divided into high-trust societies and low-trust societies, adding that a successful country would be the one in which social trust is permeated (Fukuyama, 1995). Some other works, though being written by different authors with different themes, strike the same cord, insisting that social trust is one of the key factors that determine socio-economic development (Putnam, 2001; Woodcock, 1998). In Korean society, the problem of social trust also began to jump high on academic agenda, especially after the financial crisis of the late 1990s. As the lack of trust was regarded as one of the crucial background of the crisis, Korean society began to recognize that trust is an important precondition for societal development. An important question, "why is Korea a low-trust society?" finally came to be raised in an effort to draw a self-portrait of Korean society. The concern here is to offer empirical evidences showing the degree of low-trust of Korean society and to identify, if any, some kind of trust structure which have been characteristic in Korean society,

especially focusing on the dynamism between public trust and private trust.

There is a close dynamic relation between public and private trust. Historical experiences of European societies are generally described as the processes of substitution through which private trust has gradually been replaced by public trust, that is to say, the corrosive processes by which exclusive private network has gradually raveled out. If political efforts to enhance institutional transparency undermine the advantages of insider transaction which could be accrued by strengthening private networks, a transition from private-trust oriented system to public-trust oriented system will develop. Contrary, if there remains little confidence in the fairness of the rules of games in public sector, resort to strong private networks could be more effective, thereby enhancing the exclusiveness of private networks. Trust based on public institutions, since it merely rests on the objective forms of trust, might result in constraining more flexible forms of trust between private individuals. However, the enhancement of public trust does have the potential to create new forms of trust in personal relationships, in that it provides the basis on which individuals can build up personal trust with each other. The dynamic relations between public and private trust can be used to classify four types of society as follows.

In trust society, levels of public and private trust are simultaneously high. This type of societies can be considered most desirable in that these societies allow personal and societal interests to coexist harmoniously. Trust building among actors could strengthen communal solidarity and accumulate social capital, leading to the accomplishment of democratic ideals. In this type of societies, open networks, not being confined to private trust, could lead to the formation of social capital which would be conducive to the enhancement of public goods.

Authoritarian society is characterized by the combination of low

Table 1. Types of Society by Trust

		Private Trust	
		High	Low
Public Trust	High	Trust Society	Authoritarian Society
	Low	Network Society	Totalitarian Society

level of private trust and relatively high norms and/or rules in public sphere. Individuals who violate these rules are subject to public sanctions that are both harsh and fair. Those societies, which lack both private and public trust, can be described as the Hobbesian societies in which only the law of jungle, or the law of the survival of the fittest, prevails and the "war of all against all" cannot be avoided.

If a society's level of public trust is low, while that of private trust being very high, then the society can be named as a network society. In this case, the institutionalized trust in public spheres is absent. Instead, a hierarchical structure of social relations develops, with individuals being connected with each other via personal super ordination and subordination. Traditional communities, where reciprocal and cooperative relationships are maintained among members within a group, but where trust in public institutions outside the group is dispensed with, can be a typical example of network society.

Korean society is known to be a network society in which nepotism based on personal ties pervades. Koreans have a strong trust in the private relations based on the shared personal traits, e.g., blood, birthplace, educational background, but their levels of trust in public spheres are not so high. As individualistic private trust has become strengthened, leading to the increased external exclusion and internal inclusion, nepotistic networks have prospered in Korean society. But that has been working as a deterrent to the formation of public trust which transcends the narrow boundaries of those private networks.

Table 2. Distribution of Trust in Social Institutions (% , scores)

	Trust response				total	trust index
	a great deal	a little	not very much	none at all		
Legislative (Parliament)	0.7	11.6	54.8	32.9	100.0	26.7
Government	0.8	20.7	58.9	19.6	100.0	34.2
Big businesses forms	1.8	25.9	58.0	14.3	100.0	38.4
Judiciary	3.2	37.5	46.2	13.1	100.0	43.6
Labor unions	4.8	40.2	47.2	7.8	100.0	47.3
Police	4.3	46.5	38.2	11.0	100.0	48.0
Education	5.4	46.3	39.4	8.9	100.0	49.4
Military	7.7	45.0	37.8	9.5	100.0	50.3
Religion	8.0	46.1	37.3	8.6	100.0	51.2

Source: Institute of Social Research, 2001.

A nepotistic network, with its own clear-cut boundaries, tends to strengthen internal norms which applies only within the network itself. That is the very reason why the network is bound to hinder a society-wide integration based on universalistic social norms. The survey data of this research reveals that while the level of private trust is very high, that of public trust is remarkably low in Korean society.

Table 2 shows Korean people's attitude toward several public institutions, associations and corporations, considered to symbolically represent the public spheres of Korean society. The most remarkable point is that an absolute majority of Korean people distrusts the political arena. In particular, this demonstrates how widespread the distrust about politicians is among Koreans. Percentage of respondents who replied that they don't trust the parliament is 87.7% and that of respondents who replied "do not trust the

government" is 78.5%. Proportion of respondents who have distrust towards the big businesses is 72.3%. If we, for the simplicity's sake, combine the two answers, "a great deal" and "a little", into a trust category, and collapse the two "not very much" and "none at all" categories into a distrust category, we shall find that even toward judiciary institutions and labor unions did more people choose the "distrust" category. Religious associations, the military, educational institutions, and the police can be regarded, by a very narrow margin, as trusted institutions in Korean society.

Based on the distribution of trust, we calculated trust index on a 100-point scale about each institution. As can be seen in the table, the parliament was the least trustworthy institutions in Korean society, measuring 26.7 on the trust-score scale. Next comes the government with a trust-score of 34.2, which is followed by the big businesses with a trust-score of 38.4. These figures show eloquently how meager is Korean people's trust in their own social institutions. Even religious associations got only 51.2. It is hardly an exaggeration to say that there's no public institutions or social associations that Koreans perceive to be trustworthy.

However, the lack of trust in public institutions does not automatically mean the decline of trust in the inter-personal social relationships. As can be seen from the above-mentioned dynamism between public and private trust, interpersonal trust is usually formed independently of the established institutions in public spheres. The processes by which the interpersonal trust forms can be different from the case of public trust according to socio-cultural contexts where a given society belongs.

The item in the questionnaire asking about the inter-personal trust is made by renewing the question, "Can most people be trusted?" used in the World Values Survey. Now the question is dichotomous: "Do you believe that you can usually trust most people in relationship, or that you cannot be too

careful when dealing with other people?" The survey result shows that those who replied "I can usually trust most people" are 60.3%, while those who chose "careful in trusting people" being 39.5%. Compared to the low level of public trust, the level of private trust among individuals can be said to be quite high. Socio-economic status is positively associated with the level of private trust. Among the higher education, higher income group, and among the upper class group, the proportion of those who choose the "trust" category is relatively larger than it is among the lower socio-economic status including income, education, and self-identification of class. For example, the percentage of "trust" chooser is 52.2% in the group of households earning less than 1.2 million won monthly, while that is 77.2% in the income group earning more than 3.5 million won.

In summary, Koreans have a very low level trust towards social institutions. Korean people's perception that the government, the parliament, and the big conglomerates are the culprits of the financial crisis is clearly reflected in their lack of trust in public institutions. However, they show a relatively high level of trust in the personal relations among individuals. Korean society, therefore, can be regarded as a typical example of the above-mentioned network society. It is private networks only that have been proliferated in Korean society. It seems that the lack of trust in public spheres leads to the strengthening of ties and networks in private spheres.

**PART III**  
**GLOBALIZATION OF K-POP**



## Chapter 9. Manufacturing Creativity

Production, Performance, and Dissemination of K-pop<sup>13</sup>

### Introduction

K-pop's recent explosion onto the global music scene has caused a stir among cultural studies scholars, particularly those specializing in Japanese pop culture. Scholars from Japan and elsewhere have long argued that K-pop, like other genres of Hallyu, is merely a derivative of J-Pop or Japanese popular culture (see *inter alia*, Iwabuchi 2004, 2013; Chua 2004, 2012). For instance, it has been widely claimed that Psy's "Gangnam Style" and multiple hits by Girls' Generation were only able to achieve their enormous popularity—both regionally (i.e. in Asia) and globally—due to their cultural and geographical affiliation with the larger Asian (or inter-Asian) cultural system, which was established and dominated by Japan, India, and China (Iwabuchi 2004, 2013; S. Park 2006; Hirata 2008; Ryoo 2009; D. Shim 2011). These arguments seem dubious at best, given K-pop's unprecedented simultaneous success in China, India, Japan, Europe, and the United States, something never achieved by Indian, Chinese or Japanese pop music. But all that aside, these responses reflect the confusion that the K-pop phenomenon has created within academia.

I agree with the cultural hybrid argument that K-pop's global ascendance

has been significantly driven by the passionate support of inter-Asian audiences. However, the actual production, performance, and dissemination of K-pop contents have little to do with the so-called Asian pop-culture system, which would entail K-pop producers globally promoting their artists by actively mimicking Chinese, Japanese, or Indian popular music. Instead, after drawing upon Korean talent pools and management to generate music and performers, K-pop producers rely heavily on the global music industries of North America and Europe for creativity. The global dissemination of K-pop content would not have been possible without the global SNS (social network sites), including YouTube, Facebook, and Twitter, none of which are owned or operated by Asians. The manufacturing of creativity in non-Western music involves three stages: (1) globalization of creativity, (2) localization of musical contents and performers, and (3) global dissemination of musical contents through SNS.

“Pop Asianism” or cultural hybrid arguments are fundamentally flawed in that they inherently imply that Asian popular culture is a purely mimetic system with no creativity, or at least much less creative than the European or American popular cultural systems. Viewing K-pop within the context of pop Asianism reduces the entire Korean music industry to a mimetic machine that assiduously copies Western or Japanese pop culture (Iwabuchi 2004, 2013; Jung 2011; Shim 2011). This article argues that K-pop represents a unique system of global division of labor, geared towards the creation of a new Korea-led system of “manufacturing creativity” that encourages and mass produces innovative music and musical performances.

Within this system of global division of labor, “manufacturing creativity” is not an oxymoron or a cliché for the exploitation of young Korean artists. Instead, manufacturing creativity signifies opening the entire global music industry to musical talents and audiences from all corners of the world.

allowing them to participate in an endless interactive communication and discourse about music from both center and peripheral countries.

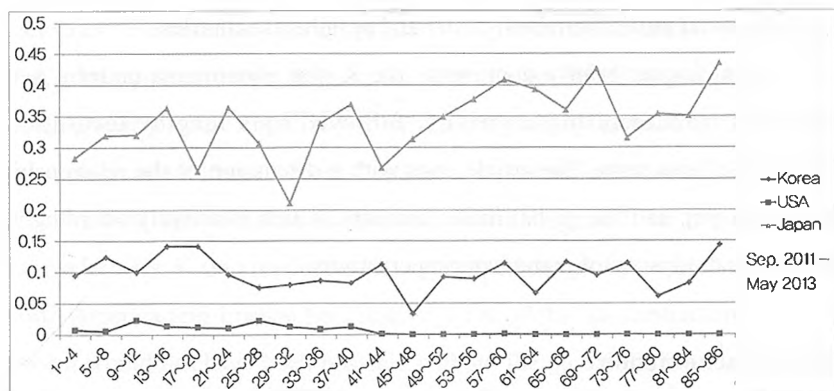
This chapter briefly documents the K-pop phenomena under a new system of manufacturing creativity, followed by a lengthy theoretical discussion of that term. The article ends with a discussion of the relationship between K-pop and the global music industry, which is actively adopting or adapting to the system of manufacturing creativity.

### **K-pop Phenomenon**

The K-pop phenomenon requires a sustainable business model that is firmly based on musical talent and creativity. K-pop, which is defined as a new Korean popular music genre for export (Oh and Park 2012), has existed as an independent pop music genre for more than two decades, as its starting point can be traced to 1992, with the debut of Seo Taiji and Boys and their new genre of hip-hop dance music (Lie 2012). The explosive popularity of the group's "Hayeoga" in Korea motivated them to give concerts in Japan, but the endeavor proved in the end to be unsuccessful. However, since 1998, K-pop has been massively exported to China, Japan, Southeast Asia, the United States, and Europe. Of these export markets, K-pop has had the most success in Japan, which has very strict piracy laws and is thus boastfully considered to be the world's second largest popular music market (Yoo, 2013). Thus far, a number of K-pop acts have found great success in Japan and China, including BoA, H.O.T., Shinhwa, S.E.S., TVQX (or Tohoshinki in Japan), Super Junior, Babyvox, Se7en, Skull, BigBang, Rain, Wonder Girls, SS501, Kara, Girls' Generation, etc. (see inter alia, Shin 2009; Siriyuvasak and Shin 2007; Lie 2012).

In addition to this continuing success, K-pop has also produced a large

Figure 1. Innovation Index for Popular Music in Three Countries (2011-2013)



Source: Author's modification of Billboard Charts (September 2011 – May 2013).

Note: Figures are for weeks 1 to 86 under observation

number of new hit songs and singers. According to my innovation index for popular music, which multiplies the number of new songs in the top-20 every four weeks by the number of new singers or groups in the same chart, indicates that Japan has the highest innovation ratio, while the United States has the lowest score. Korea ranks in the middle between Japan and the United States.

The innovation index does not correspond to the global popularity and influence of the songs and singers, but it does reveal patterns in the popular music industries of various countries. For example, the United States, which represents the world's largest popular music market, tends to focus on creating songs that sell consistently and stay on the charts longer than Japanese or Korean songs. Japan, the second largest pop music market, aims for quick-selling hits with much less longevity, while Korea, a developing pop music market with strong export growth, mixes the Japanese and U.S. strategies.

Among the three markets, Japan is the most turbulent, while the United States is the most stable, indicating that the latter is dominated by

large recording companies. The Korean market is also quite stable, with large entertainment companies controlling a large portion of the market. However, Korea also shows more innovation than the United States, clearly indicating that the success of a K-pop song relies on a mix of innovation and sustainability. Thus, the K-pop market seems to be striving for an ideal mix of relative stability and an average level of innovation.

## **Manufacturing Creativity**

In the field of social science, research on creativity has affirmed that the “novel combinations” in “creative destruction” that mark instances of radical innovation prohibit the process of manufacturing. Since creativity cannot be divided up and reduced into constituent parts, “novel combinations” cannot be generated through a typical manufacturing division of labor (see *inter alia*, Schumpeter 1962; Nooteboom 2000; Nonaka and Takeuchi 1995; Nonaka and Konno 2003; Csikszentmihalyi 1996). Every society, including domains or disciplinary fields, offers infinite possibilities for combinations, but only those combinations that can change the society can be labeled “novel” and “destructive” (Csikszentmihalyi 1996, 28). Changes to existing domains are typically attributed to individual geniuses (e.g., Da Vinci, Edison, Picasso, Einstein, etc.). These individuals either work alone or as part of a small team of creative researchers, which would indicate that such creativity can never be manufactured.

Thus far, studies on K-pop have yet to reach a consensus on whether K-pop is a creative domain, or if it is merely changing the domain of the music industry or popular music. Although many non-Koreans working in the field of popular music might not consider K-pop to be as creative as American popular music or J-pop, Koreans working in the field consider the current K-pop

phenomenon to be absolutely revolutionary. Never before has a Korean musical artist rocked the world by achieving popularity on the scale of today's artists, such as Psy, Rain, Girls' Generation, TVXQ, and 2PM. These pop music acts are dramatically expanding the domain of K-pop from a local and national art into a globalized music business.

As Csikszentmihalyi (1996, 25) and others (Crossan et al. 1999) have quite lucidly demonstrated, creativity typically involves having one's creative ideas approved by the "external community," through an arduous process of "interpreting, integrating, and institutionalizing" [creative] intuition. This concept is contradictory to the above definition of creativity, which posits an internal, individualized, and therefore purely intuitive process. In K-pop, like any other popular music genre, the external community or the agents of interpretation, integration, and institutionalization are numerous, diverse, and exceptionally diligent, evaluating songs on an almost weekly basis through sales charts, fan blogs, fan activities, and concert participation.

If K-pop has dramatically expanded the domain of Korean popular music to Asia and even to the world, and it is constantly being evaluated by a large number of diverse and external stakeholders, it is necessary to ask how K-pop is manufactured, thus enabling a new concept of manufacturing creativity. As Figure 1 indicates, K-pop is much more innovative and creative than U.S. pop music in terms of musical diversity, while K-pop has more longevity on average than J-pop. By situating itself between Japan and the United States, K-pop provides its fans with the best of both worlds: creativity and longevity.

The popularity of K-pop is staggering, given the relatively small population and the low number of popular music artists, as compared to the United States or Japan. How can the K-pop industry successfully sustain itself while manufacturing creativity? The answer lies in the concept of

“connect and development” (C&D), popularized by Procter & Gamble’s new innovation strategy (Huston and Sakkab 2006). In C&D, unlike in research and development (R&D), the internal process of innovation or creativity is often bypassed in favor of borrowing, buying, or outsourcing creativity and innovation to external communities. Larry Huston and Nabil Sakkab, R&D directors at Procter and Gamble (P&G) who work closely with the company’s CEO A. G. Lafley, explain the *raison d’être* of C&D as follows:

[M]ost of P&G’s best innovations had come from connecting ideas across internal businesses. And after studying the performance of a small number of products we’d acquired beyond our own labs, we knew that external connections could produce highly profitable innovations, too. Betting that these connections were the key to future growth, Lafley made it our goal to acquire 50 percent of our innovations outside the company. The strategy wasn’t to replace the capabilities of our 7,500 researchers and support staff, but to better leverage them. Half of our new products, Lafley said, would come from our own labs, and half would come through them (Huston and Sakkab 2006, 3).

Although outsourcing creativity is now common in many international business enterprises, the practice of internally reprocessing creative ideas that have been externally generated still seems fairly germane to the entertainment industry in Asia. As I explain in the final section, this unfamiliarity means that the internal reprocessing being done by K-pop producers is even more challenging than that being done in the labs of P&G, since there is no precedence for how to apply C&D in the cultural industry. In fact, this practice is so anomalous that it requires another internal creativity process, which I call

“localizing musical contents and performers.” This process is a manufacturing stage that occurs after the “globalization of creativity” and before the “global dissemination of the musical contents through SNS.”

Nonetheless, as Table 1 indicates, all three major entertainment companies in the K-pop industry have actively outsourced creativity and reprocessed it in their own labs to generate mega hits in Korea, Asia, and the rest of the world. It would seem that the K-pop industry has already mastered the art of C&D in the popular music domain, just as the process of C&D revolutionized Hallyu in general, and Korean pop music in particular. The case of SM Entertainment is particularly emblematic of how K-pop producers globalize creativity, internally localize creativity, and globally disseminate their music through SNS.

The Strategy of Creativity at SM Entertainment (hereafter, SM) founded in 1995 by Lee Soo-man, a former singer-songwriter and entertainment manager, is generally considered to be the largest entertainment management firm in Korea, with an annual revenue of \$90 million. From its onset, Lee has held the most pivotal role in the firm, taking it upon himself to direct and choreograph the entire process of recruiting and training young music talent, hiring composers, and producing and marketing music videos and albums. This type of one-man show is quite rare in the music industry, and is only possible because of the relatively small size of SM.

Over the last two decades, SM has expanded exponentially, in terms of overall size, human resources, and revenue. Thus, in May 2005, the management of the company was divided between the creative department, led by Lee Soo-man, and the business department, led by Kim Young-min. Also, creativity management is mostly conducted by a 14-member A&R (Artists and Repertoire) team, under Lee’s direct control and supervision. The most important distinction between SM and other music companies—both domestic



Table 1. K-pop's Globalization Drive

Multinational enterprises	Producer (K-pop artist)	Composer (K-pop artist)	Choreographer (K-pop artist)	Distributor
SM Entertainment	Teddy Riley/ (Girls' Generation) Polow da Don (Girls' Generation)	Busbee (Girls' Generation) Alex James (Girls' Generation) Kalle Engstrom (Girls Generation) Oslo Recordings (Super Junior Jeff Hoeppner (f(x)) Thomas Troelsen (f(x)) Wellem Laseroms (f(x)) NaoKanata (BoA) RyojiSonoda (BoA, TVXQ) Thomas Troelsen (SHINee)	Nick Bass (Super Junior, SHINee) Misha Gabriel (BoA, SHINee)	YouTube
YG Entertainment	Will.i.am (2NE1) Rodney "Darkchild" Jerkins (SE7EN)	Daishi Dance (BigBang) Nagao Dai (SE7EN)		
JYP Entertainment	Nick Cannon (Wonder Girls)	Claude Kelly (Wonder Girls)	Jonte (Wonder Girls)	

Source: Oh and Park (2012, 15).

and international—has been the company's fierce pursuit for globalization since its earliest days. As Table 1 shows, SM globally outsources various aspects of its music production more frequently and more diversely than either YG or JYP, which typically rely on domestic music talents, including Psy, who consistently works with Yoo Gun-hyung for music composition (e.g. "Gangnam

Style” and “Gentleman”).

Chris Lee, a supervisor of the A&R and Production Teams at SM, confirmed that, since its establishment, SM has focused on performers who were talented at both singing and dancing (Chris Lee, interview by the author, December 21, 2012). The company’s model was Michael Jackson, who regularly showcased his revolutionary combination of singing and dancing skills in various music videos on MTV. In fact, Teddy Riley, co-producer of Jackson’s 1991 album *Dangerous*, worked closely with Chris Lee to compose and produce the Girls’ Generation hit song, “The Boys.” Lee recalled that “[Riley] told me last year [2011] that K-pop would be a global phenomenon, and I’m now really surprised to see it actually happening.” (Chris Lee, interview by the author, December 21, 2012).

The concept of music globalization came from Lee Soo-man himself, who studied in the United States in the early 1980s and often watched Jackson’s videos on MTV. However, Lee’s globalization project was fraught with difficulties, since SM had no close contacts in the American or European music industries. They had to resort to simply writing emails or leaving phone messages with major Western composers and producers. The idea of outsourcing the songwriting and composition, rather than simply mimicking Western songs in Korea, was introduced in order to preserve the originality and creativity of SM’s songs. Notably, Western composers have traditionally shied away from working in Korea, because they usually rely on royalties for their income, but intellectual property laws are not strictly enforced in the Korean music market.

SM’s global strategy of outsourcing has nonetheless evolved through trial and error, with a steep learning curve that was elevated by the Korean ethos of speeding up the process by skipping some of the essential learning stages. By hook or by crook, SM was eventually able to expand their

international business network, thanks in large part to the Swedish music producer Pelle Lidell, who runs a music camp for the European and North American popular music industry. SM first connected with Lidell at the global music conference MIDEM, through an Australian music entrepreneur named Hayden Bell, who wrote “I Spy” for SM’s leading singer, BoA. According to Chris Lee, Lidell helped SM establish the music camp Fantasia (Fantastic Asia), which spawned several songs for SM:

Fantasia Camp continued for four days and three nights without rest. Lidell invited SM representatives and 21 composers and musicians to create 21 different songs exclusively for SM. As the producer, Lidell covered all the costs. Each team included one track writer [for percussion, instrumental, and recording], one top-line writer [for melody], and one lyricist. On the first night, each of the seven teams wrote one song, and then on the next night they switched around the teams and did it all over again. So by the end of the third night, SM had 21 new songs. It was simply amazing to witness the entire process of producing one song per night, which had been unimaginable in Korea (Chris Lee, interview by the author, December 21, 2012).

SM is now boastful of their strategic partnership with Lidell who has allowed them to complete their outsourcing network. However, simply globalizing or outsourcing music composition does not always guarantee success on the global scale, as JYP and YG have learned all too well. Japanese J-pop managers have thus far avoided outsourcing composition to global sources, since their domestic music market is huge enough to support an internal music production system. Therefore, the internal processes of finishing, mastering, and assembling the song are just as important as the outsourcing.

Chris Lee carefully explained how Lee Soo-man controls the entire process of finishing:

For example, take the song “Twinkle,” the first song by TaeTiSeo (TTS), which came out in early 2012. . . . In that song, Lee Soo-man told me to change the lyric “easily visible” to “instantly visible.” He definitely wants to be involved in every little detail, including the lyrics, the instruments, the title, the melody, everything. He literally produces the whole song. His process is not the norm in our business, because he’s not happy to just outsource the music to some composers and then record the songs with the artists. For him, producing involves a meticulous step-by-step process of refining, changing, and finishing the song. Sometimes the end result is completely different from the original music score (Chris Lee, interview by the author, December 21, 2012).

The secret of SM’s success, therefore, derives from this internal process of modifying the original creative work to make it more viral to the actual listeners, whoever and wherever they may be. This is not the same as merely copying universal trends in global popular music. Instead, SM acquires samples of universal musical content from Europe and the United States and then modifies them into a unique SM composition that is not yet globally universal, but has the potential to become the next global norm.

However, the internal modification process (or localization) requires a set of creative skills (i.e., tacit knowledge) that no one else at SM seems to have mastered yet, except for Lee Soo-man. Chris Lee considers this to be a serious problem. For example, Yu Yeong-jin, Lee Soo-man’s composer, had to train for three years before he could learn how to satisfy Lee’s eyes

and ears. The mass manufacturing of creativity presents a big problem. At SM, there's only one person who can manage and coordinate music videos, costumes, television broadcasting, and everything else. Therefore, we need a second Lee Soo-man. Right now, we're systematizing this process. Lee is actually having us write a manual for producing music. So now every department at SM has a manual that includes Lee's production know-how, CT (cultural technology), and creativity. The manuals let us bypass Lee in our tasks, so we're no longer totally reliant on him. But he still often intervenes in the process. Hopefully, these teams represent the foundation of the mass manufacturing of creativity. We need geniuses, but we also need apprentices. Lee Soo-man is developing the apprentice system here (Chris Lee, interview by the author, December 21, 2012).

Production requires creativity and processes created by geniuses, but the SM style of localization also demands a steady supply of high-quality performers, which is the most important factor in local production of K-pop. Manufacturing creativity in the SM fashion requires a stable of top performers at a relatively cheaper cost. Unlike popular music performers from other countries, K-pop artists must learn how to speak (or at least pronounce words correctly) in Korean, English, Japanese, and Chinese. On top of their linguistic abilities, K-pop artists must dance and sing exceptionally well, both alone and in groups, and they also often act in musicals, TV dramas, and movies. To find attractive and gifted young performers and then train them in all of these skills at a reasonable cost is extremely difficult. And in order to get a decent return on such an investment, they must be transformed into global celebrities.

Writing a manual for manufacturing creativity is very difficult, but then so is the process of artist management, which is a key function of the A&R team. SM's CEO Kim Young-min has emphasized that performance contracts with SM are not exploitive:

The cultures and languages of Korea, China, and Japan are so different from each other that you must have special training to overcome the cultural and linguistic differences. So we ask our trainees to go through many educational hurdles. They go to normal school during the day, and then after-school training lasts until late at night. But this is no different than typical middle or high school kids, who go to after-school programs to cram for college entrance exams. Of course, one difference is that education at SM is free. We pay for the teachers, facilities, equipment, costumes, and virtually everything the trainees need. The contracts used to be for five years, until BoA signed a seven-year contract with Avex Entertainment in Japan. They demanded a seven-year contract, and after long legal consultation, we agreed to it. BoA was a huge success, so we don't regret that contract, which was unprecedented in Korea. But then Girls' Generation had to sign a ten-year contract for their deal in the United States, so now we have ten-year contracts at SM. Outsiders may think this sounds like a slave contract, but they must consider the number of years of free training that the artists get in order to become elite performers (Kim Young-min, interview by the author, July 18, 2012).

Chris Lee, who is in charge of all the trainees at SM, concurred with Kim's argument:

We are extremely selective in choosing performers, so just to make it to our program, all SM trainees must defy the odds of 10,000 or more to one. Therefore, whether it be their own choice or the will of their parents, these young trainees are ready to devote their body and soul to perfecting their artistic skills at SM. We consider that SM's role is

to fulfill the desire of the trainees. Actually, it would be more accurate to say that the A&R staff members are the slaves, not the trainees. During training, SM pays for every single cost incurred by the pupils. Critics often accuse us of imprisoning them until they make their debuts, but all of our trainees are free to quit any time they like. Just like teachers in regular schools, we are teaching them how to sing and dance. Just like schools, we have rules, too. For example, trainees cannot date another trainee; they cannot use their cell phone during practice. These basic rules in no way violate the human rights of these kids (Chris Lee, interview by the author, July 18, 2012).

SM has clearly mastered the process of outsourcing creativity, while internally supplying and training talented young artists. The most surprising aspect of SM's international strategy has been the swiftness of its success and huge profitability, which are unprecedented among other non-Western music entrepreneurs.

### **What is “Global” in the Global Music Industry?**

The final stage of disseminating and distributing K-pop involves both local and global music distributors, including Avex in Japan and iTunes and YouTube in the United States and rest of the world. Among these, the single most important source of profit for SM is the SM Town channel on YouTube (Oh and Park 2012). In other words, SM's success hinges on an entirely new aspect of the global music industry, where distribution is becoming more and more centralized by international platforms such as iTunes and YouTube (Oh and Park 2012). This dramatic change also augurs a shift from the traditional strategy of business-to-customer (B2C) marketing (i.e., concerts and

appearances) to business-to-business (B2B) distribution (i.e., music producers relying on iTunes and YouTube). Traditional record labels and companies, which were once the largest component of the global music industry, are slowly dying out, replaced by mobile or internet-based music streaming or downloading services, a process called “unbundling” (Hilderbrand 2007; Mangold and Faulds 2009; Elberse 2009; Oh and Park 2012).

Other Asian or non-European music have not been able to easily emulate SM, even though the company’s organizational structure and business strategy are known to the public. The same could be said of Korean companies trying to compete with Samsung or LG. Both YG and JYP have tried the option of “mimetic isomorphism” (DiMaggio and Powell 1983), by using the same type of Korean input (e.g., talents, resources, social capital, etc.), but thus far they have fallen far short of SM’s achievements in terms of international networking and total revenue. YG’s recent mega success with Psy’s “Gangnam Style” and “Gentleman” was only made possible by Psy’s realization of the importance of YouTube. JYP’s international strategy of getting its group, the Wonder Girls, to tour with the Jonas Brothers in the United States yielded only minor results.

Some have suggested that Chinese music companies could easily emulate K-pop’s success (Maliangkay, 2010: 37). But singers from Hong Kong and Taiwan have thus far been unable to break through in the Japanese popular music market, unlike K-pop singers, who have received promotional assistance from Korean-Japanese entertainers and producers. For several reasons, Chinese musical artists are not likely to penetrate the Japanese music market (let alone the U.S. market) for the next 10 to 20 years. First and foremost, Chinese music producers still rely heavily on copying Korean and Japanese music without localizing it with specific Chinese color or flavor. Second, like most J-pop singers, Chinese entertainers tend to lack the physique of their



Korean counterparts. Third, the choreography and training of singers in China is lackluster compared to Korea or Japan. Fourth, the most successful Western composers are unwilling to sell their music to China due to copyright issues. Finally, many Chinese singers are reluctant to sell their talents to Chinese producers, who have no access to the international cultural network, which has very different standards and values from those in China.

Then what does “global” mean in the global music industry, for Asians and non-Asians? As the SM case illustrates, the process of Globalization-Localization-Globalization’ ( $G \rightarrow L \rightarrow G'$ ) can be very economically successful for producing popular culture in a postcolonial region. The G-L-G’ cycle of manufacturing creativity incorporates C&D (composer outsourcing); R&D (internal training and refinement); and SNS distribution of music (R&D of a new medium in the United States). In this sense, musical entertainment in postcolonial regions can prosper by outsourcing musical composition in order to formulate strong international partnerships by; cultivating an advanced system for training local talent (Oh, 2009); and taking advantage of a highly developed SNS structure to globally distribute its materials.

As Table 2 shows, each of these processes is challenged by competitors in the global music industry. For example, in the global manufacturing of creativity, non-American, non-European, and non-Japanese “track guys” or melody composers can produce world-class popular music, as evidenced by the huge success of Los del Rio’s “Macarena” and Psy’s “Gangnam Style.” Thus far, however, only Spanish and Korean singers have been able to generate such wide success without relying on the global “track guys,” indicating that those countries have been able to localize their music in a way that other countries cannot easily emulate. Based on this evidence, in the twenty-first century, global success in the popular music industry requires institutional connections within the production and distribution markets, as well as a concrete local

Table 2. K-pop's G-L-G' Process

	Global outsourcing (G)	Local Manufacturing (L)	Global distribution (G')
Input process	European, American, Japanese composers		
Manufacturing process		Education and training; choreography; musical variation; and refinement	
Distribution process			Japanese, European, American distributors

Source: Oh and Park (2013).

foundation as a potential springboard to propel artists from postcolonial regions into the global music industry.

## Conclusion

The rise of K-pop as a new global music genre has caused turmoil among cultural studies scholars, particularly those interested in Japanese pop culture, who have persistently argued that K-pop, like other elements of Hallyu, is a derivative of J-pop or Japanese popular culture. Furthermore, such critics argue that Psy's "Gangnam Style" and the hit songs of Girls' Generation have become popular throughout Asia and much of the world by benefitting from the larger inter-Asian cultural system, which was established and dominated by Japan, India, and China.

This chapter agrees that K-pop's global ascendance was primarily driven by the passionate support of inter-Asian audiences. However, the actual production, performance, and dissemination of K-pop contents, in fact,

have little to do with the so-called Asian pop culture system. Instead, K-pop producers rely heavily on the global music industry in North America and Europe for creativity, while domestically producing performers and managers.

The global dissemination of K-pop contents would not be possible without global SNS sites such as YouTube, Facebook, and Twitter, none of which originate from Asia. The manufacturing of creativity in Korean music involves three stages: globalization of creativity, localization of musical contents and performers, and the global dissemination of the musical contents through SNS. This chapter strongly emphasizes that the localization process has been the most important component for making K-pop a global music genre. Moreover, this process is clearly independent from Japanese or Chinese influences, as it is based on Korean methods for music adaptation, talent training, and performance management.

The K-pop industry has established a system of manufacturing creativity that involves outsourcing creativity to European and North American artists and producers. The process of outsourcing also reflects a Korean-style work ethic that involves a tenacious persuasion of global producers for creativity outsourcing despite apparent impossibility. Finally, the G-L-G' process is completed by the digital distribution of K-pop. This system of manufacturing creativity is new, not only in Asia, but throughout the world, and has influenced other Asian pop music producers to emulate the process. However, localization remains the most difficult hurdle for other countries to cross. Future studies of K-pop should attempt to elaborate the localization process in more detail.

## **Chapter 10. From B2C to B2B**

Selling Korean Pop Music in the Age of New Social Media<sup>14</sup>

### **Introduction**

When the Korean pop music group Girls' Generation appeared in an Intel advertisement in 2011, holding Intel logos and product symbols, mainstream scholars of Asian Studies were flabbergasted at the shocking revelation. The prevalent myth they had persistently held onto could no longer be validated: Hallyu, or the Korean Wave, is all but dead. In an official email to an author of a Hallyu paper submitted to *Asian Studies Review*, editor Peter Jackson (2009) wrote:

Both reviewers note that the paper's argument [on Hallyu] is somewhat out of date, and that Winter Sonata has already been significantly studied and written about elsewhere, meaning that the K-wave boom is largely over and the paper needs to be recast in a more historical light.

Without realizing the fundamental reasons for the initial Hallyu boom, which could still be the same catalyst for its continuing popularity, scholars

of Asian Studies like Jackson boastfully proclaimed that Hallyu was dead. However, in the same year when Jackson made his ill-conceived and over-reaching statement about the end of Hallyu in Asia, Japanese children bought half a million copies of a Korean comic book series, *The Survival Series*. Between 2008 and 2010, more than three million copies of the same comic book series were sold in China, while the numbers for Taiwan and Thailand were two million and 1.5 million, respectively (Joong-Ang Ilbo, February 28, 2011). 2009 was arguably another successful year for Hallyu. That year, the new Korean version TV drama series, *Boys Over Flowers* (*Hana yori Dango*) and its praise from Japanese, Taiwanese, and Chinese fans. Also notable in 2009, singer and actor Jang Geun Seok also had his first successful fan meeting in Japan in the same year.

The second significance about the appearance of Girls' Generation on the Intel advertisement is that it also shattered the second myth about the Hallyu boom: that the Chinese and Japanese love affair with Korean movies, TV dramas, and pop music is solely because the three countries share similar culture or have high levels of cultural proximity through Confucian values (see *inter alia*, Chang, 2006; Kang, 2006; Lee, 2006; H. Park, 2006; Maliangkay, 2010). In his highly Eurocentric understanding of the Hallyu boom in China, Maliangkay (2010: 37) explains his logic of cultural proximity in the following way:

Although the term "Korean Wave" is common among Chinese consumers, their selection of Korean products may in part stem from the strong connection of these products with Chinese culture itself. If cultural similarity is a major factor, then, it may not be so important that the products derive from Korea. [...] Will Chinese consumers continue to favor Korean entertainment when they find that domestic

products are just as good and show a similar degree of economic and technological success?

The above statement is a typical misunderstanding rampant among Australian or Commonwealth scholars of Asian Studies, who mistakenly believe, without any evidence, that China is the largest market for Hallyu. In fact, the biggest and most loyal market for Hallyu is Japan, a country that doesn't consider itself similar to Korea in cultural or economic terms. Even if Japanese domestic products are far better and show a higher degree of economic and technological success than Korea, it is the Japanese fans that purchase Korean Hallyu products the most in the world (Maeilgyeongje Hallyubonsaek Project Team, 2012: 120).

For many Japanese and Korean scholars of Hallyu, it is cultural hybridization between Western universalism and Asian exoticism (or particularism) that is pivotal in attracting transnational audiences (Iwabuchi, 2004; S. Park, 2006; Hirata, 2008; Ryoo, 2009; Shim, 2006, 2011). This line of thinking can still advocate the similar culture (or cultural hybridization) argument, ostensibly in supporting the reason Japan is the number one importer of Korean popular culture is none other than their cultural proximity. However, Japanese animation has penetrated all corners of the world as a universal form of popular culture, whereas Indian Bollywood films have no such success in the Chinese, Korean, or Japanese markets. This means that cultural hybridization is a functional notion at its best not being able to distinguish regional cultures from universal ones. This is why Chua (2012: 119-120) laments about the fact that only Japan and Korea are exporters of popular culture in East Asia, while China is reduced merely to the status of the audience of the two forms of dissimilar cultural products.

Furthermore, although the cultural proximity argument miserably fails

to explain why Japanese and Korean popular culture, especially K-pop, is now globally well-known, the hybrid tenet can still claim to explain their universal success in the world: both Japanese and Korean pop culture are now similar to Western universal pop culture. However, the functionalist tenet remains a complete silence as to why Chinese pop culture, especially Gangtai pop culture, is not regionally or globally popular at all: why only Japanese and Korean pop culture? Furthermore, the argument has never made a correct prediction about K-pop's recent success, as it also too quickly proclaimed the end of the Hallyu boom (Ishita et al., 2007).

Finally, the last significance of K-pop's sudden global popularity is the emerging importance of social media, such as YouTube, through which young European fans of K-pop are said to have learned about Korean popular music for the first time (Newsen, October 31, 2011; Cha and Kim, 2011). Indeed, YouTube is now opening up a new dedicated K-pop channel, as K-pop related videos have more than tens of millions of steady hits from Asia, Europe, and Americas every month (Chung, 2011). However, no previous study has consistently shown us the crucial role new social media has assumed in spreading K-pop to Europe. A competing argument can be made that the increasing frequency and lengthy travels by young Europeans to Japan and China allowed for natural exposure to the Hallyu phenomenon and more specifically K-pop. K-pop popularity in Europe can therefore be very similar to the spread of ginseng and kimchi to Middle Easterners and Europeans in the past, as the two Korean products were introduced to the Middle Eastern and European traders who were visiting China and Japan. Whether YouTube is a facilitating medium of K-pop popularity in Europe requires further study, as social media seems to provide easy access to K-pop artists and their music reinforcing and spurring the initial exposure to fans by means other than YouTube. Be that as it may, what's clear about this new social media

and its impact on K-pop is that the Korean singers are now shifting their income sources from traditional concerts, CD sales, and TV appearances to commercials and advertisements for global MNEs like Intel. The Intel commercial by the Girls' Generation was possible due to the instant fame of their songs through YouTube channels.

Our research question is therefore very straightforward: Is there any empirical relationship between social media and K-pop's popularity in Europe, not to mention its initial success in Japan, China, Thailand, and other Asian countries? If social media are pivotal in the popular music industry in the 21st century, we certainly want to know why. Briefly, our argument, based on interviews and archival research, indicates that social media is changing the entertainment industry from a fan-oriented service business (or B2C) to a big business servicing industry (or B2B) that aims to maximize the entertainment industry's profit through such B2B revenues as royalties, commercials, and advertisements. This is because social media outlets such as YouTube facilitate the dissemination of Internet content free of charge to all music listeners in general and K-pop fans in particular. Amidst the prevailing free entertainment contents on YouTube and other social media sites, music producers are now forced to find other sources of revenue streams.

We first provide a basic literature review on the relationship between social media and the entertainment industry, followed by a presentation of our understanding of social media in the entertainment industry, and a case study of how K-pop agencies are redesigning their business strategy from B2C to B2B in order to perpetuate K-pop's popularity in the global village.

### **Background: Making Sense of a New Music Industry**

The rise of social media received colossal attention from the scholarly world,



mainly regarding the impact of the social media on consumers. Most of the extant studies highlight the benefit of the new social media as a new marketing tool that replaces the traditional marketing media, such as TV and newspapers (Mangold and Faulds, 2009), or a new means of communication between artists and their fans in the promotion of business to consumer (B2C) strategy, that is now often used in album or CD sales (Kaplan and Haelein, 2011). However, few studies have focused on the theoretical relationship between the social media and the music industry. These new business to business (B2B) alliances act deliberately to remove artists and fans from the business deal altogether. Although K-pop is a champion of this B2B model, until now no previous study has convincingly analyzed its business process.

Mangold and Faulds (2009), for example, argued that consumer-to-consumer communication through online social media or consumer-generated media has greatly influenced the marketplace. However, they argued that social media is a hybrid strategy of promoting both B2C and C2C marketing, ignoring the huge potential the K-pop industry is seizing through B2B marketing only. Although Berman et al. (2011) in their analysis of Britney Spears' case put their finger on a new revenue opportunity for the entertainment industry that uses the new social media as its marketing tool, they shied away from analyzing the process of creating and adding values to the goods and services this new B2B model provides.

Those Korean and Asian scholars, concerned with the sudden upsurge of the K-pop boom, have shown tremendous efforts in making sense of the new global business phenomenon. Nonetheless, most remaining studies merely focus on the business success or audiences' reaction to the K-pop idols or their music content, slighting the internal process of delivery of goods and services to audiences in return for massive profits (see *inter alia*, Ahn, 2011; Cha and Kim, 2011; Jung, 2011; Ryu, 2011; Yang, 2012).

Cha and Kim (2011), for example, analyze one virtual K-pop fan organization, the Korean Connection Association, in order to highlight the virtual communication channels between European K-pop fans and SM Entertainment. However, without any reasonable excuse, they elect not to explain how SM makes money on the Internet or why European fans fell in love with K-pop idols. In a similar vein, Ryu (2011) successfully traces how French K-pop fans first got to know K-pop, showing details of online and offline social networks dedicated to the formation of the K-pop community in France. However, she fails to analyze why European girls, not boys, fell in love with K-pop. Jung (2011) shows the most sophisticated and therefore ambitious analytical approach by analyzing their virtual or internet conversations on YouTube and other local sites in order to determine the psychological motivation behind European and Asian girls' compulsion to K-pop.

To ameliorate various shortcomings of the extant studies of social media and its impact on K-pop, we propose to study both the business and audience side of the K-pop phenomena.

### **Social Media vs. Conventional Media for Popular Music**

As mentioned above, it is not easy to argue that social media was the single prime mover for K-pop's initial spread into and success in Europe. Having said that, we still contend that YouTube has been pivotal in creating secondary users and future fans of K-pop, while maintaining the ongoing popularity of K-pop in Asia, especially in Japan, the single largest market for K-pop in terms of the real revenue K-pop producers make. YouTube was obviously critical in expanding K-pop's popularity into Europe through the virtual personal networks European fans have established over the years using different platforms, notably Skype, Facebook, and YouTube. YouTube, along

Table 1. Conventional vs. New Social Media in Music Industry

	Content Distribution Media			
	Concert Tour	TV	CD/DVD	YouTube
Restrictions	Time	Time	Lead time	Sometimes short commercial before video
	Space	Space	Storage/Search	
	Money	Advertisement/ Money	Money	
Bundling	Bundled	Unbundled	Bundled	Unbundled
Participation	Active	Passive	Passive	Active
Community	Temporary	None	None	Ongoing

with other SNS virtual networks, has both promotional and distributional functions that radio (promotional) and CDs (distributional) used to have separately. To reiterate, the survival of the K-pop music industry, compared to their competitors in North America and Europe, depends on whether the free musical content that K-pop producers, such as SM, YG, and JYP, are willing to donate to YouTube. Additionally, these producers must continuously provide K-pop fans with high quality entertainment content that features eye catching young artists and catchy music. In this section, we discuss why social media is more convenient than conventional media for music consumers.

In addition to the fact that the K-pop content is free on YouTube, making it a lot easier for the young K-pop fan to access music videos, several other new features of the social media warrant our attention. As Table 1 shows, new benefits are apparent, in terms of the number of restrictions fans have to cope with when they seek music entertainment in new media as compared to conventional media. Concerts and television present the highest levels of inconvenience to the audience, because music listeners must be present at a particular space and an exact time. Although television can reduce the spatial restrictions substantially, they nonetheless require viewers' timely presence

in front of the TV set, while noticeably diminishing the quality of audio and visual transmissions.

It is obvious that CDs and DVDs are portable, nullifying spatial and temporal restrictions in favor of the audience. However, CDs and DVDs are a declining business format due to rampant unchecked piracy all over the world. Also, the lead time involved in introducing the products in different markets due to licensing restrictions increases the demand of pirated materials. Collectors of CDs and DVDs also face significant shortage problems of storage space and searching difficulties, as their CD and DVD collection increases in volume and size. It's like searching for a particular book from a library without a call number.

YouTube as a music format, however, has no such physical restrictions. Viewers can easily search a piece of music video instantly anytime and anywhere, as long as they possess a mobile internet device that features a YouTube app. Furthermore, YouTube allows fans to enjoy the free K-pop content without bundling. The conventional long play records and CDs usually bundle several songs together in an album, making it impossible for fans to purchase singles, or a CD that contains only one song. However, with the emergence of social media and internet music shops like iTunes, unbundling or selling music piece by piece is now a new fad (Elberse, 2010). Instead of buying a whole CD, fans can now surf around the virtual music shop and eschew songs they don't want to purchase from a particular album. Greatly increasing customer convenience by matching specific devices (i.e., Apple devices) to specific music shops (i.e., iTunes, iCloud), it also helps increase music producers' profit by making piracy impossible. YouTube also allows music producers to sell advertisement and commercial time to MNEs, as these commercials on YouTube videos are played prior ever before each new video is played. The only slight drawback is the fact that viewers sometimes have to

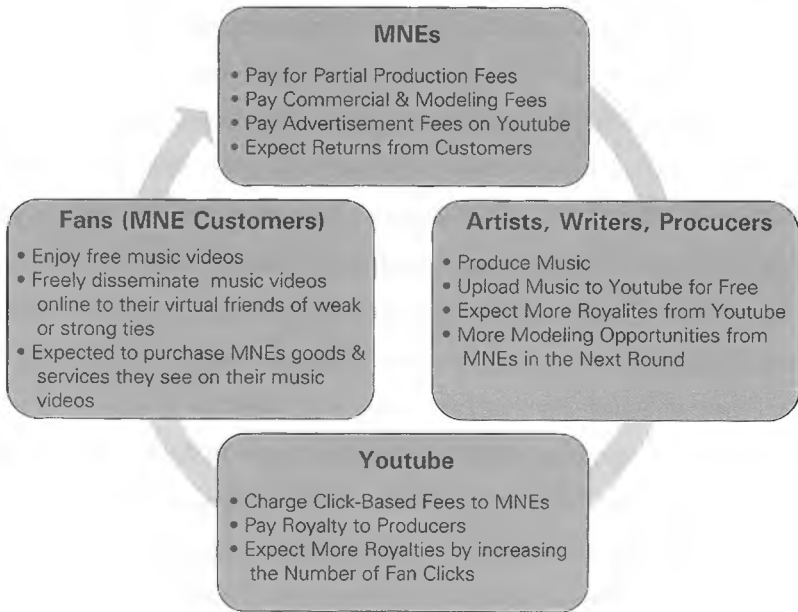


Figure 1. Supply Chain of K-pop Industry

watch a short commercial before each music video they play.

Social media like YouTube helps audiences form a virtually networked community, which the conventional media cannot. Live concerts provide strong bonding among routine attendees. However, YouTube and other new social media reinforce such offline camaraderie by providing free and constant communication platforms among online fans. TVs and CDs cannot offer any opportunities of forming a community of fans because these devices don't allow interactions between people of the same musical taste. YouTube, however, allows fans to leave messages on the video page itself, giving electronic contact details of the actual fans of the same artist. Not only that, YouTube also allows fans to post music videos on their Facebook community

so that their Facebook friends of both strong and weak ties can instantly play them while leaving comments to the original poster. YouTube videos can easily be shared among friends of weak ties of an existing strong tie (Gilbert and Karahalios, 2009). For example, a K-pop artist can post his video on his Facebook page that contains lots of weak ties, hoping his video can spread to millions of people instantly. As long as the artist, whether real or fake, is of a strong tie with his or her producer, a well-defined business format that focuses on the utilization of the social media is extremely effective. The recent strategy of singers sending music streams to the friends of weak ties they met in the virtual space of Sound Cloud or Twitter is a good example.

What's the motivation of audiences and singers of K-pop to participate in the new social media? It was once thought difficult to imagine a networked cluster of suppliers and buyers of music whose main source of revenue was only the Internet, mainly because of rampant piracy (Condroy, 2004; Siegel and Chu, 2010). The motivation and opportunity structures of YouTube are money and the availability of money in the form of commercials. By selling virtual commercial space (not time, because time is allocated unlimitedly) on YouTube channels, YouTube realized enormous revenues using the Internet. For this to be possible, artists and music producers must provide YouTube with their free musical content. Unknown singers may record their own amateur tapes and upload the video file to YouTube for free dissemination. The free uploading of their music content to the same website is extremely difficult for top class musicians, because it is their ultimate source of revenue. No motivation should exist for the star-level singers and songwriters, not to mention their music distributors, to participate in the YouTube business model for music. For them to participate in the YouTube model there must be MNEs that are willing to pay in the form of royalties for the production and the "free" distribution of K-pop music. Although a single MNE won't be able to pick up

the entire tab alone, a consortium of MNEs can sustain the revenue structure for this formerly unimaginable supply chain. Therefore, according to this new business model, the ultimate buyer of the music is not the audience but the MNEs whose products the K-pop fans eventually end up buying (Figure 1). In other words, MNEs would not participate in this platform, either, unless the K-pop audiences are their eventual customers.

The explosion of the K-pop popularity in Europe is not solely due to a mere accidental discovery of the free K-pop content on YouTube by young E.U. music buffs. In our in-depth interviews with European K-pop fans, we noticed that only a small portion of the loyal fans that came to Korea encountered K-pop through YouTube or other social media. The majority of them confirmed a more plausible scenario of getting introduced to K-pop through hubs of Asian popular culture: Japan and China. By showing initial inclination to Japanese or Chinese culture, or by visiting these two Asian cultural hubs, young Europeans discovered K-pop through local K-pop communities either on or offline. These visitors would then act as messengers of newly learned K-pop to their own friends and social networks in their home country using social media. This is why most French K-pop fans were initially Japanese manga or anime fans (Ryu, 2011: 452). In this sense, the social media works like a facilitator of K-pop dissemination, provided that they have all the advanced features that we have described in Table 1.

### **Strategic Choices toward B2C from B2B via YouTube**

YouTube's commercial use opened up a new business horizon for K-pop and Hallyu producers who want larger and more globalized markets beyond developing countries in Asia. Gleaned from the recent use of YouTube music videos in local bars and disc jockeys, we can easily recognize the market

value of the free music content that is useful not only for end users but for other intervening businesses. If the Korean music industry can network a new business supply chain for K-pop, it is also possible for it to realize bigger revenues and profit by switching their strategic postures from the business-to-customers (B2C) model to the business-to-business (B2B) format, as long as piracy remains a fundamental flaw in the entire music industry. Selling the free content to buyers in the supply chain reduces marketing costs, transaction costs, and risks in producing untested art forms, not to mention the fact that the content is free (i.e., earns no revenue) to actual customers (Hilderbrand, 2007; Mangold and Faulds, 2009).

In the K-pop's value chain two vendors reap the largest profits from handling K-pop in the market: MNEs and Google (Figure 2). MNEs' main source of profit is their brand value that is often measured by their market positions (i.e., monopolistic competition in the market through technology innovation and a heavy dose of advertisements for their loyal customers), which in turn raises the value of their shares in the stock market. By buying the K-pop content and artists posing for their commercials, MNEs can enormously raise their brand value, as long as the artists and their songs attract millions of YouTube clicks daily from all over the world. Indeed, this was the reason Intel chose the Girls' Generation for their commercial in Asia. On the other hand, Google's main source of income is selling virtual storage space for advertisement on YouTube. The company initially invests money in procuring gargantuan virtual space, in which they build platforms of interactive communication. The virtual space with advanced and user friendly interactive communication tools will be sold to MNEs at high fees.

The second tier profiteers of the K-pop value chain include K-pop producers, their transnational joint venture and/or alliance partners, transnational song writers, and choreographers. K-pop producers discover



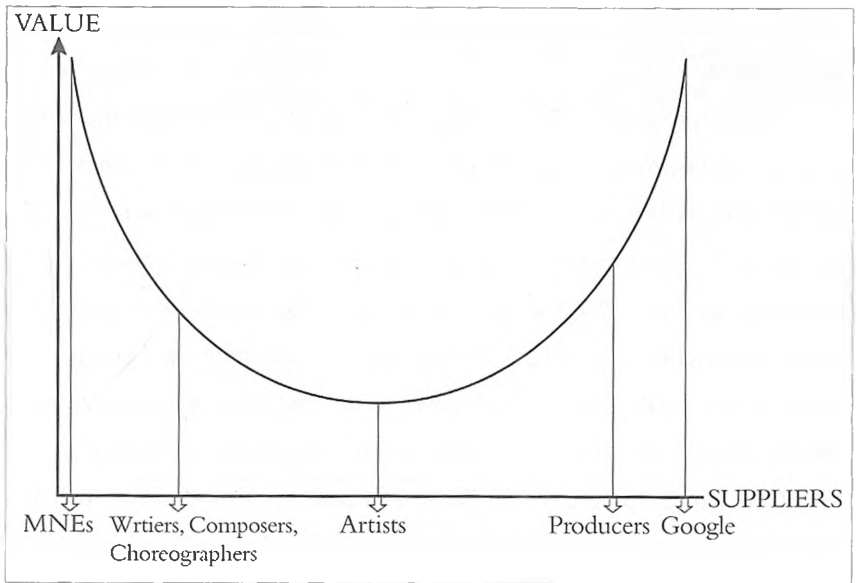


Figure 2. K-pop Value Chain

young talents from early on, train them to be next super stars, and market them globally in the music industry. The most famous K-pop producer is SM Entertainment, along with its rivals JYP, YG Entertainment, Cube Entertainment, and others. As we will explain shortly, their main source of income is now from MNEs by “renting out” their stars to the global corporate world for commercials and other goods and services endorsement events. The producers also maintain their conventional business of producing music albums (CDs and DVDs), selling concert tickets, and organizing fan meeting events with autographed memorabilia for B2C profit opportunities. However, these conventional activities are now gradually replaced with B2B business projects, including joint venture and/or licensing agreements with local entertainment producers and distributors in Japan and the U.S., spot agreements of TV appearances with broadcasting companies and modeling agreements with

MNEs. The largest distributor of K-pop is undoubtedly YouTube, followed by Avex in Japan.

K-pop producers' B2B strategy was made possible through innovative investments in procuring young talent from Korea as well as songwriters and dance choreographers from various countries, including Japan, the U.S., and the E.U. These transnational songwriters and choreographers, whose combined income is the second largest within the K-pop value chain, are either freelancers or members of transnational entertainment companies. Given the low production cost, compared to the cost borne by producers (e.g. specific investments, risks, etc.), their profitability ratio can be higher than that of the Korean producers. As Table 2 indicates, various songwriters and choreographers from Japan, the U.S., and the E.U. have participated in the K-pop globalization drive.

K-pop artists take the lowest paycheck from the value chain, as their income is arranged *ex ante* by the contract their parents signed when they were admitted to the training camps organized and run by K-pop producers. The huge amount of specific investments borne by the producers is the excuse for low payments to the young idol groups even after their sensational success on TV and other social media. For instance, the CEO of SM Entertainment, Lee Soo Man, claimed on a TV show that his company had spent 3 billion won (roughly US\$ 3 million) in training BoA, SM's first girl singer who made an astounding success in Japan (Kim, 2012).

Producers also want to milk these idol groups in a short period of time, as evidence by the high level of specific investments in young talents (Choi, 2011). For example, Girls' Generation and Kara, both of whom appeared in the three big time live shows aired on TV on Dec. 31st, 2011, in Korea and Japan, had to fly back and forth between the two countries, all in less than a 12 hour-period. As shown in Table 3, lawsuits against producers and member

Table 2. K-pop's Globalization Drive

Korean Partners	Producers	Composers	Choreographers
	Name/K-pop Singers	Name/K-pop Singers	Name/K-pop Singers
SM Entertainment	Teddy Riley/ Girls Generation Polow da Don/ Girls Generation	Busbee/ Girls Generation Alex James/ Girls Generation KalleEngstrom/ Girls Generation Oslo Recordings/ Super Junior Jeff Hoepfner/f(x) Thomas Troelsen/ f(x) Willem Laseroms/ f(x) NaoKanata/BoA RyojiSonoda/BoA, TVXQ Thomas Troelsen/ SHINee	NickBass/Super Junior, SHINee Misha Gabriel/BoA, SHINee
YG Entertainment	will.i.am/2NE1 Rodney "Darkchild" Jenkins/SE7EN	Daishi Dance/ BigBang Nagao Dai/SE7EN	
JYP Entertainment	Nick Cannon/ WonderGirls	Claude Kelly/ WonderGirls	Jonte/WonderGirls
Pledis		Daishi Dance/ After School, Orange Caramel	
iHQ		Jeff Hoepfner/ Jay Park	Andrew Baterina/ Jay Park
NH Media		Ryan Jhun,JD Relic/ U-KISS	
KEYEAST	Steven Lee/ Hyun-Joong Kim		

Musicfarm		Andy Platts, Jodie May Seymour/John Park	
A StarEntertainment	DJ Cloud/AZIATIX		
C-Jes Entertainment		Kanye West/JYJ	
DSP Media		Daishi Dance/Rainbow	
JS Prime Entertainment			Jonte/Sori
YYJ Entertainment			Andrew Baterina/TOUCH
DR Music	Teddy Riley/RaNia		
GP Entertainment	Melvin Brown/JQT		
Wellmade STARM		Daishi Dance/AA	

Source: Various Newspapers.

splits are frequently reported after the initial success of an idol group, as K-pop producers refused to renegotiate the “slave” contract. For example, Tong Vfang Xien Qi (TVXQ) complained that the contract period was abnormally long (13 years), and they had never been properly compensated for their labor. TVXQ is now split into two separate groups of JYJ (3 original members) and TVXQ (2 original members).

Contractual disputes are rooted in producers’ transnational business strategy that emphasizes the mass production of idol groups who possess multifunctional and transnational skills (i.e., high quality but low price). By maintaining standardized (e.g. mass production with scale economies) but multitask (e.g. singing, dancing, acting, multilingual, etc.) performance guidelines, producers can reduce their dependence on idols, simultaneously

Table 3. Chronology of Legal Disputes

Year	Idol Groups	Disputes	Resolution
2000	Jack's Kiss	Disputes with DSP Entertainment	Members of Jack's Kiss unanimously decide to dissolve the idol group.
2001	H.O.T.	Disputes over remuneration with SM Entertainment	Tony Ahn, Jang Wu Hyeok, and Yi Jae Won decided to leave the group. H.O.T. dissolved.
2002	S.E.S.	End of contract; no contract renewal	Members dissolved at the end of the contract period.
2005	Click-B	Litigation against Kiss Entertainment for payment embezzlement	Members dissolved after litigation.
2005	Fin.K.L.	Left DSP Entertainment	Group performance stopped; individual performance with other agencies.
2005	G.O.D.	Disputes with Sidus HQ	Group performance stopped; individual performance with other agencies.
2006	Shinhwa	Left SM at expiration of contract	Erected their own production agency; oldest idol group still performing.
2009	TVXQ	Micky Yoochun, Hero Jae jung, and Xiah Junsu demanded SM of immediate contract stoppage.	Three members complained about the 13 yr long contract, along with SM's failure to pay the singers; 3 members left the team and formed JYJ separately from TVXQ.
2009	Super Junior	Chinese member Han Geng wins a legal battle over SM Entertainment	Han is actively performing in China alone.
2010	SS501	Contract with DSP Entertainment over	Team members left the team and joined other agencies individually.
2011	Kara	Disputes with DSP Entertainment	Three members threatened to leave the team; DESP agreed to their terms.

Source: Kwon (2011); Sun (2011).

increasing the quality of performance without increasing the labor cost paid out to actual performers. Unlike the traditional American, E.U., or Japanese model of entertainment business, where the largest paycheck is paid out to star performers, the K-pop model of star management standardizes performance skills according to transnational task requirements (i.e., multi-genre and multilingual skills) in order to lower the remuneration for the stars.

K-pop trainees receive regimented training after they are selected as students from the periodically scheduled mass auditions. Idol education includes singing, dancing, and acting abilities in addition to harsh physical training to “sculpt” upper body muscles and/or maintain the glamorous feminine body shape that Koreans call “S-line.” Facial or other cosmetic surgeries and strict dietary control to maintain desired weight ranges are part of the training package, which are all paid for by producers (Song, 2011). In rare cases, trainees are banned from cell phones for up to a year continuously in order to alienate them from outside contacts. The end product these K-pop trainees provide to the global fans and their bosses is musical and entertainment perfection that can be replicated by lots of other students in the training pool. During his interview with Fuji TV, Koike Kazuhiko, CEO of Universal Music, Japan, commented that: Korean idol groups have “professional perfectionism in music, vocal, dancing, visual presentation, and entertainment, and this kind of perfectionism doesn’t exist in Japan” (Jung, 2010: 7).

Manufactured K-pop idols and stars can relieve producers of the shortage of star-level performers, although performances by these stars are all standardized and/or choreographed. When creativity is manufactured, and stars are trained according to the manual, it is hard to tell if K-pop’s artistic value will continue (Park, 2011). It is no coincidence that some of the European fans that we interviewed think that these singers are heavily trained like robots or soldiers:

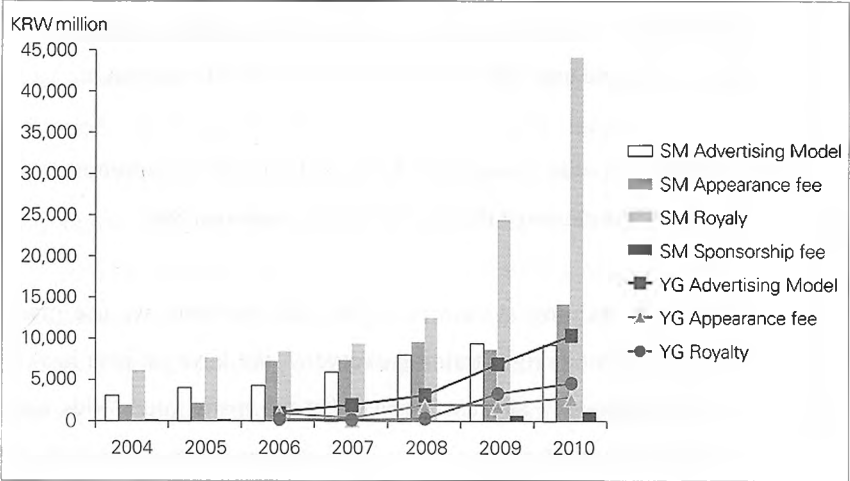
K pop stars' dancing styles are the most different feature. They have a uniform style, looked trained but artistic. Their songs are catchy; they look perfect and cute but sometimes [I] feel like it is too much.

In an interview with Young-Min Kim, CEO of SM Entertainment, he acknowledge the elitist nature of the whole training system at SM:

I know our training system is elitist, and therefore we see many dropouts from our rigid training everyday. We have no idea how to help the dropouts. I am just worried that too many young kids want to volunteer and compete for our head start programs. Honestly, we have no idea how to help the dropouts. But I can assure that SM does not violate their human rights or sexually abuse them. That I can guarantee.

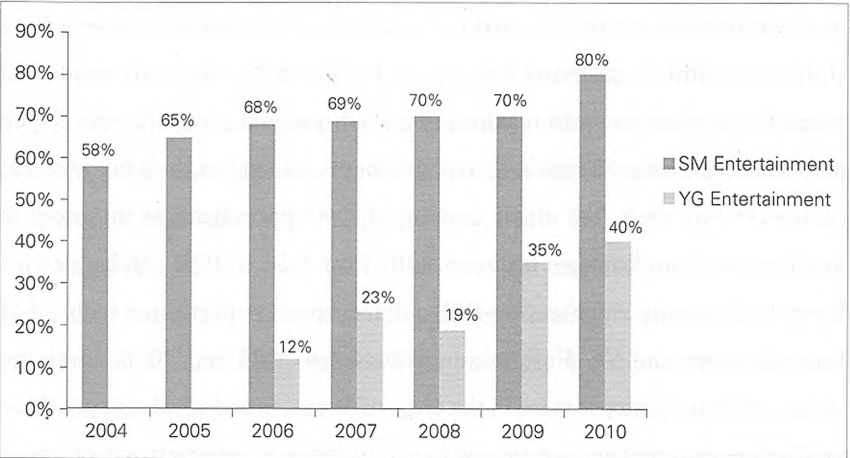
Given the above value chain with a new transnational strategy in entertainment business, a natural strategic evolution in business is to shift its traditional customer basis from B2C to B2B. This shift would not guarantee revenue or profit maximization, but it would award Korean K-pop producers with reduced risk in their investments, as long as their big business customers buy their free music content or even participate as investors in music production. Strategic business shifts from B2C to B2B can be gleaned from the changing emphasis on B2B related business portfolios within SM Entertainment and YG Entertainment between 2004 and 2010. Strategic choices of expanding revenues in the areas of licensing and royalty (e.g. selling production and marketing rights of music in foreign countries; use of music for business purposes including social media broadcasting and karaoke bars), appearance fees (e.g. actual participation in TV shows or corporate events),

Figure 3. Rising Revenues from B2B Portfolio (SM&YG)



Source: Financial Supervisory Service Dart.

Figure 4. Proportions of B2B Sales to Total Sales



Source: Financial Supervisory Service Dart.

Note: SM Entertainment (Advertising Model, Appearance Fee, Sponsorship Fee, Royalty); YG Entertainment (Advertising Model, Appearance Fee; Royalty).



sponsorship contributions (e.g. monetary contribution to music production), and advertising (e.g. all types of corporate endorsement activities) are clearly noticeable.

SM Entertainment is the champion and industry leader of this new B2B business model for the Kpop industry. Its total B2B revenue accounted for 80% of total sales in 2010. YG also demonstrates an abrupt increase in B2B revenues from 12% in 2006 to 35% in 2009 and to 40% in 2010 (Figure 3). What's shocking in the new trend of B2B in the K-pop industry is the exponential growth of royalty income starting from 2009 (Figure 4). Overseas royalties constituted 81% of total royalty income for SM in 2010. The explosion of royalty income is parallel to the YouTube revolution, which shares advertisement royalty with music producers. SM has a dedicated YouTube channel, called SM Town in order to maximize the collection of YouTube based royalty income. Since the snowballing royalty income is the backbone of the entire industry, SM founder, Lee Soo Man, went a step further to propose to replace the Korean individual income tax with all Hallyu royalties earned from overseas (MK News, August 17, 2011).

The structure of royalty sharing works like this. YouTube installs commercials on every music video that is uploaded by producers and has an enormous number of clicking. Whenever a fan clicks on a video and watches the advertisement that is played before the free music content, royalty is charged to the advertiser. As the number of clicks increases, so does the royalty. Roughly, digital distributors take 70% of the total royalty income, while SM takes the rest 30% (MK News, August 17, 2011). YouTube's share of the profit with SM is not known, as the contract between the two corporations prohibit revealing such business secrets.\* This is the reason Google, along with MNEs

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\* In an interview, SM's CEO Young-Min Kim hinted at the fact that the profit sharing "should

who upload advertisements, reap the largest profit in this industry. MNEs' main short-term benefit is brand name recognition among Hallyu fans throughout the world who later intentionally or unintentionally choose to purchase goods and services they keep seeing on YouTube before each music videos. To perpetuate this business structure, YouTube even purchased a new company called Rights Flow to better calculate and distribute YouTube's royalty income to producers (Sisario, 2011). The key difference between the conventional royalty distribution scheme and that of K-pop producers is that the royalty income is taken by the producers, not by the Korean singers for the latter's case.

Apolitical economic implication of this B2B model or the foreign royalty-driven income structure of the K-pop industry is that K-pop is substantially dependent on foreign music distributors, either offline or online, especially that of Japan (offline) and the U.S. (online). Unless China, where there is no YouTube service, starts paying for the K-pop music in the future, Japanese and the U.S. distributors will still be the dominant content buyers of K-pop music. This also means that the postcolonial nature of the K-pop will continue to be pugnaciously reliant on imperial cultural distributors that are connected with music consumers in G7 countries, including Japan, the E.U., and North America. This is why cultural hybridization is all but the postcolonial perpetuation of center-driven world capitalist system (i.e., the empire strikes back). This is also exactly the same as Samsung's profit structure which is largely dependent on Google and/or Apple, the two biggest consumers of Samsung products in the world. The fact that Samsung Electronics is the world's largest producer of electronic devices, including smart phones through which K-pop fans download their favorite music, does not allow them to circumvent global distributor giants.

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be an equal split of 50%-50%."

## Virtual Audience in K-pop Social Media

In the new business cycle of the K-pop industry that relies on social media on the one hand and MNEs on the other, the seemingly least significant group of participants is the audience who constantly click on virtual and free K-pop content every day to eventually help deliver profits to Google, K-pop producers, and MNEs. Albeit seemingly unimportant, K-pop audiences are in fact the single most important group of non-paying customers (except for their ultimate consumption of MNEs' goods and services) who will determine the future fate of K-pop's business value. If they shift their allegiance to other alternatives of music to K-pop, the whole K-pop industry, which is also supplying actors and actresses to the Hallyu drama and movie industries, will wobble in a matter of months. The ultimate demise of the K-pop industry would not, however, do any harm to MNEs and Google who will simply continue on to provide new genres of free music content to the audience clickers.

Whether these audience clickers are really buying MNEs' products is a completely different issue with which this paper cannot deal within the provided space. To answer this question, we need to study the real impact of MNEs' advertisements on audience clickers' consumer behavior. What's clear, however, is that these audience clickers tend to move around both geographically and virtually in search of new content. The real question for our purpose is therefore which content they are looking for and why. Within the entire K-pop fandom, we notice that the majority K-pop fans are middle-aged Japanese women (during initial K-pop fandom formation) and young women from Asia, North America, and Europe (during "Hallyu 2.0," the recent K-pop fandom formation). Based on our interviews and other extant studies, we know that these female K-pop fans are formerly U.S. or U.K. music fanatics (in the

case of Japanese middle aged women) or formerly Japanese or Chinese music fans (in the case of European girls) (Oh, 2011; Ryu, 2011). Since one of us has already dealt with the issue of why middle aged Japanese women have switched their allegiance to K-drama and K-pop (Oh, 2011), we will briefly discuss the same process of switching allegiances among young European girls who suddenly became loyal K-pop fans.

Unlike the middle aged Japanese women fans, young European female fans of K-pop show a strong tendency of searching for postcolonial content that satisfies European women's desire. Most of them were first exposed to Japanese or Chinese culture for a similar reason: exotic, but feminine, postcolonial culture for European women.

At first, I was interested in Japanese culture, but via YouTube's related videos, I got to know Korean culture.

I introduced Japanese culture to my friend, and she told me that Korean culture is better. So, she showed me videos from Beast and that's how I first got to know K-pop.

I wanted to visit somewhere different and far from home. Since I knew about Korean culture and familiar with it, I decided to come to Korea and explore more.

Images of Korea have been always good to me. I think it's exotic and interesting. However, still, not many people in Europe know about Korea.

I had choices to go to Japan, Korea, and Taiwan, but people around me

told me to go to Korea because Japan's popularity has decreased and it seems like outdated, while Korean popularity is increasing, and the Korean Wave has become a big thing.

Each of these testimonies from four different young female European K-pop fans unanimously indicate geographical or cultural (virtual) migration in search of an exotic ideal land where they can indulge in an exotic culture for their personal satisfaction, which is gender-specific. It is our finding that European young girls' deep-rooted desire is to release their gendered and postcolonial melancholia concomitantly. As was also the case for the middle aged Japanese women (Oh, 2011), European girls apparently suffered from gendered melancholia in the form of the repressive human relations between sexes during the formation of girls' gender identity, which continue to their adulthood. It is also obvious that these girls want to relieve their gendered melancholia through postcolonial melancholia in the form of punishing European men by symbolically and/or physically embracing postcolonial men.

K-pop is more girlish, and the K-pop culture is more for girls. I think since K-pop is mostly dance pop music, group music, and focused on choreographies, males don't find that appealing about this culture.

In the past France also had boy bands, and their performance was similar to Korean boy bands. But French boy bands did not like to do any stupid stuff like dressing up as women. People say that Korean culture itself is more congenial for girls, and I agree with that.

When I show other people video clips or pictures of K-pop stars (boy band members), people say they look gay, but when they listen to

music, they all think music is good.

When I was in France, I got free tickets to SM concerts through my dad. I saw that the tickets had been totally sold out after 5 minutes. In Korean concerts, so many fancy performances and things girls would love to see (such as taking off their shirts, flying over the air with special equipment, fireworks) happen. It is different from European concerts. K-pop singers also change clothes frequently during the show.

Western singers show sexy images but Koreans have a cuter image. I don't know about men's perspectives but to me, Japanese and Korean are like something small and cute that Europeans don't find appealing. Fashion and thoughts are closer to a feminine side rather than masculine. Also, it was interesting to see male entertainers acting charming on show programs.

This phenomenon of boys becoming either feminine or impersonating gay boys is what Jung (2011) calls "manufactured versatile masculinity," by which these boy bands can express different layers of masculinity from macho images to soft feminine ones. However, we need to know why versatile masculinity satisfies European girls' feminine desires. As the above five testimonies indicate, "feminine" or "gay" Asian boys who look cute and manicured are not masculine or aggressive, unlike the macho image that goes with European men (as was expressed in the last quote above). Cute images give confidence to the girls who then think that they can dominate these boys. Punishing white men therefore relieves their gendered and postcolonial melancholia simultaneously by embracing these boys in front of their white

males in their own society.

In addition to their individual psychological needs, however, what is vital in the successful formation of the European K-pop fandom is the free access to YouTube, as we explained above:

Back in Finland it is not broadcasted. So, I saw it only through YouTube. After I came to Korea, I watched K-pop singers performing on TV, but I prefer YouTube because I can choose videos I want to see.

There is no way to watch them on TV in France, but on YouTube I can watch everything I want, and also am able to see their videos again and again. So, I can see how they dance.

More convenient to watch via Internet because I don't have to wait, and I can also find everything I need easily on YouTube.

To the advertisements they have to watch before enjoying their K-pop content, we find differing reactions from the interviewees. As one interviewee indicated, we can also predict a sizable amount of female fans actively shop MNE products:

To some extent, commercials are annoying. But since you don't have to pay in order to watch the video, I guess that's something you have to accept.

I have seen some commercials before the clip and I cannot skip. So, it's really annoying. There is no such thing in France.

I have been to SPAO [a clothing brand that Super Junior is advertising] because I like SPAO; have bought glasses from the shop 2PM is advertising. Sometimes I just visit those stores even though I do not have any- thing to buy. I just go see the posters, pictures, and products at the store.

The above testimonies are what SM's CEO Young-Min Kim had expected when he decided to upload free music on YouTube for the first time in Korea. In an interview with CEO Kim, he explained the logic of this new business model in the following way:

SM had no local network with TV stations or music distributors, including online platforms and portals, in China or Japan. When I looked at the Chinese and Japanese platforms, the top 20 most downloaded videos were all local products. The break came when the Japanese iPhone preloaded YouTube on every iPhone Softbank sold in Japan. I immediately noticed that YouTube was going to replace local platforms in Japan, which would allow more global music videos like our Super Junior's music to be available to the Japanese audience. Furthermore, YouTube reveals the total number of instant click hits to every viewer. When I experimented with our first music video that I uploaded to YouTube, the clicks instantly increased to hundreds of thousands, topping the day's top 20 list. I didn't really care about whether our music would appeal international audiences; I believed that YouTube would certainly give us a chance.

Kim's testimony confirms our working hypothesis that universal content comes second to the availability of a universal digital platform. Kim further



elaborated on the universality of digital platforms by saying that: “unlike TV and radio, YouTube is the first global mechanism that allows producers like us to advertise our music while instantly selling it by charging fees either to downloaders or to advertisers.”

When girls go crazy for postcolonial boys, there is always a lingering question of possible punishment, this time by white men. During the colonial times, a typical lie the white girls used to defend themselves from such punishments was that the colonial boys tried to rape them. Technically, the only probable punishment white men can inflict upon these white girls would be not marrying them (i.e., therefore, not handing down male wealth to the betraying women). However, this threat is negligible now, as such a threat doesn't exit at all or white men still marry white girls despite their affection with postcolonial entertainers. European and Asian girls seem more or less freed from such social stigma:

One of my friends did not understand why I like this culture when I do not understand the lyrics and language. My family does not like K-pop but tends to ignore the fact that I like it, and my parents don't really care. Mother did not like the idea of buying concert tickets because it is too expensive and she thinks I can do many other things with that money. My sister tried to mediate and support me but my mother still does not like it.

## Conclusion

In this chapter we found some support for the research question: Is there any empirical relationship between social media and K-pop's popularity in Europe, not to mention its initial success in Japan, China, Thailand, and other

Asian countries? We also found evidence of a new tendency of the Korean entertainment industry shifting its strategy from B2C to B2B. The transition to social media has, on the whole, played a significant role facilitating the validation of this new business model that transfers the largest sum of business profit to music distributors, such as YouTube.

Although young female K-pop fans in Europe emerged as the most significant supporters for this new business model, their motivational basis was not much different from that of the middle aged Japanese Hallyu fans: gendered and postcolonial melancholia. Main Korean entertainment firms such as SM, JYP, and YG are banking on feminine melancholia (e.g. use of versatile masculinities and pro-feminine messages) to maximize their profitability through a new business alliance with global MNEs as commercial and royalty providers on the one hand and with Google as a main music distributor on the other. It is therefore expected that the Korean entertainment firms will further harness their B2B business strategies as the age of new social media matures.

The implication is that Hallyu is neither a new business model that is distinctively different from the dominant Korean export industries, as long as the entire profit structure of the industry depends on exports and foreign distributors for its survival. Nor is it a new art form that is distinctively Korean or something that can be universalized for the rest of Asia, as long as K-pop is manufactured collectively by artists and producers from global music industries. The only Korean element that is unique to the Korean culture is its tendency to mass produce not only the K-pop music but musicians as well through the elitist and Spartan training system. The entire B2B Hallyu business model hinges on the elite training system of the wouldbe K-pop idols and their transnational fans who might have no idea why they receive free music content on the internet. Through new social media, or rather the interaction on online communities, teenagers and young adults unknowingly provide the basis for a

business platform by which adult music producers can reap windfall profits.

This chapter discusses the impact of new social media on the sudden explosion of K-pop popularity. We argue that the Korean entertainment industry is now rapidly changing its conventional business model from the audience-based B2C strategy to a new social media-dependent B2B model. In this new model Google through its subsidiary company YouTube acts as a key provider of the new social media market to the K-pop music industry that is now targeting royalty income as its main source of revenue. Further studies can be designed based on our initial observation, such as studying the relationship between Google commercials and the consumer behavior of young K-pop fans. Investigating whether Google and MNEs take the largest cut in this social media Hallyu industry can also be designed based on empirical data. The once prevailing myth held among scholars of East Asian Studies that Hallyu, or the Korean Wave, was over has now lost much of its credibility. Particularly interesting is the resurgence of the popularity of Korean pop music not only in Asia but also in Europe and North America as well.

## Note

1. This section is drawn from Park Gil-Sung, "From Fragile Cosmopolitanism to Sustainable Multicultural Vigor," *Korea Journal*, vol. 53, no. 4 (2013): 5-9.
2. While this section covers much of the same ground as my writing, "Introduction: Understanding of Restructuring of Korean Society," in *Restructuring of Korean society: Forced Adjustments and Contentious Coordination*, Korea University Press (2003) (in Korean), it has been completely rewritten for the current section.
3. This section is drawn from Park Gil-Sung, "Betrayal of Global Standards and Crisis Again: Korea's Financial Crisis and Afterwards," *Journal of Contemporary Society and Culture*, vol. 27 (2008): 37-40 (in Korean).
4. This section is drawn from Park Gil-Sung, "Korea, 10 Years after IMF Regime," *Magazine NEXT*, February (2007): 86-94 (in Korean).
5. This chapter is mainly drawn from writings: Park Gil-Sung, "The Interplay between Globalness and Localness: Korea's Globalization Revisited," *International Journal of Comparative sociology Contemporary*, vol. 48, no. 4 (2007): 342-350 (with Lee and Jang); Park Gil-Sung, "Globalization of Korea" in *Restructuring of Korean Society*, Korea University Press (2003): 127-139 (in Korean). And it has been rearranged and rewritten for the current chapter.
6. This chapter is drawn from Park Gil-Sung Park, "The Interplay between Globalness and Localness: Korea's Globalization Revisited," *International Journal of Comparative sociology*, vol. 48, no. 4 (2007): 337-9 (with Lee and Jang) and Park Gil-Sung, "Financial Crisis and Minority Shareholders' Movement in Korea: The Unfolding

- and Social Consequences of the Movement,” *Korean Journal of Sociology*, vol. 42, no. 8 (2008) (with Kim Kyung-Pil)
7. While the story of governance structure in this chapter is drawn from Park Gil-Sung, “Chapter 6. Corporate Governance and Market Authority,” in Cho Dae-yeop and Park Gil-Sung (eds), *Where is Korean Society Headed to? Good Information* (2005): 169-202 (with Jang Ha Sung) (in Korean), the story of workplace is drawn from Park Gil-Sung, “An Inquiry into Restructuring Business and Reorganizing Vacation Following the Financial Crisis,” *Korean Journal of Sociology*, vol. 44, no. 3(2010): 75-90 (with Kim Young Sun).
8. Park Gil-Sung, “Financial Crisis and Minority Shareholders’ Movement in Korea: The Unflooding and Social Consequences of the Movement,” *Korean Journal of Sociology*, vol. 42, no. 8 (2008): 59-76 (with Kim Kyung-Pil). Reprinted with permission.
9. This chapter is drawn from two parts: one is from Park Gil-Sung (2019), “Social Conflict and Cohesion in Korea: An Overarching View,” Keynote speech at the 8th AKSA, New York and the other is from Park Gil-Sung (2013), “Chapter 3, Mode of Compound, Complex, Compressed Conflict,” in *Society Makes Conflict, Conflict Makes Society*, Korea University Press: 63-78 (in Korean).
10. This section is drawn from Park Gil-Sung “Chapter 6, Social Cost of Financial Crisis: Identity, Social Conflict, Trust,” in *Restructuring of Korean Society: Forced Adjustment and Contentious Coordination*, pp. 164-168 (in Korean).
11. This section is drawn from Park, Gil-Sung, “Korean Society Caught in Post-authoritarian Trap,” in Kim Kyung-dong and the Korea Herald (eds), *Jimoondang*, pp. 127-135.
12. This section is drawn from Park Gil-Sung “Ch. 6, Social Cost of Financial Crisis: Identity, Social Conflict, Trust,” in *Restructuring of Korean Society: Forced Adjustment and Contentious Coordination*, pp. 170-176 (in Korean).
13. Park Gil-Sung, “Manufacturing Creativity: Production, Performance, and Dissemination,” *Korea Journal*, vol. 53, no. 4 (2013): 14-33. Reprinted with permission.
14. Park Gil-Sung, “From B2C to B2B: Selling Korean Pop Music in the Age of New Social Media,” *Korea Observer*, vol. 43, no 3 (2012): 365-397 (With Oh Ingyu). Reprinted with permission.

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“The aspirations and burdens of globalization befell upon Korean society in its full breadth and interplay of light and darkness that few other societies have experienced.”

— in Preface

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**T**he growth of the Republic of Korea's wealth and democracy throughout the 60s, 70s, and 80s have been well researched and documented. However, much less is written about the extremely difficult and eventful process as the nation transformed itself into one of the world's leading technological and cultural leaders since then.

The book provides keen insight into the developmental history of the Republic of Korea as it willingly and sometimes reluctantly embraced the phenomena of globalization, spanning from the 1997 financial crisis to the international phenomenon of K-pop. Not only are the nation's policy choices documented in detail but also the overwhelming and arduous socio-cultural transformations endured by its people, as the nation moved on from being “coerced” by globalization to one that “leads.” The result is a fascinating comparative account of economic and social development in the late 20th and early 21st century as well as a compass for what side effects there may be as societies embrace globalization.



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