Financial Crisis and Minority Shareholders' Movement in Korea: The Unfolding and Social Consequences of the Movement*

Gil-Sung Park
Korea University

Kyung-Pil Kim
Korea University

The minority shareholders' movement has become the most symbolic and representative case of NGOs activism in the process of social restructuring following the 1997 financial crisis. Although much has been mentioned about the successful story of minority shareholders' movement in everyday storytelling, only scant attention has been paid to the mechanism of the movement including its formation, method, and social consequences. We analyze the mechanism in conjunction with the financial crisis and the diffusion of shareholder capitalism. The minority shareholders' movement placed the target for reform on the corporate system regarded as one of the big reasons behind the financial crisis and heavily depended upon legal channel as the tool of movement method. It inevitably created the risk that reform efforts concentrated further activist-driven, salient and single-issue focused. We, therefore, observe three major consequences that arose from minority shareholders movement: exits for foreign capital guaranteed, loss of publicness in finance, and overwhelming advantage secured by capital. We explore an account that makes sense of half-way success of the minority shareholders' movement, hinging upon the inevitable dilemma between the legacy of developmental state and the hegemony of neo-liberalism faced by all reformers in the post-democratization era of Korean society.

Keywords: minority shareholders' movement, people's solidarity for participatory democracy, shareholder capitalism, Korea

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INTRODUCTION

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 paper 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 paper 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 SHAREHOLDER'S 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. According to Jang Ha-Sung, former Chairman of PSPD's economic democracy branch, 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: 60-1).

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: 52-3).

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 2004a). 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: 113-4). 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: 218-9). 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 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 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

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	792
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	

Notes | Statistics: Financial Supervisory Service.
Source: Jeong 2004: 363.

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).

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

Notes | ( ) indicates proportion of won currency loan.
Source: Financial Supervisory Service, *Bank Management Statistics*.

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: 373-4), 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 allurement 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.

CONCLUSION: HALF-WAY SUCCESS AND LIMITATION OF THE OTHER HALF-WAY

This paper 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.

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.

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