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Transferring the Anglo American System to South Korea: At What Cost, and Are There Alternatives?

Abstract
The Anglo American economic model, together with its corporate governance practices, is frequently regarded as the optimal instrument for achieving competitiveness and enhancing investor confidence, even by countries which do not share the culture and tradition from which it originated. Its corporate governance structures, shareholder friendly laws and liquid capital markets with high levels of disclosure are regarded as mechanisms which can enable 'global' standards of efficiency, transparency and accountability to be achieved. Many countries outside of the US and UK are encouraged by the international financial community to attract foreign business and investment by emulating this model. But to what extent is this model suitable for countries outside of those in which it was developed?

This article examines this issue in relation to South Korea, an economy traditionally based on a state-led developmental model, but which has since the 1990s, experimented with the Anglo American model. Whilst many academics support the implementation of the Anglo American economic system on the basis that it will enable its economy to be competitive, others have counted the significant costs post implementation and have proposed alternative paths to economic growth. Some have gone so far as to suggest that the government should reject the Anglo American system altogether and instead, modernise the traditional state-guided growth model. This article argues that Korean policy makers need not adopt the Anglo American model wholesale, but can create an optimal environment for growth by combining the strengths of its traditional economic model with those under the Anglo American system.

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TRANSFERRING THE ANGLO AMERICAN SYSTEM TO SOUTH KOREA: AT WHAT COST, AND ARE THERE ALTERNATIVES?♦

LILIAN MILES*

The Anglo American economic model, together with its corporate governance practices, is frequently regarded as the optimal instrument for achieving competitiveness and enhancing investor confidence, even by countries which do not share the culture, tradition or system from which it originated. Its corporate governance structures, shareholder friendly laws and fluid capital markets with high levels of disclosure are regarded as mechanisms which can enable 'global' standards of efficiency, transparency and accountability to be achieved.[1] Many countries outside of the US and UK are encouraged by the international financial community to attract foreign business and investment by emulating this model. But to what extent is this model suitable for countries outside of those in which it was developed?

This article examines this question in relation to South Korea (hereinafter Korea). Korea provides a particularly interesting case study; it is an economy traditionally based on a state-led developmental model, but which since the 1990s, has experimented with the Anglo American model.[2] After considering the nature of the

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♦ This work is an extension of previous work on Korea by the author – L Miles, 'The Significance of Cultural Norms in the Evolution of Korean HRM Practices' *International Journal of Law and Management*, 2008, Vol 50(1), 33-46, and L Miles, 'The Cultural Aspects of Corporate Governance Reform in South Korea', *Journal of Business Law*, 2007, Issue 51(8), 851-867.

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1 HC Lim & JH Jang, 'Neo liberalism in Post Crisis South Korea: Social Conditions and Outcomes' *Journal of Contemporary Asia*, (2006), Vol 36(4), 442-463 at 447. See also DW Lee, 'The Korean Economy in Transition: In Search for a new model?' *Global Economic Review*, 2006, Vol 35(2), 207-230.

2 See L Low, 'A Putative East Asian Business Model' *International Journal of Social Economics*, 2006, Vol 33(7), 512-528 which discusses the new challenges which East Asian economies face post financial crisis, globalisation and competition. She argues for a need to redesign their business models (state development model) in order to meet these challenges. This is a difficult task in view of individual cultures, values and politics. Importantly, not only must the appropriate business model be found, learning from other business models and adapting individual models must also be subject to the over arching criteria of (1) good governance, (2) democratisation, (3) concern with innovation (4) concern with social security and social welfare (at pg 524).

reforms introduced post financial crisis (Section 1), this article will discuss the resultant benefits and costs to the economy (Section 2). It will also examine the appropriateness of measures based on the Anglo American system to re-establish the Korean economy and consider arguments that alternative measures to achieve economic growth must be found (Section 3). It concludes by arguing that Korean policy makers can create an optimal environment for growth by combining the strengths of its traditional model with the Anglo American economic system (Section 4).

Section 1: Post Crisis Measures

A large volume of literature charts the rapid growth in Korea since the implementation of economic reforms in the 1960s.[3] Korea's remarkable growth after two devastating wars was attributed to the dynamics between the government, banks and chaebols (large Korean conglomerates).[4] High saving rates, a highly educated workforce, a strong work ethic and a willingness to obey an authoritarian government have been identified as further factors which enabled economic development to take place. From the late 1980s, politics in Korea began to change, moving from hard line authoritarianism to democracy. For the first time, free elections were held. In order to create a more favourable environment for economic growth and to attract foreign investors, the government liberalised many of its existing economic policies. The economy grew dramatically, with chaebols expanding and diversifying into various industries. In the late 1990s however, growth rates slowed down. It was also at this time that the Asian financial crisis hit.[5] Thereafter, the government embarked on a radical reform programme to re-establish the economy.

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3 AH Amsden, *Asia's Next Giant, South Korea and Late Industrialisation*, OUP, New York, 1989, TY Kong, *The Politics of Economic Reform in South Korea: A Fragile Miracle*, Routledge, 2000, YL Chung, *South Korea in the Fast Lane: Economic Development and Capital Formation*, OUP, Oxford 2007.

4 HC Lim & JH Jang, 'Neo Liberalism in Post Crisis South Korea: Social Conditions and Outcomes' *Journal of Contemporary Asia*, 2006, Vol 36(4), 442-463, at 442-443.

5 The IMF bailout package totalled $58.4 million. Korea's currency rapidly depreciated, private consumption and export growths shrunk, GDP growth rate plummeted to -7% from around 7% in the years before, and unemployment soared to over 8% in early 1998, in contrast to 3% in the mid 1990s. See JY Koo & SL Kiser, 'Recovery from a Financial Crisis: The Case of South Korea' Federal Reserve Bank of Dallas, Economic and Financial Review, 2001, 1-13, at http://www.dallasfed.org/research/efr/2001/efr0104c.pdf (accessed 7 November 2008).

While the direct cause of the financial crisis was the rapid withdrawal of foreign capital from Korea, the root cause has been attributed to a variety of factors, including cronyism, flawed institutional structures and poor corporate governance.[6] In relation to corporate governance, for example, it has been argued that the economy collapsed because of a lack of mechanisms to restrain reckless diversifications and excessive borrowing by chaebols, and a failure to monitor decision-making by their controlling shareholders. In order to re-establish the economy, the Korean government adopted a series of reform measures typically seen in Anglo American (neo liberal) economic systems – a combination of shareholder oriented corporate governance, fluid capital markets and flexible labour policies.[7] Indeed, the adoption of such measures was conditional upon receiving financial aid from the IMF. These measures were implemented without much resistance from the government at that time (Kim Dae Jung) which itself believed in the ability of liberal or free market policies to assist recovery.[8] Within a space of just two years, Korea recovered from the financial crisis.

Dismantling the Chaebols

In restructuring the economy, the Korean government singled out the corporate sector for reform. It condemned the practice by chaebols of recklessly diversifying their businesses, incurring high debt-equity ratios and conducting 'unfair' intra-group transactions as factors which had led to economic collapse.[9] Criticisms were

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6 See for example, arguments in S Johnson, P Boone, A Breach & E Friedman, 'Corporate governance in the Asian Financial Crisis' *Journal of Financial Economics*, 2000, Vol 58, 141-186, R Wade & F Veneroso, 'The Asian Crisis: The High Debt Model Versus the Wall-Street-Treasury-IMF Complex', *New Left Review*, 1998, No 228, 3-23, JH Yoo & CW Moon, 'Korean Financial Crisis During 1997-1998 Causes and Challenges' Journal of Asian Economics, 1999, Vol 10(2), 263-277. A few academics have even blamed the implementation of neo liberal policies themselves for the economic collapse in Korea, see J Crotty & KK Lee, 'Economic Performance in Post Crisis Korea: A Critical Perspective on Neo liberal Restructuring' *Seoul Journal of Economics*, 2001, Vol 14(2), 183-242.

7 SJ Chang, 'Business Groups in East Asia: Post Crisis Restructuring and New Growth' *Asia Pacific Journal of Management*, 2006, Vol 23(4), 407-417.

8 HC Lim & JH Jang,(2006), D Hundt, 'A Legitimate Paradox, Neo liberal Reform and the Return of the State in Korea' *The Journal of Development Studies*, 2005, Vol 41(2), 242-260.

9 HJ Chang & JS Shin, 'Evaluating the Post Crisis Corporate Restructuring in Korea' *Seoul Journal of Economics*, 2002, Vol 15(2), 245-276. The targeting of the corporate sector however, has been criticised as misguided, and it has been argued that the implementation of neo liberal reform policies in the aftermath of the financial crisis was merely a guise to seize political power, see J Crotty & KK Lee, (2001), at 184-191.

also directed at their lack of accountability – the founder and his family being both directors and controlling shareholders.[10] In all, chaebols were criticised as

> …overly diversified groups of inefficient firms surviving on low profit only because they can borrow more than what they deserve thanks to their collusion with the state and banks, and to 'unfair' intro group transactions.[11]

Korean chaebols are large private business groups that consist of several smaller units. They have the following characteristics – concentrated ownership of the business by the founder and his family through cross shareholdings and mutual debt guarantees, a highly diversified business structure and high levels of debt-equity ratios.[12] Chaebols are often involved in a variety of commercial activities ranging from banking and insurance, to electronics, automobile production and ship building. Because their businesses are so diverse, their economic influence is very significant. Well known examples of chaebols are Samsung, Hyundai, Lucky-Goldstar, Hanjin and SK Corp. Traditionally, chaebols were founded by one individual. The entire conglomerate remained under his control and it was usual for this control to pass on to the eldest son upon his retirement or demise. Chaebols resembled a family unit, where the employer was regarded as a parent who looked after the employees and their families – a typical reflection of the Confucian values which figure largely in Korean life. Management within the chaebols is autocratic and dictatorial, with the influence of the founder apparent in how they are led. Decision making is often centralised. In-group harmony, identity with the firm logo and loyalty to their employer are characteristics typical of employees, who are in turn rewarded and promoted on the basis of their seniority, and who can expect to stay with their firm until retirement age. These employee-friendly practices inspire them to sacrifice personal time in order to prioritise the business of the firm. This kind of

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10 The term 'Korean discount' was coined to reflect the fact that Korean shares typically traded below their intrinsic value. In large part, this was due to perceptions of poor governance in chaebols.

11 HJ Chang & JS Shin (2002), at 246. But that these characteristics have caused the economic crisis have been criticised as being incorrect – see HJ Chang & JS Shin (2002), at 247-254.

12 I Yanagimachi, 'Chaebol Reform and Corporate Governance in Korea' Policy and Governance Working Paper Series No.18, The 21st Century Center of Excellence Program, *Policy Innovation Initiative: Human Security Research in Japan and Asia,* Graduate School of Media and Governance, Keio University, Japan, 2004, 1-22, at 5, at http://coe21-policy.sfc.keio.ac.jp/ja/wp/WP18.pdf .

arrangement or configuration was said to be the driving force behind the economic growth of these large conglomerates.[13]

Chaebols contributed significantly to economic development in the years after the war – their founders invested vigorously in long term projects, led its export industry through the creation of brand names and created employment in the economy. However, chaebols were also known for their reckless diversification practices, their tendencies to keep profit levels deliberately low and for their opaque practices. Many were debt laden, yet could not be overcome; their founders were controlling shareholders who enjoyed significant backing from the government ('the too big to fail phenomena').[14]

On the basis that chaebols were inefficient entities whose hold on the economy needed to be broken, the Kim government overhauled the way they were managed.[15] It forced them to downsize, concentrate on core businesses and reduce their debts. The number of potential affiliates was reduced in order to minimise business diversification. The ability to guarantee mutually the loans of affiliates was stopped. In addition, heavy fines were imposed on 'unfair' internal transactions among affiliated firms on the basis that any transactions not based on 'market prices' were unjust.[16] Laws and regulations based on the Anglo American corporate governance model were introduced to increase corporate transparency and accountability and to align managers' and shareholders' interests.[17] Audit committees were required to be set up in all listed chaebols in order to guarantee scrutiny of accounts. Chaebols were also required to produce consolidated accounts rather than individual firm accounts so that the true financial position of the group may be revealed. In addition, laws protecting minority shareholders were enacted, providing an extra layer of

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13 L Miles, 'The Cultural Aspects of Corporate Governance Reform in South Korea', *Journal of Business Law*, 2007, Issue 51(8), 851-867. JS Bae & C Rowley, ''The impact of globalization on HRM: the case of Korea'', *Journal of World Business*, 2001, Vol 36(4), 402-428, at 412-418.

14 Failure of chaebols would lead to other negative effects, such as large scale unemployment and bankruptcy of affiliated firms.

15 It was argued that their reform would lead to lower financial risks in both the corporate sector and the economy and would improve overall competitiveness, see HJ Chang & JS Shin (2002), at 255.

16 HJ Chang & JS Shin, (2002), at 260.

17 Examples of legislation introduced to procure high standards of governance in its firms include the Korean Commercial Code, the *Securities and Exchange Acts*, the *External Audit of Joint Stock Companies Acts*, the *Monopoly Regulation and Fair Trade Acts* and the Korean Code on Corporate Governance.

monitoring over the activities of management.[18] A corporate governance code encouraging best practice was introduced.[19] Finally, chaebols were required to recruit independent outside directors in order to monitor the board, controlling shareholders were forced to accept various disclosure obligations to reveal their interests and directors were held to owe Anglo American type 'fiduciary duties' to the firm, and prohibited from acting in the interests of the controlling shareholders.[20]

Pursuing labour flexibility

Traditional Korean corporate culture was based on Confucian values and characterised by life long employment, age graded seniority systems and a familial structure.[21] Many of these practices had to be abandoned after the financial crisis in order to improve efficiency and competitiveness.[22] Thus, despite Korean firms previously employing almost identical HRM practices, large discrepancies in these practices began to appear.[23] Traditional practices such as life long employment and promotion based on seniority gave way to those evident in Anglo American systems

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18 For example, the minimum shareholding which was required to commence a derivative action was reduced from 1% to 0.01%, whilst the minimum requirement for shareholders wishing to inspect the accounts of the company was reduced from 3% to 0.1%. Shareholders holding 3% of shares can now convene a special shareholder's meeting, request cumulative voting and appoint an inspector to examine corporate affairs and records. Class actions and cumulative voting were also allowed under the new laws.

19 The Code may be viewed at http://www.ecgi.org/codes/documents/code_korea.pdf (accessed 7 November 2008).

20 See also J Solomon, A Solomon & CY Park, 'A Conceptual Framework for Corporate Governance Reform in South Korea' *Corporate Governance: An International Review*, 2002, Vol 10(1), 29-46, EH Kim & WC Kim, 'Changes in Korean Corporate Governance: A Response to Crisis', *Journal of Applied Corporate Finance*, 2008, Volk 20(1), 47-58, at 51-57 and HC Lim & JH Jang, (2006), at 446-451.

21 AE Kim, 'The Social Perils of the Korean Financial Crisis' *Journal of Contemporary Asia*, 2004, Vol 34(1), 221-237, at 226, L Miles, 'The Significance of Cultural Norms in the Evolution of Korean HRM Practices' *International Journal of Law and Management*, 2008, Vol 50(1), 33-46, C Rowley & JS Bae, 'Globalisation and transformation of HRM in South Korea', *International Journal of Human Resource Management*, 2002, Vol. 13(3), 522-549, at 543-545.

22 Breaking the strength of labour was central to the government's policy to raise competitive pressure on chaebols through foreign investment. The intention is that labour flexibility would attract foreign investors, see J Crotty & KK Lee, 2001, at 197.

23 See C Rowley & JS Bae, (2002), C Rowley & JS Bae, 'Human resource management in South Korea after the Asian financial crisis: emerging patterns from the labyrinth', *International Studies of Management and Organization*, 2004, Vol 34(1), 52-82, I Park, 'The Labour Market, Skill Formation and Training in the Post Developmental state: The example of South Korea' *Journal of Education and Work*, 2007, Vol 20(5), 417-435.

– increasing reliance on casual labour and the employment of performance based pay and promotion systems. Despite protests by the workforce, laws were amended to legalise lay offs and remove employment protection.[24] With the firm no longer regarded as a family in which employers took care of employees and their families, workers looked to enhance their own careers.[25] Many firms introduced a mandatory retirement age, forcing senior employees to retire.[26] Further, in order to optimise the use of resources, firms started to use Anglo American style performance appraisal systems[27] to evaluate the productivity of employees as the basis for future promotion and remuneration, which led to competition and resentment between older and younger employees. Lastly, businesses began to realise the importance of recruiting specialists to achieve competitive advantage. Whereas firms traditionally preferred generalists who could perform different kinds of roles and who could provide internal flexibility, they started to recruit the most competent individuals for a particular job, and introduced training programmes to create a pool of employees with specialist skills in order to meet specific firm strategies.[28] All in all, traditional firm practices came under severe pressure as a result of neo liberal reform. The confidence in traditional values was shaken, as firms became doubtful about the sustainability of traditional style management.[29]

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24 JM Cho & JH Keum, 'Job instability in the Korean labour market: estimating the effects of the 1997 financial crisis', *International Labour Review*, 2004, Vol 143(4), 373-392. Employees employed on a life time basis were costly to keep as remuneration generally increased with seniority. The government amended the Labour Standards Act 1996 to legalise mass redundancies in order that firms can make adjustments to employment practices. Part time and irregular employees now constitute a significant proportion of the workforce.

25 AE Kim, (2004), at 227-228.

26 JT Choi, 'Transformation of Korean HRM based on Confucian values', *Seoul Journal of Business*, 2004, Vol 10(1), 1-26 at 21.

27 See for example, JT Choi, (2004), JM Cho, 'HRM, Corporate Governance Structure and Corporate Performance in Korea: A Comparative Analysis of Japan, US and Korea' *Japan and the World Economy*, 2005, Vol 17(4), 417-430, EM Chang, 'Individual Pay for Performance and Commitment HR practices in South Korea' *Journal of World Business*, 2006, Vol 41(4), 368-381 and JS Bae & C Rowley, 'Changes and Continuities in South Korean HRM' *Asia Pacific Business Review*, 2003, Vol 9(4), 76-105.

28 ES Lee & SS Kim, 'Best practices and performance based HR system in Korea', *Seoul Journal of Business*, 2007, Vol 12(1), 3-17, at 7.

29 This is discussed in L Miles, 'The Significance of Cultural Norms in the Evolution of Korean HRM Practices' *International Journal of Law and Management*, 2008, Vol 50(1), 33-46.

Encouraging foreign capital and investment

The Kim government welcomed foreign capital and foreign technology. Indeed, it believed that foreign investors were the key to successful corporate and financial restructuring – their participation in the local economy would increase competition, import new managerial methods and destroy the ability of chaebols to block economic reform.[30] With the blame for the crisis laid on chaebols and their previously incestuous relationship with the government, the viability of a chaebol-centred system to ensure economic growth was seriously questioned, and a belief that foreign capital was a means to re-establish the economy began to spread in Korea.[31]

According to recent figures, both foreign direct investment and foreign portfolio equity have grown enormously since the late 1990s (the former from $1.4 billion in the 1990s to $5.9 billion at the end of 2004, the latter from $4.2 billion in the late 1990s to $9.1 billion at the end of 2004). FDI approvals during 1962-1997 were US$22.9 billion; but for the three years after the crisis, i.e. during 1998-2000, reached US$36.8 billion.[32] Indeed, Korea has the most liberalised foreign exchange market among emerging economies today, with the percentage of foreign ownership in the economy standing close to 50%. In order to attract foreign investment, the government removed the limits on equity ownership by foreign investors, relaxed rules on hostile takeovers of domestic firms and allowed domestic assets, such as firms which had been forced into insolvency, to be sold to foreign investors at low prices. The rapid increase of foreign ownership brought with it two significant consequences – one, the acceleration of Anglo American corporate governance, and two, an increase in mergers and acquisitions.[33] For example, the Daewoo chaebol, which faced financial ruin in 1999, was saved after GM Motors stepped in to acquire it. The Samsung chaebol also benefited from a deal with Volvo when Volvo acquired a firm within the group (which manufactured heavy equipment) which was struggling.[34]

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30 J Crotty & KK Lee (2001), at 190, 221.

31 HC Lim & JH Jang, (2006), at 445, and JS Shin & HJ Chang, 'Economic reform after the financial crisis: a critical assessment of institutional transition and transition costs in South Korea' *Review of International Political Economy*, 2005, Vol 2(3), 409–433, 420-422.

32 See JS Mah, 'The Restructuring of in the Post Crisis Korean Economy' 2003 Working Paper, University of Connecticut, 1-18, at http://www.econ.uconn.edu/working/2003-46.pdf (accessed 8 November 2008) and W Stoever, 'Attempting to resolve the attraction-aversion dilemma: a study of FDI policy in the Republic of Korea', *Transnational Corporation*, 2002, Vol 11(1), 49-76.

33 I Yanagimachi, 2004, at 13.

34 For two different perspectives on the effects of neo liberal restructuring in Korea, see J Crotty & KK Lee, 'A Political Economic Analysis of the failure of Neo Liberal Restructuring in Post Crisis Korea' *Cambridge Journal of Economics*, 2002, Vol 26(5), p 667-678, and I Pirie,

Restructuring the financial industry

Last but not least, the government restructured the financial system to get rid of weak financial institutions, to clean up the large number of non performing loans and streamline the provision of credit to chaebols.[35] In determining the viability of financial institutions, previous practice was limited to evaluating past, as opposed to future, performance. As the government had limited experience in evaluating future performance, guidance was sought from foreign banks and investors.[36]

In the years of economic reform from the 1960s to the 1990s, the Korean government had directed banks to provide credit at very low interest rates to chaebols in order to enable them to expand.[37] Whilst this enabled chaebols to diversify their businesses, it also caused banks to accumulate high volumes of non performing loans. In cleaning up the financial sector, the government closed down banks which were burdened by these loans and injected public money into others. Through mergers and acquisitions, the number of city banks also declined dramatically – from 27 in 1997 to just 11 in 2005.[38] Further, rules were introduced to require banks to maintain a BIS capital adequacy ratio of 8%. As many could not fulfil this condition, their lending capacity was severely restricted, leading to a credit crunch.[39] The dramatic drop in bank lending to firms forced them to cut down on investments, reduce wages and make employees redundant. The government set up a national supervisory authority (Financial Supervisory Commission) to lead the restructuring of the financial and corporate sectors. It also created the Korea Asset Management Corporation (KAMCO) who together with the FSC, turned around those firms which were

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'Economic Crisis and the Construction of a Neo Liberal Regulatory Regime in Korea' *Competition & Change*, 2006, Vol 10(1), 49-71.

35 Indeed, the reform of the banking sector was key to crushing to power of chaebols – the government assigned one or two banks to monitor and control the amount of credit to chaebols. J Crotty & KK Lee, (2001), at 212, 214.

36 Lee, Hun Jai, Former Minister of Finance and Economy, Former Chairman of Financial Supervisory Commission of the Republic of Korea, 'Korean Experience of Structural Reform: Its Lessons and Implications to Japan', January 14, 2004, 1-15, at 6, which can be accessed at http://www.esri.go.jp/en/workshop/040114/lee_p-e.pdf (accessed 21 August 08).

37 BS Min, 'Changing Pattern of Corporate Governance and Financing in the Korean Chaebols' *Economic Papers*, 2007, Vol 26(3), 211-230, at 213-215.

38 BS Min, (2007), at 227.

39 BS Min, (2007), at 222. The reform of the financial sector brought about evaporation of external funds to firms. See JS Shin & HJ Chang, (2005), at 416-420.

experiencing short-term cash flow problems but which were capable of recovery.[40] The credit evaluation system, prudential regulation, as well as loan classification and risk management criteria, were all brought into line with international standards.[41]

Section 2: Assessing the Impact of Economic Reforms

To what extent has the adoption of neo liberal Anglo American measures been beneficial to the Korean economy? Did its government set in motion the radical economic restructuring process after careful consideration of the consequences? Are the measures which have been implemented the most effective in helping the future growth prospect of the economy?[42] These questions have been the subject of intense debate. What are the benefits which have resulted from economic reform? What are the costs?[43] Indeed, if the costs have outweighed the benefits, are there alternative ways of ensuring sustainable growth, which can cope with new domestic and global challenges?

Benefits

The benefits following economic reform were tangible. For example, reform measures based on the Anglo American model have led to enhanced corporate governance. At firm level, disclosure and transparency levels have improved, the number of related party transactions has decreased and legal actions challenging mismanagement and malpractice on the part of directors are beginning to come before the courts. Controlling shareholders are now concentrating on maximising profits. Shareholder activism is also starting to bring important changes to governance practices.[44] Together, these have led to recent improvements in the

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40 Lee, Hun Jai, Former Minister of Finance and Economy, Former Chairman of Financial Supervisory Commission of the Republic of Korea, 'Korean Experience of Structural Reform: Its Lessons and Implications to Japan', January 14, 2004, at http://www.esri.go.jp/en/workshop/040114/lee_p-e.pdf (accessed 21 August 08).

41 JW Lee & CY Rhee, 'Crisis and Recovery: What We Have Learned from the South Korean Experience?' 2007, *Asian Economic Policy Review,* Vol 2(1), 146–164, at 157.

42 HJ Jang & JS Shin, (2002), at 267-270, HJ Park, 'Toward People-Centered Development: A Reflection on the Korean Experience' KDI School of Public Policy and Management, 2006, KDI School of Pub Policy & Management Paper No. 06-12 , 1-28, at 13-21.

43 For an argument that Korea should keep following the Anglo American model, see DW Lee, 'The Korean Economy in Transition: In Search For a new Model' *Global Economic Review*, 2006, Vol 35(2), 207-230.

44 For a helpful discussion of shareholder activism in South Korea, see HS Jang & JG Kim, 'Nascent Stages of Corporate Governance in an Emerging Market: Regulatory Change, Shareholder Activism and Samsung Electronics', *Corporate Governance: An International Review*, 2002, Vol 10(2), 94-105, J Solomon, A Solomon & CY Park, 'The Evolving Role of

corporate governance ratings of firms.[45] In addition, it has been argued that the move toward a more open economy can only be beneficial for an export-oriented economy such as Korea. The implementation of neo liberal policies will continue to enhance its competitiveness and position in the global markets.[46] In a recent report, the IMF also affirmed neo liberal Anglo American measures as being crucial to the future of the Korean economy – improving corporate governance, strengthening the financial system and modernising the labour market. Respectively, they will make Korea attractive to foreign investors, channel its large pool of savings to productive investment and create more and better quality jobs.[47]

Costs

However, economic restructuring has also come at a significant cost. In adopting liberal policies to restructure the labour market, for example, a dramatic change has taken place in the relationship between the firm and its employees, traditionally based on the notion of 'family'. Unemployment levels have risen as real wages have fallen. Income inequality among workers has widened. With laws being amended to legalise lay offs and remove employment protection, employees have begun to feel insecure with the threat of job losses never far away.[48] Labour unions organised militant strikes in protest against new employment practices, but with the government siding with employers, their activities had limited impact. Many union leaders were arrested and imprisoned, and union activities were stamped out.[49] Trade union membership decreased as employees no longer viewed trade unions as capable of protecting their interests. Finally, the proportion of inactive older workers

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Institutional Investors in South Korean Corporate Governance: Some Empirical Evidence' *Corporate Governance: An International Review*, 2002, Vol 10(3), 211-224, WY Choi & SH Cho, 'Shareholder Activism in Korea: An analysis of PSPD's activities' *Pacific-Basin Finance Journal*, 2003, Vol 11(3), 349-363.

45 See I Pirie, 2006, at 60-63.

46 See DW Lee (2006), at 219.

47 Kenneth Kang, Resident Representative in Korea, 'Reform agenda unfinished', Reproduced with permission of *The Korea Herald, A*ugust 17, 2004, at http://www.imf.org/external/country/KOR/rr/2004/081704.pdf (accessed 21 August 2008).

48 JM Cho & JH Keum, 'Job instability in the Korean labour market: estimating the effects of the 1997 financial crisis', *International Labour Review*, 2004, Vol 143(4), 373-92.

49 For the increasing disadvantage faced by workers post liberal restructuring in Korea, see WD Lee & JBH Lee, 'Korean Industrial Relations in the Era of Globalisation' *Journal of Industrial Relations*, 2003, Vol 45(4), 505-520. See also J Crotty & KK Lee, 'A Political Economic Analysis of the failure of Neo Liberal Restructuring in Post Crisis Korea' *Cambridge Journal of Economics*, 2002, Vol 26(5), 667-678.

who had been forced to retire under the compulsory retirement regime grew and many felt devalued as old age was equated with low productivity. The dismantling of the family and community also contributed to their marginalisation and isolation. This has necessitated a review of social and welfare policies recently,[50] as traditionally, the older generation was able to remain economically active for longer, and in their old age, could depend on their children to look after them. Essentially, neo liberalism has created 'two classes' in Korea, separating the poor from the elite in terms of wealth, opportunity and inequality.[51] Further, research also showed a soaring of divorce rates and a plummeting in the number of births – again, this has been attributed to the tremendous social stress and loss of hope in the future resulting from economic reform. The increase in individualistic tendencies, the loss of a sense of community and trust in society, increasing inequality in income distribution and worsening inequity between core and casual workers are all said to be liable to raise transaction costs in Korea.[52]

In the corporate sector, many chaebols were forced to adopt foreign management practices. Although many have resisted change, it is unclear to what extent they will succeed in doing so.[53] With mounting pressure to conform to the expectations of foreign investors, with capital markets continuing to grow, and a decreasing role for government in business, it may be that their influence in the economy will continue to diminish. If so, they may have to restructure even more in the long term.[54] In the financial sector, change was also evident. Many chaebols faced serious financial problems. Traditionally, Korean firms relied heavily on debt financing. But with tighter regulation of the financial sector, firms have been forced to reduce their debt-equity ratio and maintain a higher level of liquidity, whilst ironically, the financial sector has had to, because of the BIS capital adequacy ratio requirement, withdraw

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[50] See YJ Choi, 'Transformations in economic security during old age in Korea: the implications for public-pension reform' *Ageing & Society*, 2006, Vol 26(4), 549-565, SM Kwon & I Holliday, 'The Korean Welfare State: A Paradox of Expansion in an Era of Globalisation and Economic Crisis', *International Journal of Social Welfare*, 2007, Vol 16(3), 242-248.

[51] AE Kim, (2004), 229-233.

[52] HC Lim & JH Jang, 2006, at 457, OY Kwon, 'A Cultural Analysis of South Korea's Economic Prospects' *Global Economic Review*, 2005, Vol 34(2), 213-231, at 226, 228.

[53] See D Hundt (2005), at 250-257.

[54] SJ Chang, (2006), at 413. See also the pressures on the current president Lee Myung Bak, to continue to reform the chaebols – A Fifield, 'Korea's Bulldozer must clean up the chaebol' *The Financial Times*, March 27, 2008, at 11, 'Seoul's bulldozer South Korea's new leader must prove he is right for the job' *The Financial Times*, December 21, 2007, at 8.

much needed capital from the corporate sector.[55] With credit increasingly being limited, firms have had pull in their investment, downsize and make employees redundant – suppressing overall demand in the economy, which in turn, has forced even more firms into insolvency.[56] Smaller firms were hit particularly hard.[57] Thus it is being argued that the breakdown in the banking system has had adverse consequences – given its historical base, it is banks, rather than capital markets, which are more effective in improving corporate governance, since banks can make long-term commitments to monitor firms. Given traditional firm dependence on banks, it may have been more effective to introduce mechanisms to increase their efficiency as management monitors, rather than taking away their ability to do so by radically restructuring them, and relying instead on capital markets as a disciplining mechanism.

In addition, the prohibition on internal transactions placed serious limitations on the ability of chaebols to support new ventures. Despite their weaknesses, one positive characteristic of the Korean chaebol is its ability to take greater risk, due to financial and resource support networks among its firms. If view of this particular strength, why ban internal transactions altogether? It would have been more pragmatic to increase firm transparency and strengthen the right of minority shareholders to minimise their occurrence. Thus it would appear that

> …by altogether banning internal transactions and other features that allowed them to operate as business groups, the reform programme has destroyed the positive aspects of the group structure as well – a classic case of throwing the baby away with the bath water…[58]

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55 Banks switched from financing firms and businesses to extending loans to consumers. For instance, the corporate share of the total loans made by the Newbridge Capital-owned Korea First Bank dropped from 71% in 1999 to 33% by 2003, whereas the consumer share jumped from 18% to 66% during the same period. The corporate share of the government-owned Woori Bank also decreased from 73% in 1999, to 54% in 2003, while its consumer loan share rose from 20% to 44% in the same period. In short, the financial intermediaries and the banks in particular were supplying less than adequate corporate investment funds, HJ Park, Toward People-Centered Development: A Reflection on the Korean Experience , (2006), 13-15.

56 J Crotty & KK Lee, (2001), at 213.

57 For a helpful discussion of the barriers faced by smaller firms in the wake of the crisis, see HJ Park, "The Perspective of Small Business in South Korea" KDI School Working Paper Series, Working Paper 06-13, 2006, 1-30, at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=954643# (accessed 8 November 2008).

58 HJ Chang & JS Shin (2002), at 270.

Further, it has been noted that the participation of foreign investors was very much regarded as essential to revitalising the economy. However, the desire for foreign capital must be set against existing and potential costs. For one, foreign investors such as pension funds and unit trusts prioritise the maximisation of short term profit. In their preference for profit, they tend to demand corporate practices that are not conducive to high investment and long term growth.[59] In addition, despite various claims that capital markets can carry out a disciplining function, their effectiveness in doing so has not yet been demonstrated, not least because a large proportion of the affiliates of chaebols remain unlisted. The quality of information disclosure in the markets is also low, preventing investors from making informed decisions. Further, chaebols are still able to resist mergers and acquisitions because of the system of cross shareholdings.[60] Thus it may be premature to regard the participation of foreign investors or existence of capital markets as a kind of panacea for the poor governance in Korean firms – this is by no means a foregone conclusion.

Section 3: A Variant of the traditional State-led Development Model?

Many academics both within and outside of Korea, are wary of the consequences of neo liberalism, denouncing the post 1997 economic reform programme as responsible for the significant costs experienced by the country's financial and corporate sectors, as well as society generally. Neo liberal reforms were implemented in the belief that 'global standard' institutions can revitalise the economy. Domestic structures and institutions were obliterated on the basis that they were outdated. But as has been demonstrated, these 'global standard' institutions have not only brought unnecessary costs, many of them have impeded the development of the economy.[61] Many academics argue that what the Korean government should have done was to re-invent or modernise the traditional model (building on its strengths and minimising its weaknesses), not break with it. The modernisation process would be carried out in a manner which met the needs of the Korean people, instead of following so called 'global standards' blindly, without regard for the consequences.[62]

If we accept this argument, the question then becomes how the Korean government can modernise the traditional model. One argument is that it must assume a mediating role between neo liberal policies and the economy – that is to say, rather than attempt to implement wholesale 'global standard' policies and institutions, to

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59 JS Shin & HJ Chang, (2005), at 429.

60 BS Min, (2007), at 223-225.

61 HJ Chang & JS Shin, (2002), at 272.

62 JS Mah, 'Economic Restructuring in Post Crisis Korea' *Journal of Socio-Economics*, 2006, Vol 35(4), 682-690, J Crotty & KK Lee, (2001), at 231-235, HJ Jang & JS Shin, (2002), at 270-275.

apply them in a way which is workable in the Korean context. This kind of role is particularly important where existing institutions in the economic system cannot easily blend with those in the Anglo American model. The requirement that firms must recruit independent directors or establish audit committee, whilst in themselves good contributors to good governance, may not be suitable in an environment where Confucian values dominate.[63] Rather than applying the rules to all firms, the government can make it obligatory only for those that have high international exposure, whilst applying less stringent standards to those that have limited exposure to international financial markets. Similarly, whilst prohibiting internal transactions within chaebols may meet 'global standards' of governance, fraud and collusion can also be minimised by increasing transparency of corporate management and strengthening the rights of minority shareholders.[64] Firms can also retain the positive elements of traditional HRM whilst implementing Anglo American based HRM practices. For example, they can protect the traditional seniority principle by applying performance related HRM only to managers or employees who have attained certain qualifications. Firms can assess the performance of groups of employees, rather than individuals, in deciding to award remuneration based on performance. Further, they can achieve flexibility by utilising job rotation, offering reduced over time hours, encouraging employees to take temporary leave and making use of temporary retirement schemes, instead of dismissing employees outright. These practices combine Confucian values with Anglo American HRM practices to produce a workable system.[65]

There are signs that the government is treading a middle path by taking steps to protect domestic firms. Recently, it introduced legislation to ease restrictions on chaebols so they may invest more in their affiliates. The new legislation will relax the cross-shareholding limit and allow companies to hold up to 40% in affiliates. Despite these measures being criticised as liable to accelerate the power concentration of chaebols, the government insisted the revision would encourage corporate

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63 Such institutions are viewed as aggressive and antagonistic in Confucian culture. This point is discussed in L Miles, 'The Application of Anglo American Corporate Practices in Societies influenced by Confucian Values' *Business and Society Review*, 2006, Vol 111(3), 305-321.

64 HJ Chang & JS Shin (2002), at 274.

65 JT Choi, 'Transformation of Korean HRM based on Confucian values', *Seoul Journal of Business*, 2004, Vol 10(1), 1-26, at 24, C Rowley and JS Bae, 'Globalisation and transformation of HRM in South Korea', *International Journal of Human Resource Management*, 2002, Vol 13(3), 522-549, and L Miles, 'The Significance of Cultural Norms in the Evolution of Korean HRM Practices' *International Journal of Law and Management*, 2008, Vol 50(1), 33-46.

investment in the current climate of economic uncertainty.[66] This apparent pandering of chaebols may well antagonise foreign investors.[67] It is also anticipated that the current president (Lee Myung Bak) will remove restrictions on chaebols owning banks, ending a regulation designed to ensure the stability of the financial sector, allow them to implement 'poison pills' and exercise multiple voting rights measures to protect themselves from hostile takeovers.[68]

It has also been argued that the government must return to a 'people centred' development approach. Korea's economic development has centred almost exclusively on reforming chaebols, and has neglected the needs of small businesses as well as the well-being and dignity of its people.[69] Whilst state-led development has resulted in economic growth, all active voices other than that of the government have been subdued. With an increasingly turbulent labour market, a marginalisation of the elderly, a fall in the standards of living and widening inequality in society, the government must transform its relationship with society. This may mean allowing its citizens to participate in policy making and implementing policies which have been enacted. In a country like Korea where power remains highly centralised, the delegation of decision-making authority from top to lower levels may seem an extraordinary step. However, it is argued that in order to rebuild trust, a broader participation by society in government, institutions and organisations must occur. If ordinary citizens are given an opportunity to influence the policy making process, then important values such as trust, respect and dignity can be restored, creating a more productive society.[70]

Lessons from transition economies

The privatisation experiences following the collapse of communism in Eastern Europe may serve as an additional caution to Korean policy makers intent on making Anglo American structures and institutions stick. Many Eastern European economies subscribed to the governance models of western industrialised economies in order to emulate their successes. Russian reformers for example, opted for the Anglo

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66 JA Song, 'Bill eases limits on power of chaebol', *The Financial Times*, April 3, 2007, at 6.

67 'Korea in a time warp Pandering to the chaebol will not benefit the economy' *The Financial Times*, February 6, 2007, at 14.

68 JA Song, 'S Korea leader vows to hit growth target' The Financial Times, March 24, 2008, at 4.

69 See HJ Park, (2006), at 'Toward People-Centered Development: A Reflection on the Korean Experience' (2006), at 4.

70 See also MG Kang, 'Globalisation of the economy and localization of politics?: Restructuring the developmental state via decentralisation in Korea' *Korea Journal*, 2006, Vol 46(4), 87-114.

American model of governance. Central European economies, such as Poland, Slovenia and Croatia, preferred the German model. As is well known, the Russian experience of mimicking Anglo American governance has not been entirely successful. Even for those economies which adopted the German model of governance, several deficiencies hindered its successful implementation.[71] It has been argued that these economies had simply rushed to subscribe to different governance models without first examining whether they were appropriate for their particular social, historical and political settings. In the majority of cases, the rudiments necessary to support the operation of these mechanisms were either missing or underdeveloped. The assumption was very much that legal rules and institutions would 'arise naturally' once the privatisation process was complete. This of course, has not happened, and many such economies have had to reconsider their policies of instituting reforms based on western models. It may be tempting for Korean reformers to press ahead with introducing more laws, regulations and Anglo American practices to prove to global investors that it is ticking all the right boxes. But as we have seen, many of these measures have proved counter productive.[72]

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71 P Yeoh, 'Corporate governance models: Is there a right one for transition economies in Central and Eastern Europe?' *Managerial Law*, 2007, Vol 49(3), 57-75, K Tafel, E Terk & A Purju, 'Corporate Governance in Post-Socialist Countries - Theoretical Dilemmas, Peculiarities, Research Opportunities' *EBS Review*, 2006, Vol 21(1/2), 7-26, M Maly, 'Board Structure and Competencies after Mass Privatization - The Case of the Czech Republic' *EBS Review*, 2006, Issue 21, 117-125, DJ McCarthy & S Puffer, 'Corporate Governance in Russia: Towards a European, US or Russian Model?' *European Management Journal*, 2002, Vol 20(6), 630-640, T Buck, 'Modern Russian Corporate Governance: Convergent Forces or Product of Russian History?' 2003, *Journal of World Business*, Vol 38(4), 299-313, W Judge & I Naoumova, 'Corporate Governance in Russia: What Model will it follow?' *Corporate Governance*, 2004, Vol 12(3), 302-313, D Pucko, 'Corporate Governance in European Transition Economies: Emerging Models' *Management*, 2005, Vol 10(1), 1-21, S Estrin, 'Competition and Corporate Governance in Transition' *Journal of Economic Perspectives*, 2002, Vol 16(1), 101-124.

72 This has been discussed with regard to China, see L Miles & Z Zhang, 'Improving Corporate Governance in State Owned Corporations in China: Which Way Forward' *Journal of Corporate Law Studies*, 2006, Vol 6(1), 213-248. See also J Hill, 'Comparative Corporate Governance and Russia - Coming Full Circle' LAW, LEGAL CULTURE AND POLITICS TWENTY FIRST CENTURY - ESSAYS HONOUR ALICE ERH-SOON TAY, p. 153, Doeker-Mach & Ziegert, eds., Franz Steer Verlag 2004, at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=884268 .

The Longer Term

Convergence towards the Anglo American economic system is currently a powerful trend, especially among Asian countries anxious to integrate themselves into the global markets. To what extent can governments resist the pressure to follow the Anglo American model and instead revert to practices which reflect individual values and cultures? Will continued liberalisation and globalisation make such resistance futile? Again, there is no firm view on these questions.

Globalisation theorists argue that differences between national cultures, economic institutions and practices will decrease over time, and converge towards a single model. To give an example, those who support the globalisation theory in the study of corporate governance argue that despite the best intentions of governments, liberalisation of trade and finance, stronger international competition and increasing reliance on foreign capital will directly challenge the stability of non-Anglo American models.[73] In fact, the more open an economy, the more likely it is that the Anglo American model will take hold. Even bleaker is the argument that if global economic conditions persist, governments will lose, or may indeed already have lost, sovereignty with regard to choice of corporate governance system.[74] Globalisation theorists argue that as economies become more liberalised, it becomes more difficult to justify a return to traditional business structures. In theory of course, governments can resist convergence by adopting protectionist policies – erecting trade barriers, controlling the freedom within which capital can flow into the economy, curbing foreign ownership and creating internal demand through increasing its spending. However, the consequences that follow may be counter productive. Firms may well relocate production to other low cost countries. Foreign investors, many of whom are used to the Anglo American model, may decide to reduce their investments in environments which are restrictive rather than liberal. Erecting barriers to foreign

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[73] See in particular H Hansmann & R Kraakman, 'The end of history for corporate law' *Georgetown Law Journal*, 2001, Vol 89(2), 439-468, J Coffee, 'The future as history: the prospects for global convergence in corporate governance and its implications' *Northwestern University Law Review*, 1999, Vol 93, 641-707, *D Branson*, 'The Very Uncertain Prospects of "Global" Convergence in Corporate Governance' Cornell *International Law Journal*, 2001, Vol 34, 321–362, S Jacoby, 'Corporate Governance in Comparative Perspective: Prospects for Convergence?' *Comparative Labour Law & Policy Journal*, 2000, Vol 22(5), 5-32, J Hill, 'The Persistent Debate about Convergence in Comparative Corporate Governance' at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=881896 (accessed 12 November 2008).

[74] See A Dignam & M Galanis, 'Corporate Governance and the Importance of Macroeconomic Context' *Oxford Journal of Legal Studies*, 2008, Vol 28(2), 201-243.

investment will also make it more difficult to acquire advanced technological expertise and create jobs.[75] Thus, economies which rely on global trade and investment and the prosperity they generate are unlikely to create restrictive environments.[76]

Path dependency theorists, on the other hand, argue that factors such as culture, legal and political structures, social and commercial norms, and the lack of institutions needed to implement so called 'global standards' will continue to stand in the way of convergence, at least in the medium term, irrespective of the demands from investors and international organisations (World Bank, IMF and the OECD) to harmonise principles and practices. In relation to the study of corporate governance for example, they[77] expose the fallacy of the globalisation theory by demonstrating firstly, that the Anglo American governance system is no longer perceived as most effective (Enron, Worldcom and Xerox), and that there are signs that US/UK corporate governance (Anglo American model) have recently moved toward European standards, as evidenced by the adoption of the two tier board (requirement for the separation of CEO and Chairman, introduction of committees within the board and requirement for executive and non executive directors), the introduction of more black letter regulation (for example, the Sarbanes-Oxley Act), changing patterns of ownership (concentrated and increasing levels of insider ownership) and the increasing importance given to stakeholder concerns (recent laws in the UK requiring directors to have regard to a wider range of stakeholders whilst managing the company).[78]

There is however, a third way of viewing the debate, that is that convergence need not be viewed as the act of adopting identical rules and practices, within identical

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[75] I Pirie (2006), at 67, 'Asia reverses reforms', *The Financial Times*, July 6, 2007, at 18, GD Jonquieres, 'Asia can only lose from economic nationalism', *The Financial Times*, February 8, 2007, at 13.

[76] GD Jonquieres 'Asia has too much to lose just to put itself first' *The Financial Times*, February 8, 2007, at 17.

[77] See 'path dependent theory' in particular, in, LA Bebchuk & M Roe, 'A Theory of Path Dependence in Corporate Ownership and Governance', *Stanford Law Review, 1999, Vol* 52(1), 127–170. See also JN Gordon and M Roe, *Convergence and Persistence in corporate governance,* Cambridge University Press, 2004, SM Jacoby, 'Corporate Governance in Comparative Perspective: Prospects for Convergence?' *Comparative Labour Law and Policy Journal,* 2000, Vol 22(5) 5-32, M Guillen, *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain*, Princeton University Press, 2003, D Branson, 'The very uncertain prospect of "global" convergence in corporate governance' *Cornell International Law Journal*, 2001, Vol 34, 321–362.

[78] S Thomsen, 'The Convergence of Corporate Governance Systems to European and Anglo-American Standards' *European Business Organisation Law Review*, 2003, Vol 4(1), 31-50.

legal and enforcement frameworks. Such a view is too blunt. One should view convergence in terms of convergence of 'goals' rather than convergence of 'practices'. Thus, in the study of corporate governance, convergence is more usefully regarded as the process of moving towards a common understanding and acceptance of what it is that constitutes good corporate governance.[79] Similarly, the Anglo American economic system ought not to be regarded as a model which should be implemented universally and in its entirety. What is more important is to achieve those elements which make an economy efficient and competitive – at the very least they include good corporate governance, and an ability to inspire trust, integrity and dependability in the global markets. These are surely the common goals of all economies. The precise way firms go about achieving these goals are largely determined by the existing cultural, social and legal structures and institutions. This is not however, to say that individual economies cannot experiment with institutions from the Anglo American model. It is after all, widely accepted as an effective model for promoting good corporate conduct and is regarded as embodying internationally accepted standards of corporate governance.

If we accept this argument, then policy makers in Korea can capture the positive attributes of the old economic system, and combine these with the neo liberal Anglo American model to find what works best for its economy. Its Confucian heritage, for example, which stresses obedience and respect for authority, pursuit of the collective good and an emphasis on education, helped rebuild the Korean society after two devastating wars. How can an economic system be constructed in a manner which incorporates and makes use of these values? Similarly, despite their opaque nature which can conceal corruption and cronyism, firms within chaebols can share resources and transfer skills to one another – as a result, they are more able to handle risks, support new ventures and enable the full synergy potential of business collaborations to be achieved. Further breaking down chaebols will decrease, rather than increase investment levels, with damaging effects on production and employment.[80] Some academics have argued that the radical restructuring of chaebols had a large role to play in slowing down corporate investment, and has reduced long-term growth perspective.[81] If so, can a co-operative relationship

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[79] U Braendle & J Noll, 'On the Convergence of National Corporate Governance Systems', *Journal of Interdisciplinary Economics*, 2006, Vol 17, 57-81 offers an in depth look at the issue of corporate governance convergence.

[80] One of the great strengths of chaebols is in undertaking risk and being involved in long term projects which require large scale investments and long gestation periods – automobiles, steel and shipbuilding. See JS Shin & HJ Chang, (2005), at 423.

[81] D Hundt, (2005), at 257. See also JW Lee & CY Rhee, 2007, at 162 who argue that the reason for the drop in GDP growth rates post crisis is because of lower investment levels. Although real GDP growth rates in South Korea have rebounded quickly since 1999, the

between the government and chaebol leaders be revived? This may well be crucial for the long term benefit of the economy. Last but not least, given the traditional dependence on bank financing and the positive effects this relationship can generate, is there a revised role for banks in Korea? The government is strengthening the capacity of its capital markets so they can exercise a disciplining function over firms, and taking this role away from banks. However, as pointed out earlier in the article, by virtue of their close and often long term relationships with firms, banks can make good monitors of management. Hence, ways to give back to banks a monitoring role over firms, of preventing recurrences of poor lending practices and strengthening their risk management systems, can be investigated. These are some of the challenges which lie ahead for policy makers in Korea.[82]

Section 4: Conclusion

Continued globalisation will provide the impetus for further change in Korea. The current trend in many countries is to move towards Anglo American systems characterised by free trade, free capital transfers and technological development. Since the implementation of neo liberal policies based on the Anglo American model, a new kind of economy has emerged in Korea. Along with the institutional transformations which have occurred, Koreans have also had to adjust psychologically and socially to the changes brought about by economic reform. But are reforms based on the Anglo American model necessarily the most beneficial? Here, academic opinion is divergent. Whilst many support neo liberal reform on the basis that it will enable Korea to be efficient and competitive, others have counted the significant costs to its society and proposed alternative paths to growth. The evidence points to the Korean government continuing to employ neo liberal measures to strengthen the economy and improve efficiency and competitiveness. We note that reform measures based on the Anglo American model has brought certain benefits to the Korean economy. However, with many domestic institutions and structures being demolished on the basis that they are outdated, disruption to society and the economy has resulted. This article considers the possibility that Korean policy makers can create an optimal environment for growth by combining the strengths of the old economic system with the Anglo American model, so as to find pragmatic and constructive ways of improving firm behaviour and economic growth.

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economy has not recovered to pre-crisis investment ratios. The investment ratio in 2004 remained at 30.2%, which is far lower than 36% level in the pre-crisis period.

[82] See also A Green, 'Globalisation and the Changing Nature of the State in East Asia' *Globalisation, Societies and Education*, 2007, Vol 5(1), 23-38.