

**Embedded Autonomy or Crony Capitalism?:
Explaining Corruption in South Korea, Relative to Taiwan and the Philippines,
Focusing on the Role of Land Reform and Industrial Policy**

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Abstract

By comparing Korea's relative level of corruption with that of Taiwan and the Philippines and examining how political economy of corruption has developed over time within Korea, this paper provides a test of existing theories on causes of corruption. I find that inequality of income and wealth best explains the relative level of corruption among these countries and across time within Korea, consistent with You and Khagram (2005). Although *developmental state* and *crony capitalism* literature emphasized the "autonomous and uncorrupt bureaucracy" and "rampant cronyism and corruption" in Korea, respectively, I find that Korea has been neither as corrupt as the Philippines and nor as clean as Taiwan. Successful land reform in Korea and Taiwan brought about low levels of inequality and corruption, while failure of land reform in the Philippines led to a high level of inequality and corruption. However, wealth concentration due to *chaebol* industrialization increased corruption in Korea, in comparison with Taiwan.

Key words: corruption, crony capitalism, developmental state, land reform, *chaebol*, South Korea

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Introduction

South Korea (Korea hereafter, except occasionally), together with Taiwan, has been praised by many scholars as a model *developmental state* with a competent and uncorrupt bureaucracy (Johnson 1987; Amsden 1989; Evans 1995; Wade 1990). Since the financial crisis of 1997, however, Korea has often been labeled *crony capitalism*, together with other Asian countries like the Philippines (Kang 2002). Hence, an important question to be resolved is whether Korea has been as corrupt as the Philippines or relatively clean as Taiwan.

Indeed, Taiwan and the Philippines are ideal comparison cases. Korea shared a lot of similarities with Taiwan and the Philippines. The initial economic conditions in 1950s and 1960s were not much different among these countries. The three countries had all experienced colonial rule before the World War II, and were all heavily supported by the US during the cold war era. They all have been experiencing democratization processes over the last two decades. Despite the similar initial conditions, however, the levels of corruption and economic development today are quite different. Taiwan has obviously a lower level of corruption than the Philippines. Not only all the available quantitative measures of (perceived) corruption indicate so, but also any qualitative study did not raise a doubt about that, to my knowledge. Then, where is Korea's relative level of corruption located, and why is that so?

The second sets of questions are about the trend. Many scholars regarded Park Chung-hee's regime (1961-79) as a prototype of developmental state, while they judged Syngman Rhee's regime (1948-60) as predatory (Amsden 1989; Evans 1995). However, others argued that both regimes were similarly corrupt (Wedeman 1997; Kang 2002). Thus, the controversy about the transition from a predatory state to a developmental state is another interesting question. Understudied, yet no less important questions are how industrialization and economic development since 1960s and political democratization since 1987 have affected the level of corruption in Korea.

By corruption, I mean "abuse of power for private gain." There are many kinds of corruption, but this paper will focus on political corruption and high-level

bureaucratic corruption. Although petty corruption may be more important for everyday lives of most people, there is evidence that the degree of petty corruption is closely correlated with the degree of political and high-level bureaucratic corruption.¹ Also, I use the term capture, which indicates that corruption has reached to the point in which the state has lost autonomy and serves for the special interests of the privileged.

This comparative historical case study has twofold purposes. First, I intend to contribute to better understanding of corruption and development in Korea with comparative perspective through extensive and systematic examination of both quantitative and qualitative evidence. Second, I aim to provide a test of existing theories on causes of corruption. It's impossible to conduct a perfect test through this small-N study. However, this study will make a meaningful contribution by not only looking at correlations among the three countries but examining causal mechanisms through process tracing. In particular, I will test and examine whether You and Khagram's (2005) argument and finding about the causal effect of income inequality on corruption has explanatory power in this comparative historical analysis and, if so, what are the causal mechanisms.

Most empirical studies on the causes of corruption, including You and Khagram (2005), were cross-national statistical analyses. Although large-N quantitative studies have an advantage in identifying correlations between an explanatory variable(s) and the dependent variable controlling for plausible covariates and thus may be less vulnerable to omitted variables bias than small-N case studies, they are often vulnerable to endogeneity bias and weak at identifying causal mechanisms. Comparative historical case studies can be useful for establishing causal direction and illuminating causal mechanisms by examining historical sequence and intervening causal process between an independent variable(s) and the outcome of the dependent variable (Rueschemeyer and Stephens 1997).

¹ See Table 1 and the discussion on pages 10-11 for the evidence.

This study makes use of all the available quantitative and qualitative data from the relevant literature. Although most data are secondary, careful examination of extensive data from secondary sources may be better than the use of limited, and perhaps biased, primary data. I find that Korea has been more corrupt than Taiwan but much less corrupt than the Philippines. I also find that income and wealth inequality is closely correlated with the relative levels of corruption among the three countries. In order to establish causal direction and identify causal mechanisms, I conduct careful process tracing focusing on the role of land reform and industrial policy.

The organization of this paper is as follows. I first briefly review developmental state literature and crony capitalism literature on Korea's corruption and development. In the next sections, I assess various pieces of available evidence on Korea's level of corruption relative to Taiwan and the Philippines and its trend since the 1950s. Then, I examine several potential explanations for Korea's relative level of corruption. In the next sections, I look at how land reform and *chaebol* industrialization were carried out in Korea and how they affected inequality and corruption, in comparison with Taiwan and the Philippines. I also examine what role democratization has played in Korea. The final section summarizes and concludes with some research and policy implications.

Embedded autonomy or crony capitalism?

Korea's economy was regarded as a spectacular success story among developing countries, together with Taiwan, Hong Kong, and Singapore (World Bank 1993). Although Korea was severely hit by the Asian financial crisis of 1997-98 and recorded a negative growth in 1998, it recovered rapidly and is growing again. Many scholars tried to explain Korea and these four tigers' success, and the most influential explanation was centered on the role of the state (Amsden 1989; Evans 1995; Wade 1990). They argued that Korea's "developmental state" distinguished it from many other developing countries that were characterized by "predatory states". The developmental states of four East Asian countries were coherent and autonomous so

that they were able to effectively carry out their economic policies without degenerating into capture and corruption. The core of the developmental state was Weberian bureaucracy with meritocratic recruitment and promotion, career service, and reasonable pay and prestige. Later some South Asian countries such as Thailand, Malaysia, and Indonesia came to be included in the list of developmental states, although their growth records were not as fantastic as those of four East Asian tigers.

However, the Asian financial crisis radically changed the perceptions of these countries, and in particular, of Korea. Many, including the IMF, blamed the crony capitalism of Korea and other affected countries as primarily responsible for the crisis. Thus, overnight, Korea's image was radically changed from a model developmental state with good governance to a country with rampant corruption and cronyism. Then, what is the truth? Did the proponents of developmental state fail to see the cronyism and corruption in Korea? Or did the crony capitalism argument exaggerate corruption and cronyism in Korea? Whereas proponents of the developmental state had to explain why state intervention did not produce much corruption in Korea, those who argued for crony capitalism had to explain how Korea was able to achieve rapid economic development in spite of corruption and cronyism.

The government intervention in the economy meant extensive interaction between public officials and businessmen. The interaction could be collaboration, or collusion and corruption, or both. The developmental state argument saw the close relationship between government and business as benign collaboration, but the crony capitalism argument interpreted it as collusion and corruption. Evans (1995) argued that collaboration between the government and the business was critically important for development, because information exchange was necessary for effective policy formation and implementation and building up trust helped reduce transaction costs. He further argued that an insulated, meritocratic bureaucracy kept collaboration from degenerating into collusion and corruption. For him, the autonomy of the state requires insulation of the bureaucracy from powerful societal interests, but insulation does not mean isolation. Bureaucrats need to have close ties to business yet still have

to formulate and implement policies autonomously. Thus, “embedded autonomy” was the key to the effectiveness of the developmental state of Korea.

Most scholars who studied the developmental state of Korea regarded Park Chung-hee’s regime (1961-1979) as a prototype of developmental state. However, Syngman Rhee’s regime (1948-1960) was generally regarded as predatory. Amsden (1989: 42) characterized 1950s with corruption, paralysis, underachievement, and bitter disappointment. Evans (1995:51-52) pointed that, under Rhee Syngman, the civil service exam was largely bypassed and that his dependence on private-sector donations to finance his political dominance made him dependent on clientelistic ties and caused rampant rent-seeking activities. Some scholars also noted that the developmental state has been being challenged and weakening since the 1980s (Moon 1994; Evans 1995).

Other scholars saw rampant corruption in Korea throughout its history after independence, including the period of Park Chung-hee’s presidency, and attempted to reconcile the high growth and high corruption. Wedeman (1997) argued that Korea has had widespread, high-level corruption ever since 1945 but that the type of corruption in Korea was functional for economic development. He distinguished three different types of corruption such as looting, rent-scraping, and dividend-collecting. Korea’s corruption represented an ideal type of dividend-collection, while the Philippines and Zaire are examples of rent-scraping and looting, respectively. Looting means uninhibited plundering or systematic theft of public funds and property and extraction of bribes by public officials. Rent-scraping means conscious manipulation of macroeconomic parameters to produce rents and the scraping off of these rents by public officials. Dividend-collecting means transfers of a percentage of the profits earned by privately owned enterprises to government officials. Among the three types of corruption, looting is the most harmful to the economy but dividend-collecting may be functional for economic development. The Korean governments, he argued, sold economic opportunities and collected some portion of the profits, and their corrupt income stayed in Korea, not going to Swiss bank accounts.

Kang (2002) also saw cronyism and corruption throughout the history of South Korea. He compared crony capitalism in Korea and the Philippines, and argued that Korea neither had more autonomous or coherent state nor was subject to any less corruption than the Philippines but that corruption had different effects on development in the two countries. He developed a matrix of four types of corruption (Figure 1). The state could be coherent or fractured, and the business sector could be concentrated or dispersed. According to him, Korea moved from “predatory state” under Rhee Syngman to “mutual hostages” under Park Chung-hee and Chun Doo-whan to “rent seeking” type after the 1987 democratization, whereas the Philippines moved from “rent seeking” (pre-Marcos) to “predatory” (Marcos) to “laissez faire” (post-Marcos).

Figure 1. Kang’s (2002) Four Types of Corruption

		State	
		Coherent	Fractured
Business	Small-N (concentrated)	I. Mutual hostages type: PD collusion amount: medium	II. Rent seeking type: bottom-up amount: large
	Large-N (dispersed)	III. Predatory state type: top-down amount: large	IV. Laissez-faire type: residual amount: small

Mutual hostages, Kang (2002) argues, explains why money politics did not hinder economic growth in Korea. He asserts that if there is a situation of mutual hostages among a small and stable number of government and business actors, cronyism can reduce transaction costs and minimize deadweight losses. He further argued that the Philippines was less affected by the crisis of 1997 because some of the collusive government-business ties had been broken by the downfall of Marcos, while democratization in Korea increased rent-seeking activities and hence made it more vulnerable to the crisis.

Korea’s level of corruption, relative to Taiwan and the Philippines

In this paper, I focus on identifying and explaining the relative level of corruption in Korea rather than regime types of corruption. Different regime types of corruption and their impact on development must be an important area of study, but it is beyond the scope of this paper.

It is very hard to compare the levels of corruption across countries. Corruption, by its nature, is conducted secretly, and the probability of exposure will be different in different countries. Hence, most empirical studies of corruption relied on the measures of “perceived” level of corruption such as Transparency International’s (TI) Corruption Perceptions Index (CPI) and Kaufmann et al.’s (2003) Control of Corruption Indicator (CCI). TI has been publishing the CPI annually since 1995, and the CCI has been biannually released since 1996.

Both the CPI and the CCI are aggregate indices based on a variety of surveys of mostly international business people and ratings of country experts, although there is some methodological difference in aggregating various underlying survey data as well as some difference in the selection of sources. Because perceptions are subjective and inaccurate, these indices must have substantial measurement error. But they are highly correlated with each other and also are highly correlated with domestic public perceptions of corruption.²

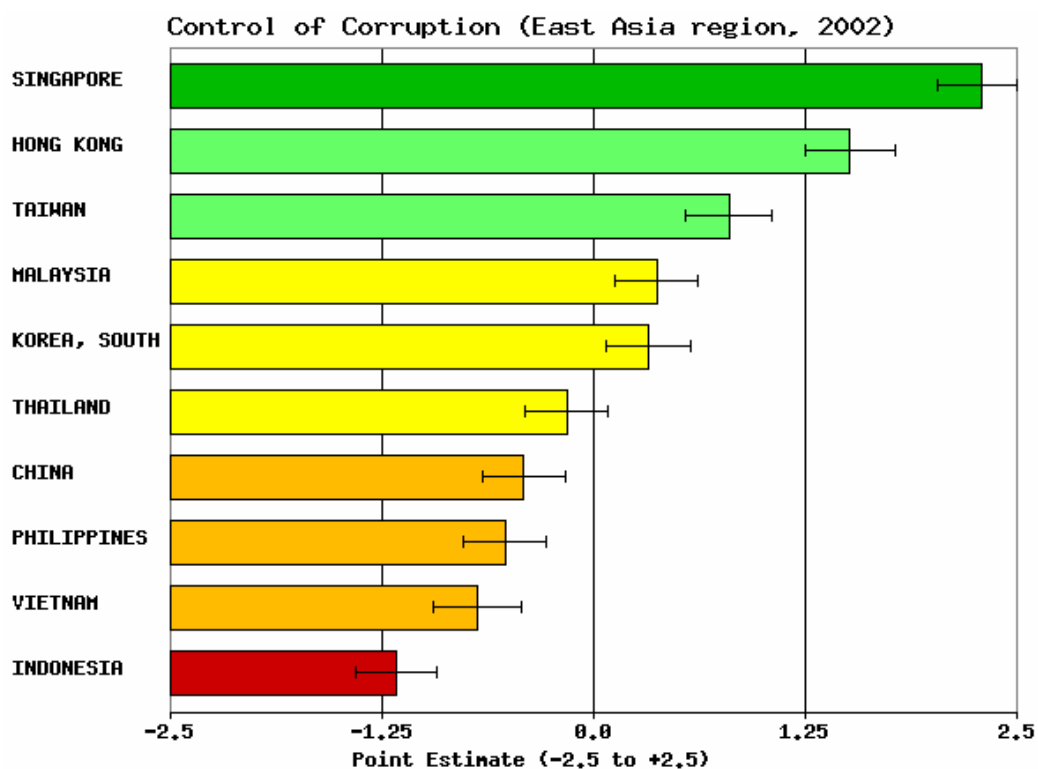
Figure 2 shows the point estimates and 95 percent confidence intervals of CCI 2002 for several Asian countries. A higher value of CCI represents a higher level of control of corruption, or a lower level of corruption. Because the CCI is a standardized score with a mean of 0 and a standard deviation of 1, it is easy to interpret the value of CCI in comparison to world average.

In 2002, Korea’s CCI was 0.33, so its level of corruption was about a third standard deviation below the world mean among 195 countries that were covered in CCI 2002. Korea’s CCI 2002 was much lower than that of Singapore or Hong Kong, but much higher than that of Indonesia. The Philippines’s CCI 2002 was -0.52, so its level of corruption was about a half standard deviation above the world average.

² The perceptions of the domestic public concerning the extent of corruption (World Values Survey, 1995–97) have a correlation coefficient of .85 with the CCI and .86 with the CPI (You and Khagram 2005).

Taiwan's CCI 2002 was 0.81, so corruption in Taiwan was about four fifths standard deviation below the world mean. When we compare CCI 2002's of Korea, Taiwan, and the Philippines, Korea's level of corruption was much lower than that of the Philippines, but higher than that of Taiwan, and both differences were statistically significant.

Figure 2.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/gomatters3.html>)

Table 1 presents the available measures of corruption for Korea, Taiwan, and the Philippines for the early 1980s to the present. *CPI 80-85* and *CPI 88-92* are TI's historical data, and *CPI 95-04* and *CCI 96-02* are averaged values for the period. *BI 80-83* denotes the Business International's data, which range from 1 to 10, and a higher value represents a lower level of corruption. While all these data are measures of *perceived* level of *freedom from* corruption, *Bribery 04* from TI's Global Corruption Barometer Survey (2004) is a measure of *experience* of corruption. The Barometer survey was conducted in 64 countries in 2004. The survey asked the

respondents, “In the past 12 months, have you or anyone living in your household paid a bribe in any form?” The respondents answered either “Yes” or “No”. 6 percent of Korean respondents said “Yes”³, whereas 1 percent of Taiwanese and 21 percent of Filipinos gave the same answer. The world average was 10 percent.

Table 1. Indicators of (Freedom from) Corruption for the Three Countries

	BI 80-83	CPI 80-85	CPI 88-92	CPI 95-04	CCI 96-02	Bribery 04
Korea	5.75	3.9	3.5	4.3	0.37	6
Taiwan	6.75	6.0	5.1	5.4	0.78	1
Philippines	4.50	1.0	2.0	2.9	-0.43	21

Sources: BI’s ratings from Mauro (1995); CPI and Bribery from Transparency International; CCI from D. Kaufmann, A. Kraay, and M. Mastruzzi (2003).

Note: Bribery 04 denotes the percentage of respondents who bribed during the last year.

The experience of bribery (*Bribery 04*) from the Barometer survey is a good objective measure of corruption comparable across countries. One caveat is that this measure is likely to capture petty corruption very well but may be a poor measure of grand corruption. However, there are reasons to believe that the levels of petty corruption and the levels of grand corruption are closely correlated, because corrupt practices are likely to spread both top-down and bottom-up. Moreover, the public experience of bribery (*Bribery 04*) is highly correlated with the CPI and the CCI.⁴ Because the CPI and the CCI are more likely to reflect corruption at the upper level of bureaucracy and political corruption rather than petty corruption, the assumption of close correlation between petty corruption and high-level corruption seems to hold in reality.

All the data presented above consistently tell that Korea has been more corrupt than Taiwan but less corrupt than the Philippines at least since the early 1980s.⁵ Unfortunately, there are no available quantitative measures of corruption across countries for earlier period. However, Table 1 suggests that the same relative rankings

³ According to a different social survey conducted in Korea in 2003, 5.4 percent (sometimes 5.0 percent, and frequently 0.4 percent) of Koreans had some experience of bribing (Park 2003). It is strikingly close to 6 percent response from the Global Barometer Survey.

⁴ Bribery 04’s correlation with the CPI 02 and CCI 02 are -0.72 and -0.73, respectively.

⁵ The values of the historical data such as CPI 80-85 and CPI 88-92 are not strictly comparable to the values of CPI for later years, because there are differences in the underlying survey data and their methods. So, looking at the relative rankings of the three countries will be safer.

are very likely to apply for the 1970s and probably for even earlier period as well, unless there are important reasons for radical changes in the levels of corruption during the earlier period.

Anecdotal evidence also suggests that political corruption in Korea was higher than that in Taiwan but lower than that in the Philippines. In Korea, two former presidents, Chun Doo-whan and Roh Tae-woo, were sentenced guilty of corruption. Chun and Roh were accused of raising slush funds of \$890 million and \$654 million and of receiving \$273 million and \$396 million in bribery, respectively. The Philippines's Ferdinand Marcos was known to have raised \$3 billion, and was found to have used several million dollars to buy foreign real estate, primarily in New York, and to have deposited around \$550 million and \$250 million in Swiss banks and Hong Kong banks, respectively (Wedeman 1997). Considering the Philippine GDP was much smaller than that of Korea in 1980s, Marcos's corruption was much more severe than that of two Korean presidents. Although Taiwan has had many scandals of political corruption too, there was no such big corruption scandal comparable to Marcos's or Chun's and Roh's.

In summary, the evidence indicates that the developmental state literature generally overlooked the problem of corruption in Korea, while the crony capitalism literature tended to overestimate the degree of corruption in Korea.

Korea's level of corruption, from 1950s to the present

Now, what can we say about the trend of corruption in Korea across time? Was the level of corruption higher in the 1950s, under Syngman Rhee, than in the 1960s and 1970s, under Park Chung-hee? Did corruption increase or decrease with rapid industrialization and economic growth in the 1970s and the 1980s? Has the level of corruption increased or decreased since the democratization of 1987?

There are no quantitative data available for the period before 1980, to my knowledge. Previous literature, especially the developmental state literature, often assumed, without presenting adequate evidence, that Rhee's regime was highly corrupt but Park's regime was not. This judgment seems to be based on such

reasoning that Park's regime must have been less corrupt than Rhee's because Korea's economy developed very fast under Park unlike under Rhee. However, several scholars including Lie (1998), Wedeman (1999), and Kang (2002) judged that Park's regime was not considerably less corrupt than Rhee's based on various pieces of anecdotal evidence. Some Korean scholars also argued that the Rhee and Park regimes cannot be differentiated in terms of the degree of rent seeking and corruption (Kim and Im 2001), and that Park's centrally managed economy produced a large scope for rent seeking and corruption (Lee 1995). In the mid-1970s, a Korean social scientist noted, "The rapid expansion of the scope of governmental authority (under Park) tended to induce corruption at a far greater scale and in an even more pervasive manner than before (under Rhee)" (Hahn 1975, recited from Lie 1998:96). Many journalistic reports on corruption during the Park administration argued, with some quantitative and qualitative evidence, that the level of corruption then was no less, if not larger, than under Rhee (Lee and Kim 1964; Park 1967).

It is true that one of Park's rationales for the military coup in 1961 was to eliminate corruption, as Chun Doo-whan's military coup of 1980 also used the same catch phrase. Immediately after the coup of May 16, 1961, the military arrested *chaebol* owners on charges of illicit wealth accumulation, but the investigation ended up with a negotiation on the political and economic terms between the military and the business. The junta not only reduced the fines, but also provided financial subsidies for those industrialists who pledged to undertake specific industrial projects and to provide political funds (Kim and Im 2001).

Because of international and domestic pressures, Park had to end the military rule in two years and run for presidential election in 1963. He created the Democratic Republican Party (DRP), and needed funds for the big party and for the expensive campaigning. It was widely known that the inaugural fund for the party was prepared by illegal manipulation of stock market (Oh and Sim 1995:248). He even received secret donations from Japanese and American firms. It is estimated that Park spent for the election about 60 billion won (approximately \$200 million), while the total amount of official contributions from the businesses was just 30 million won

(approximately \$100,000) (Woo 1991:107; Oh and Sim 1995:275-76). Thus, the bulk of political funds were collected in illegal ways.

An important conduit of political funds during Park's regime came from the allocation of foreign loans with low interest rates, for which the recipients were happy to pay a commission of 10-15 percent. Other sources of political contribution included *quid pro quos* for granting low-interest loans and for procurement of government projects (Woo 1991:108; Kim and Park 1968).

Then, is it possible to assess the degree of corruption under Park in comparison with that under Rhee, Chun, and Roh? One way of doing that is looking at the amount of illicitly raised political funds during their presidencies. It is quite certain that the total amount of illicitly collected political funds has increased over time from Syngman Rhee (1948-1960) to Park Chung-hee (1961-1979) to Chun Doo-whan (1981-87) to Roh Tae-woo (1988-92), if not to Kim Young-sam (1993-97). Individual contributions also increased over time. Five *chaebol* were found to have made more than 60 million won (about 1.5 billion won in 1990 constant price) of informal political contribution to Rhee's Liberal Party (Kim 1964). Top businessmen's annual contribution to Park is known to have reached 500-600 million won (about 1.3-1.5 billion won in 1990 constant price), starting from 100-200 million won (about 0.8-1.5 billion won in 1990 constant price) before *Yushin* (in 1972)⁶ and 200-300 million won (about 1-1.5 billion won in 1990 constant price) in early *Yushin* period (Oh and Sim 1995:253). Samsung, Hyundai, Tonga, and Daewoo were found to have made illegal political donations of between 15 and 22 billion won to President Chun, and Samsung, Hyundai, Daewoo and LG contributed illegally between 21 and 25 billion won to President Roh Tae-woo. Also, Samsung was found to have donated illegally at least 10 billion won and 34 billion won (8 and 22 billion won in 1990 constant price) to Lee Hoi-chang in 1997 and 2002 presidential elections, respectively, who lost to Kim Dae-jung and Roh Moo-hyun, respectively (PSPD 2005).⁷ Chung Ju-young, the

⁶ *Yushin* refers to the pro-government coup by which Park eliminated direct presidential election and term limits and thereby made his power permanent.

⁷ Samsung gave Roh Moo-hyun 300 million won (200 million won in 1990 constant price) in 2002 (PSPD 2005). Samsung is known to have given some money to Kim Dae-jung, but the amount is still unknown (Hangyoreh Sinmun 07-25-2005).

founder of Hyundai Group, once declared that he donated to Roh Tae-woo 2-3 billion won each twice a year, and even 10 billion won in 1992, the last year of Roh's office. Finally, Chung Tae-soo, the founder of Hanbo Group, which went bankrupt in 1997 and was convicted of corruption, was found to have donated 60 billion won to Kim Young-sam before the presidential election of 1992 (Oh and Sim 1995: 274). Thus, top-level businessmen's informal political donation seemed to have steadily increased over time from the 1950s until the early 1990s. Considering all these available pieces of evidence, it is hard to tell that Park's regime was essentially less corrupt than Rhee's.

So far, we primarily looked at political corruption. Yoon (1994) looked at bureaucratic corruption in the third Republic (Park's regime before the *Yushin*: 1963-72), fourth Republic (Park's regime after the *Yushin*: Oct. 1972-1979), fifth Republic (Chun's regime: 1982-87), and the sixth Republic (Roh's regime: 1988-1992). He searched corruption-related articles from the three major newspapers (Dongailbo, Chosunilbo, and Choongangilbo) during the two years, except the last year, in the later period of each Republic. Political corruption was excluded from his analysis, because media report of political corruption depends very much on the degree of freedom of press rather than the actual incidents of corruption.

Table 2 shows the number of media-reported bureaucratic corruption incidents for each Republic by the amount of bribe paid in 1985 constant price, based on Yoon (1994). The number of reported corruption incidents is not significantly different between the Republics. Considering that freedom of press was most severely suppressed in the fourth Republic (Park's regime after the *Yushin*), it is surprising that the number of corruption incidents of over 10 million won during the 4th Republic is no less than that during the 5th Republic. Yoon's (1994) research did not include the 1st Republic (Rhee's regime: 1948-1960) and the short-lived 2nd Republic (Chang Myun administration: 1960-61). Although we cannot tell whether bureaucratic corruption was lower under Park than under Rhee, it was not particularly lower than under Chun or Roh.

Table 2. Number of Bureaucratic Corruption Incidents Reported in the Media, by the Amount of Bribe in 1985 Constant Price

	3rd Rep. Park (61-72)	4th Rep. Park (72-79)	5th Rep. Chun (80-87)	6th Rep. Roh (88-92)
1-10 million won	31	30	56	16
> 10 million won	10	22	21	34
Total	41	52	77	50

Source: Yoon (1994)

Note: The period covered for each Republic is as follows. Dec.1969 through Nov. 1971 (3rd Rep.), Aug. 1977 through Jul. 1979 (4th Rep.), Dec. 1984 through Nov. 1986 (5th Rep.), and Feb. 1990 through Jan. 1992 (6th Rep.).

Considering all the evidence presented so far, it is very likely that Park's regime was not substantially different from Rhee's or Chun's and Roh's in terms of degree of overall corruption, except for the Chun and Roh's personal accumulation of wealth during their presidency. Table 3 summarizes the comparable information across presidencies, and it is hard to identify any qualitatively important differences in the level of political and bureaucratic corruption among various regimes. Thus, my conclusion is that the level of corruption in Korea has been higher than that in Taiwan and lower than that in the Philippines ever since 1950s. The primary difference between Rhee and Park was more about competence rather than about corruption. The overall level of corruption seems to have slightly increased until the early 1990s, and it has been slightly decreasing since the late 1990s.

Table 3. Various Information about Corruption across Presidencies

President	Period	CPI*	# of reported bureaucratic corruption**	Top-level political donation*** (1990 constant billion won)
Rhee Syngman	1948-1960			1.5-3.5 (five <i>chaebol</i>)
Park Chung-hee	1961-1972		41	5-10 (estimated)
Park Chung-hee	1972-1979		52	7-10 (estimated)
Chun Doo-whan	1980-1987	3.9	77	16-24 (four <i>chaebol</i>)
Roh Tae-woo	1988-1992	3.5	50	21-25 (four <i>chaebol</i>)
Kim Young-sam	1993-1997	4.3		56 (Hanbo)
Kim Dae-jung	1998-2002	4.2		8 to Lee (Samsung)
Roh Moo-hyun	2003-2004	4.4		22 to Lee (Samsung)

Sources: * TI, ** Yoon (1994), *** Kim (1964), Oh and Sim (1995), and PSPD (2005). For Park's periods of before and after the Yushin, the presented values are estimated from the typical top-level annual political donation. All other values are based on the prosecution's findings.

Explanations for S. Korea's relative level of corruption

Why, then, has Korea been more corrupt than Taiwan but less corrupt than the Philippines, even though the three countries shared similar initial conditions in many aspects? In order to explain Korea's relative level of corruption in comparison with Taiwan and the Philippines, I will first consider the explanatory ability of several factors such as government intervention, economic development, income inequality, democracy, Protestantism, Confucianism, and ethnic homogeneity that have been proposed by the literature to have positive or negative causal effect on corruption.

The degree of government intervention in the economy, or the size of government was often regarded as a cause of corruption, because government intervention would create rents and encourage rent-seeking activities. However, recent empirical findings show that larger government size was associated with lower levels of corruption (La Porta et al, 1999; Friedman et al, 2000). In our case, the degree of government intervention does not seem to explain the relative levels of corruption in the three countries. Governments in Korea and Taiwan intervened in the economy very heavily, but the levels of corruption were lower in these countries than in the Philippines where government intervention was not as extensive as in Korea or Taiwan. It may be more useful to look at what kinds of government intervention increased corruption in what conditions than just the overall extent of government intervention. I will attempt to do so in the following sections.

The level of economic development (per capita income), perhaps through the spread of education, creation of a middle class, and so forth, has been found to have most significant and important explanatory power for corruption by many empirical studies (Paldam 2002; Treisman 2000). In contrast, Kaufmann and Kraay (2002) argued that causation runs in the opposite direction: from lower corruption to economic development. You and Khagram (2005) also showed that previous studies overestimated the effect of economic development on corruption and that its effect may not be significant. The case of the three countries seems to support the argument of Kaufmann and Kraay (2002).

Economic development cannot explain the relative levels of corruption in the three countries, considering that the initially no less developed Philippines has become much more corrupt than Korea and Taiwan. Table 4 indicates that the Philippines had a slightly higher per capita income in the 1950s and not much lower per capita income until 1980 than Korea and Taiwan. It is more likely that different levels of corruption seem to explain the variations in economic growth in these countries. However, we may need to consider more complex relationships between corruption and economic development beyond the simple causation of either direction. In particular, some government policies may affect both corruption and economic growth at the same time. I will examine this possibility in later sections.

Table 4. Real GDP per capita in 1996 constant \$

year	1953	1968	1980	1996
S. Korea	1328	2289	4790	14320
Philippines	1571	2343	3289	3122
Taiwan	1118	2399	5869	15589

Source: Heston et al. (2002)

Although democracy theoretically is supposed to provide checks against corruption, cross-national empirical studies have found differing results. Treisman (2000) concluded that democracies are significantly less corrupt only after 40 years. Montinola and Jackman (2002) demonstrated that partial democratization may increase corruption, but that once past a threshold, democracy inhibits corruption.

In terms of democracy, Korea and the Philippines have many similarities. Both countries initially had democratic period until 1972 (pre-*Yushin* period except for 1961-63 in Korea, and pre-Marshall Law period in the Philippines), and had dramatic and rapid democratic transition from 1986 (the Philippines) or 1987 (Korea). Taiwan had had authoritarian regime until late 1980s and since then gradually has democratized. Thus, among the three countries, Taiwan has been least democratic until recently, but least corrupt. In all three countries, the perceived level of corruption has slightly decreased since democratization in late 1980s, as Table 1 shows. The

values of CPI 95-04 are slightly higher than those of CPI 88-92 for all three countries. However, it is hard to tell if the improvement is significant. Overall, democratization did not seem to have dramatic effect on controlling corruption so far in these countries.

Another, quite opposite, argument to consider is the positive role of authoritarian regimes in controlling corruption. Lee Kwan Yew of Singapore claimed that authoritarian rule was necessary to contain corruption as well as to help develop the economy. Taiwan's Chiang Ching-kuo and Korea's Park chung-hee was also cited as such examples. Indeed, Taiwan's story seems to fit to this theory. However, this argument is easily refuted. At least, democratization did not increase corruption in both Korea and Taiwan, and in the Philippines most scholars agree, and the evidence presented in this paper partly supports, that the Marcos regime was more corrupt than both pre-Marcos and post-Marcos era.

The role of democratization and democracy in controlling corruption must be very complex. Democratization has both positive and negative impact on controlling corruption. Competitive elections and the growth of civil society can be a check on corrupt politicians, but the need to finance expensive election campaigns creates new incentives for corruption (Rose-Ackerman 1999). Moreover, the exposure of corruption and the media report is likely to increase with improvement in the freedom of press, which may cause perceptions of corruption rise even though actual corruption has not risen. I will look at these issues more in detail in a later section.

Ethno-linguistic fractionalization has been found to be positively correlated with corruption, although its significance disappeared after per capita income and latitude controls were added (Mauro 1995; La Porta et al. 1999). As Table 5 shows, Korea has an extremely high level of homogeneity both ethnically and linguistically, but corruption is higher in Korea than in ethnically and linguistically heterogeneous Taiwan. Although the extremely high linguistic fractionalization may partly explain the high level of corruption in the Philippines, ethno-linguistic story does not fit very well for our case of three countries overall.

Protestantism has been found by many cross-country empirical studies to be associated significantly with less corruption (La Porta et al. 1999; Paldam 2001; Sandholtz and Koetzle 2000; Treisman 2000). Egalitarian or individualistic religions such as Protestantism may encourage challenges to abuses by officeholders. Table 5 shows that, in terms of Protestantism, Korea has some advantage, not disadvantage, over Taiwan, but Protestantism does not seem to have much contributed to lowering corruption in Korea. There may be a threshold for the Protestantism effect, and Korea's Protestant population may not have reached the threshold.

Table 5. Ethnic and Linguistic Fractionalization; Percentage Population by Religion in 1980

	Ethnic frac.	Linguistic frac.	Protestant	Catholic	Muslim	Buddhist
S. Korea	0.002	0.002	12.2	3.9	0	20*
Taiwan	0.27	0.5	3	1.5	0.5	93**
Philippines	0.24	0.84	3.8	84.1	4.3	3***

Source: Ethnic and linguistic fractionalization is from Alesina et al. (2003). Percentage population by religion (for year 1980), except for the Buddhist population, is from La Porta et al. (1999). For the Buddhist population, * for year 1985, from Ministry of Economic Planning, Korea's Social Indicators 1987; **mixture of Buddhist, Confucian, and Taoist 93%, from CIA Factbook, 2004; *** Buddhist and other, from CIA Factbook, 2004.

Confucian familism was often accused of fostering patrimonialism, nepotism, social distrust, and bribe or gift exchange (Fukuyama 1995; Kim 1999), and crony capitalism literature often relied on these arguments (Kim and Im 2001). However, it is questionable whether nepotism and gift exchange is unique for Confucian culture. Tu (2001) argued that Confucian literati tried to curb a king's despotism and bureaucratic corruption and that Confucian familism is not the same as cronyism. A study of Korean social networks (Yee 2000) demonstrates that, contrary to Fukuyama's view that Koreans under the Confucian influence are more kin-oriented, they practically rely less on their kin than Americans do.

Confucian tradition is very strong in Korea and Taiwan, while it is absent in the Philippines. However, Korea and Taiwan are much less corrupt than the Philippines. Thus, the Confucian familism argument seems to lack solid evidence. Actually, the meritocratic bureaucracies in Korea and Taiwan have their historical roots in

Confucian tradition (Evans 1995; Schneider and Maxfield 1997). Note that the developmental state literature emphasized the positive role of meritocratic bureaucracy in ensuring the autonomy of the state and preventing it from degenerating into collusion and corruption.

Lastly, You and Khagram (2005) argued that income inequality increases the level of corruption. The wealthy have greater ability to engage in corruption, and their incentives for buying political influence increases as redistributive pressures grow with inequality. Through a comparative analysis of 129 countries using instrumental variables regressions, they demonstrated that the explanatory power of inequality is at least as important as conventionally accepted causes of corruption such as economic development.

Income inequality seems to provide a plausible explanation for the relative levels of corruption among the three countries. As Table 6 indicates, Korea has had much more equal distribution of income than the Philippines ever since 1950s. Although income inequality in Korea was as low as in Taiwan until 1960s, it has become somewhat higher than in Taiwan since 1970s. Thus, the different levels of income inequality may explain the different levels of corruption in these countries.

Table 6. Inequality in Income and Land in Three Countries

	Gini(57-69)	Gini(70-89)	Gini(90-97)	Landgini(60-70)
Korea	26.3	30.6	32.7	37.9
Taiwan	28.3	26.3	27.7	
Philippines	43.8	42.2	42.9	52.2

Source: Gini data are from Dollar and Kraay (2002), adjusted for different definitions of gini according to You and Khagram (2005); Landgini data are from Taylor and Jodice (1983).

Table 7 summarizes the discussion so far. As the table demonstrates, income inequality has the strongest predicted ability for the levels of corruption. However, reverse causality must be considered too. The different levels of corruption could explain the different levels of inequality. In order to sort out the causal direction and the mechanisms, we need to figure out why three countries came to have different

degrees of income inequality and how inequality and corruption affected each other more concretely.

Table 7. Predicted Ability of Possible Causes of Corruption

Independent variables	Ranking of the independent variables	Predicted ranking of corruption	True or False
Government intervention	KOR=TWN > PHL	KOR=TWN > PHL	False
Econ development	KOR= TWN = PHL (until 1970s)	KOR= TWN = PHL	False
Democracy	KOR=PHL>=TWN	KOR=PHL<=TWN	False
Ethno-linguistic diversity	PHL=TWN > KOR	PHL=TWN > KOR	False
Protestantism	KOR> TWN = PHL	KOR<= TWN = PHL	False
Confucianism	KOR= TWN > PHL	KOR= TWN > PHL	False
Inequality	PHL > KOR > TWN	PHL > KOR > TWN	True

One plausible explanation for different levels of income inequality between Korea and Taiwan on the one hand and the Philippines on the other hand is land reform. It is well known that land reform was successful in Korea, Taiwan, and Japan after the World War II, but it failed in the Philippines. It is evident that successes and failures in land reform affected subsequent distribution of income.

Then, why land reform succeeded in Korea and Taiwan but failed in the Philippines even though the United States was deeply involved in the land reform processes and exerted considerable influence in all three countries? One possible explanation is that very high level of corruption in the Philippines prevented the land reform. Another possible explanation is that different levels of corruption, if any, had little effect on the success or failure of land reforms, but other factors determined the fate of land reforms.

Regarding land reform, another important question should be addressed. Land reform involves massive intervention of government in the redistribution of land. Then, it is very possible that the processes of land reform are corrupted and that land reform contributes to increasing, rather than decreasing, corruption.

The higher levels of income inequality in Korea than in Taiwan since the 1970s may be due to different strategies and processes of industrialization. One plausible hypothesis is that Korea's *chaebol*-centered economy produced higher inequality as well as more incentives and opportunities for corruption than Taiwanese small and medium-sized firms-centered economy. Then, why Korea and Taiwan chose different industrialization strategies? One possible explanation is that different levels of corruption influenced government decision-making differently. Hence, in order to find the right answers for these questions, the next sections will be devoted to looking at the decision-making and implementation processes of land reform and industrial policy in Korea, in comparison with Taiwan and the Philippines.

Land reform

Many accounts of Korean development tend to ignore agrarian land reform and begin their story from early 1960s (Lie 1998). Without land reform, however, the Korean state might have been captured by the landlord class and the later economic miracle might not have been achieved. In 1945, when Korea was liberated from Japanese colonial rule, the richest 2.7 percent of rural households owned two thirds of all the cultivated lands, while 58 percent owned no land at all. By 1956, the top 6 percent owned only 18%. Tenancy dropped from 49 percent to 7 percent of all farming households, and the area of cultivated land under tenancy fell from 65 percent to 18 percent (Ban, Moon, and Perkins 1980; Lie 1998; Putzel 1992).

Land reform in South Korea was carried out in two stages, by the American Military Government (AMG) in 1948 and by the South Korean government from 1950 to 1952. In March 1948, AMG began to distribute 240,000 hectares of former Japanese lands to former tenants, which accounted for 11.7 percent of total cultivated land. Before that, the AMG implemented the reduction of rent to 1/3 in October 1945. After two separate governments were set up in the southern and northern parts of Korea, the government of South Korea began to implement the agrarian land reform in 1950, just before the Korean War broke out. Restricting upper ceiling of landownership to three hectares, the government redistributed 330,000 hectares of

farmland by 1952. The landlords received 1.5 times the annual value of all crops, and the former tenants were to pay the same amount in five years. About 500,000 hectares were sold directly by landlords to their tenants. Thus, 52 percent of total cultivated land transferred the ownership, and the “principle of land to tillers” was realized (Ban et al. 1980; Chun 2001; Kim 2001; Putzel 1992).

In Taiwan, land reform was also extensively carried out in three stages; first, in 1949, rent reduction to 37.5 percent from previous 50 per cent or over; second, in 1950, sale of public lands to farmers; third, in 1953, land-to-the-tiller program (Lamba and Tomar 1986). Absentee ownership was abolished, and a low ceiling was imposed on land that could be retained by landlords. The compensation was based on the production value of the land, and landlords received 2.5 times the annual value of all crops (Putzel 1992).

In the Philippines, however, land reform has been an abortive issue since before World War II. All Philippine presidential candidates since the 1950s have run on platforms offering vague promises of land reform, but reform has never been pursued with vigor (Kang 2002). Magsaysay’s moderate proposal of land reform legislation was amended by Congress so that most of the large estates could easily avoid expropriation. Marcos’s land reform was minimal, and even Aquino’s reform was very limited (Doronila 1992; Putzel 1992).

Why, then, Korea and Taiwan had carried out extensive land reform, whereas the Philippines did not? I offer three explanations. The threats from North Korea and Communist China played a major role in promoting land reform in South Korea and Taiwan, respectively. The role of the United States in land reform was positive and liberal in South Korea and Taiwan, but largely conservative in the Philippines (Putzel 1992). In addition, the political influence of the landed class was stronger in the Philippines, while the landlords in Korea and Taiwan lost their influence after independence because of their collaboration with the Japanese (Evans 1995:51-55).

An overview of the decision-making and implementation processes within the US State Department and the American Military Government in Korea and within the Rhee’s government reveals that communist threat and the political competition with

the North Korea to win the support of peasants played a decisive role in pushing for liberal reform program and that the US exerted positive and liberal influence. Before the US forces arrived in Korea, “People’s Committees” led by communists and the left-of-center nationalists had been established throughout the country. Although the Committees were outlawed by the AMG in the South, they implemented an extensive land reform in the North as early as March 1946. The North Korean reform was a major factor in winning support and legitimacy for the newly emerging communist government. There was a debate between the liberals and conservatives within the State Department about land reform in Japan and Korea, and the liberal approach won the debate. In September 1946, the State Department announced that one of the AMG’s major objectives was to implement land reform. But the implementation of redistribution of former Japanese-owned land by the AMG was delayed until March 1948 because of initial reluctance of the Military Governor, General Lerch. The price of the land was to be paid at 20 percent of the produce per year for 15 years (Chun 2001; Putzel 1992).

When the first election was held for Republic of Korea in the South in 1948, all parties pledged to implement land reform and the Constitution included a commitment to land reform. Even the Korea Democratic Party that represented the interests of landlords did not openly object to land reform, but tried to delay the enactment and implementation of the reform and to increase the compensation for the landlords. Cho Bong-am, Minister of Agriculture drafted a progressive land reform law with the compensation of 150 percent of annual produce. Although there was an attempt to increase the compensation to 300 percent, the bill was passed with the clause of 150 percent compensation for the landlords and 125 percent payment for the former tenants after intense debate in April 1949. However, President Rhee vetoed it on the ground that the government cannot finance the 25 percent gap between the compensation and payment. Finally, the Assembly passed the Land Reform Act with 150 percent of compensation and payment on February 2, 1950, and President Rhee signed it on March 10, 1950 (Kim 2001).

Unlike in the Philippines, the representatives of the landed class in the National Assembly did not have strong power because of their former collaboration with the Japanese and even the conservatives agreed that land reform would be necessary to cope with the communist threat. An interesting phenomenon in Korea's land reform was that many landlords sold their land directly to their tenants before the land reform legislation was implemented. The total area sold by landlords (500,000 hectares) exceeded the area of land redistributed by the government (330,000 hectares), and the bulk of the sell-out occurred in 1948 and 1949 when the prospect of land reform was clear (Hong 2001).

Taiwan's case also demonstrates the important role of Communist China and the liberal reformers of the US State Department. When Japanese colonial domination of Taiwan (1895-1945) ended with the defeat of Japan in the World War II, Taiwan reverted to Chinese rule in 1945. The Nationalist Chinese administration on Taiwan was initially repressive and corrupt, and the February uprising in 1947 was violently suppressed by Nationalist Chinese troops. When Chiang Kai-Shek was defeated by Mao Tse-tung's agrarian revolution on the Chinese mainland, some 2 million predominantly military and bureaucrat refugees fled to Taiwan. Even before Chiang Kai-Shek established "provisional" capital in Taipei in December 1949, the Nationalist authorities began implementing the rent reduction program. It is notable that Chiang Kai-Shek's Kuomintang (KMT) and the United States jointly set up the Joint Commission of Rural Reconstruction in October 1948, in a belated effort to introduce agrarian reform in mainland China (Lamba and Tomar 1986; Putzel 1992).

Chiang Kai-Shek's corrupt and conservative KMT in the mainland China transformed itself into a more coherent and autonomous party-state in Taiwan and embraced land reform, apparently being given a bitter lesson from its failure (Evans 1995:54). The US also advocated liberal agrarian reform to counter communism, and Ladejinsky, a liberal reformer in the State Department, worked closely with KMT officials in Taiwan (Putzel 1992). In addition, unlike in mainland China, the KMT received little resistance from the landed elites in Taiwan.

In the Philippines, the politics of land reform was more complex. During the US colonial period (1898-1941), the Americans were not interested in transforming the existing Philippine power structures through land reform. The Americans, from William Taft (the first civilian governor) to General Douglas MacArthur, felt most comfortable with those landed, educated elites who spoke English (Kang 2002:27).

After the Philippines gained independence in 1946, the US still exerted enormous political influence. As the State Department advised liberal land reform in Korea, Taiwan, and Japan, it once did the same thing in the Philippines. In 1951, the US Mutual Security Agency commissioned Robert Hardie to study the tenancy problem in the Philippines, probably because of growing concern on the rise of an armed and communist-led peasant movement. Hardie's report released in December 1952 contained far reaching, comprehensive land reform proposals such as distributing land to 70 percent of the tenants in the country (Putzel 1992: 84-85).

However, the landlords and their representatives in Congress strongly resisted, and President Quirino called the Hardie Report a 'national insult'. In 1953, Hardie was replaced by John Cooper. Cooper suggested only minor reforms were necessary in his report released in 1954. The overall mood was changing in the US, and with the rise of McCarthyism, Ladejinsky, architect of land reform in Japan and Taiwan, was accused of being a national security risk (Putzel 1992:91, 96-99). Once the US pressure for liberal land reform disappeared, the landed oligarchy was easily able to preserve their economic base through their representatives in congress (Doronila 1992:102-104).

The Philippine case shows that, without external threat or pressures, the repeated attempts for land reform were unsuccessful because the state was captured by the powerful landed class. In addition, the failure of land reform helped the landed oligarchy to maintain and expand their power continuously, and economic policy machinery was routinely hijacked by powerful landed and business elite (MacIntyre 1994:9). By the early 1980s, a study identified 81 families as exercising extensive control over the economy. They also employed their wealth and power to gain access to state positions either through appointment or election. Although popular demand

for redistribution of land was always a main political issue, genuine reform never occurred. The landowning elite could employ a variety of official and unofficial means to protect their interest. The militant landlords even established private armies and allied with former Defense Minister Ponce Enrile, when land reform became a more real issue after democratization. As a result, Aquino's limited land reform was only 30 percent completed by 1994, and did little to alter the distribution of land in the Philippines (Moran 1999).

By contrast, land reform had huge impact on Korean society and economy. Large landlords virtually disappeared. Agricultural productivity improved steadily (Ban, Moon, and Perkins 1980: 291-93). Land redistribution plus the destruction of large private properties during the war produced unusually equal distribution of assets and income in Korea (Mason et al. 1980; You 1998). Indeed, land reform opened the space of state autonomy from the dominant class (Suh 1998). As Rodrik (1995) noted, the initial advantage with respect to income and wealth distribution in Korea and Taiwan is probably the single most important reason why extensive government intervention could be carried out effectively, without giving rise to rampant rent seeking.

Land reform also contributed to increasing enrollment in schools, by making it affordable to more people. A characteristic of post-war public education in Korea was an unusually large share of the financial burden imposed on private households relative to other countries with comparable enrollment (Mason et al. 1980). The number of enrollments in primary school doubled between 1945 and 1955, even though Korean War (1950-53) destroyed the whole country. The enrollment in secondary schools increased more than 8 times, and that in colleges and universities increased ten times during the same period (Kwon 1984). The spectacular increase in educated labor force not only made high growth based on high productivity possible, but also paved a road for establishment of meritocratic bureaucracy. Although the higher civil service exam (*Haengsi*) was instituted as early as 1949, only 4 percent of those filling higher entry-level positions came in via the exam under Rhee Syngman's government. The higher positions were filled primarily through special appointments

(Evans 1995:51-52). It reflected not only Rhee's reliance on clientelistic ties but also shortage of enough pool of highly educated people. However, Park Chung-hee was able to establish meritocratic bureaucracy with the aid of enough supply of university-educated people, although he still allocated substantial part of higher ranks to the military who did not pass the highly competitive civil service exam.

However, land reform in Korea had its limitations too. It was restricted to farmlands, and mountains and forests were excluded (Chung 1967). Later, Korea came to experience serious problems of land speculation, extremely high prices of land, growing inequality in land ownership, and excessive generation of capital gain from land ownership, which contributed to increasing income inequality (Lee 1991; Lee 1995).

Another question regarding successful land reform in Korea and Taiwan is whether the implementation processes were corrupted and why they were so. In Korea, besides redistribution of lands, the Rhee's government carried out another distribution program of former Japanese enterprises, which were known to be characterized by rampant corruption (Woo 1991). It is also well known that privatization processes in Russia and other East European countries created enormous rents and corruption. However, it's hard to find incidents of corruption from the implementation of land reform.

The implementation of land distribution was very transparent and participatory, in Korea as well as in Taiwan and earlier in Japan. In Japan, Ladejinsky and his liberal colleagues emphasized tenants' participation in the implementation process. Land Commissions were established at national and local levels, and local committees were elected including five tenants, three landowners, and two owner-cultivators (Putzel 1992: 73). Korea and Taiwan followed Japanese example. In Korea, local committees were comprised of one public official, three landowners, and three tenants. A case study of local-level implementation shows that the legal provisions were largely observed with minor exceptions and without signs of corruption (Kwon 1984). Thus, the land reform case illustrates that government intervention does not necessarily create corruption when it is carried out in a transparent and participatory way.

***Chaebol*-centered industrialization**

There exists a myth about Park Chung-hee's economic development strategy. It is true that he tried to justify his regime by rapid economic growth. It is also true that his administration was more competent in setting economic policies and implementing them effectively than Rhee administration. However, it is a myth that Park administration made the first five-year economic plan based on export-led growth strategy, as Lie (1998:55-56) demonstrated. Actually Park's first five-year plan copied a lot from the short-lived Chang Myun administration's (1960-61) five-year plan. Nor was Park's first five-year plan particularly export-oriented. It emphasized the importance of import-substitution industrialization to fulfill the goal of "self-reliant economy". Its initial projection of export growth, mainly of agricultural produce and raw materials, was modest. Park's emphasis on exports came later.⁸

The most characteristic of Park's economic strategy was his emphasis on state control of economy and promotion of large corporations and conglomerates, or *chaebols*, apparently emulating Japanese *zaibatsu*. Although many *chaebol* began to form in 1950s, their rapid growth occurred under Park's patronage. For him, modernization and industrialization meant emulating Japan. Later his *Yushin* (1972) was very much modeled on the Meiji Restoration (1860) of Japan, and he openly expressed his admiration for the leaders of the Meiji Restoration (Moran 1999).

Park's *chaebol*-centered industrialization strategy is contrasted with Taiwan's development strategy. The KMT leadership distanced from big businesses, and pursued both growth and equity. The KMT also adopted monetary conservatism, which made Taiwan's state-business relationship less close, direct, and deep than Korea's. In addition, the KMT advocated state ownership of strategic sectors. Unlike Syngman Rhee who sold off former Japanese firms at a bargain price, Chiang Kai-shek transformed Taiwan's enemy properties into state enterprises. As a result of monetary conservatism and state ownership of strategic sectors, small-and-medium-

⁸ Rodrik (1995) raised doubt about export orientation as a key explanation for economic growth in Korea and Taiwan, noting that initial size of exports was too small to have a significant effect on aggregate economic performance.

sized-enterprises (SMEs) grew and became the main force of the economy. The number of manufacturing firms increased by 150 percent and average firm size by 29 percent between 1966 and 1976 in Taiwan, while in Korea the number of firms increased by only 10 percent but firm size by 176 percent (Kim and Im 2001).

In order to both control and support *chaebol*, Park used selective allocation of low-interest rate foreign loans and domestic loans through state-controlled banks. Virtually all foreign loans (both public loans and private long-term loans) with low interest rates required government approval and guarantee. Government controlled all commercial banks and adopted low-interest rate policy, which created large rents and brought about a chronic shortage of supply of loans. As Table 8 shows, the nominal bank rate was typically less than half of the curb-market rate and the real bank rate was often negative. *Chaebol* that began to grow under Rhee regime's patronage through the allocation of aid dollars and former Japanese enterprises were continuously supported by Park regime only if they paid back through economic performance such as exports and unofficial political contributions. As a result, *chaebol* expanded rapidly, while most SMEs had difficulty with getting loans and had to rely much on the curb market. Thus, the collusion between politics and business (*chungkyungyoochak*) or the triple alliance of the government, *chaebol*, and banks were gradually established (Lee 1995).

Cultivating good relationship with the President became a golden road for business expansion, in particular, under Park Chung-hee and Chun Doo-whan, and to a lesser degree, under subsequent Presidents as well. Chung Ju-young of Hyundai and Kim Woo-jung of Daewoo had close personal links with Park Chung-hee and received extensive support (Moran 1999). Chung Ju-young's close ties to Park led the media to dub Hyundai as the "*Yushin chaebol*". On the other hand, Samhak, a major distillery and one of the largest conglomerates in the late 1960s, faced a misfortune because the owner backed Kim Dae-jung in the 1971 presidential election. After the election, Samhak was convicted of tax evasion and forced into bankruptcy (Lie 1998:90-91).

Table 8. Real and Nominal Loan Rates, 1963-1976

Year	Nominal Rate	Curb Rate	Inflation	Real Rate
1963	15.7	52.6	28.7	-13.0
1964	16.0	61.8	32.1	-16.1
1965	26.0	58.9	8.2	17.8
1966	26.0	58.7	14.3	11.7
1967	26.0	56.5	14.0	12.0
1968	25.8	56.0	11.8	14.0
1969	24.5	51.4	10.1	14.4
1970	24.0	49.8	13.2	10.8
1971	23.0	46.4	11.5	11.5
1972	17.7	39.0	14.5	3.2
1973	15.5	33.4	9.4	6.1
1974	15.5	40.6	26.7	-11.2
1975	15.5	41.3	24.1	-8.6
1976	17.5	n.a.	15.7	1.8

Source: Jones and Sakong (1980:105)

Another myth about Park Chung-hee is that his administration was coherent and autonomous, while Rhee's was incoherent and captured by businesses. Clearly, Park's *chaebol*-centered industrialization strategy was not a result of *chaebol*'s lobby but based on his own desire to emulate Japan's industrialization. The *chaebol*'s share of the national economy was small when Park seized power, because of the land reform and the destruction of private properties during the war. The level of economic concentration was still relatively low during the 1970s in comparison with other countries like Pakistan and India, although business concentration was rapidly growing in Korea then (Jones and Sakong 1980:261-269). However, as economic concentration by *chaebol* grew, Park and subsequent regimes often found themselves being effectively captured by them. Although Park chose his business clients and the *chaebol* grew under his patronage, he had to accommodate the *chaebol*'s demand for bail-out when they were in crisis. When big businesses faced the threat of financial insolvency in 1971,⁹ the Federation of Korean Industrialists (FKI) requested President Park to freeze the curb, transfer outstanding curb loans to official financial

⁹ Because of the IMF pressure after the first debt crisis of 1969, Park had to implement tough stabilization policies. As a result, *chaebol* could not obtain bank loans as much as before and had to rely on the high-interest curb market substantially.

intermediaries, reduce corporate tax, and then slash interest rates. Then Park issued an Emergency Decree for Economic Stability and Growth, which transformed curb market loans into bank loans to be repaid over five years at lower interest rates, with a grace period of three years during which curb market loans were to be frozen. To bail out the overleveraged *chaebol*, the Emergency Decree shifted the burden to small savers. Out of 209,896 persons who registered as creditors, 70 percent were small lenders with assets in the market below 1 million won, or \$2,890 (Woo 1991: 109-115; Kim and Im).

Park encouraged businesses to organize business associations, probably to make it easier to control individual firms. Business associations were, on the one hand, valuable and reliable sources of information for state officials and thus facilitated collaboration between the state and the business (Evans 1995; Schneider and Maxfield 1997). They also served as a conduit of raising official funds like National Security Fund as well as unofficial political funds. For example, FKI used to allocate *chaebol* specific amounts of political donation and contribution to National Security Fund (Oh and Sim 1995). However, business associations as well as *chaebol* became increasingly powerful, as the example of the successful lobby by the FKI for freezing the curb market demonstrates.

Senior government officials often moved to corporate think tanks or to head up business associations (Perkins 2000). Although Schneider and Maxfield (1997) interpreted that the association leaders were extensions of the economic bureaucracy rather than representatives of the private sector, this view of developmental state overlooks the aspect of growing tendency of capture and corruption. Although Korea's developmental state never degenerated into a hopeless degree of capture and corruption as in the Philippines, growing power of *chaebol* became increasingly a great concern for the public as well as for subsequent administrations.

When Chun Doo-whan came to power in 1980, he initially attempted to prosecute big business on charges of illicit wealth accumulation, cut the collusion between government and business, and to introduce aggressive neo-liberal reforms. The FKI made an open statement that it was not desirable to make big business a scapegoat in

every regime change and that preferential treatment of big business was not an act of corruption. At the same time, they made it clear that they were willing to support and comply with the new government. Chun accepted the pledges of loyalty in return for dropping the corruption charges as Park did so in 1961.

However, in September 1980, Chun's new government announced sweeping reforms to reduce business concentration such as the forced sale of *chaebol*'s 'idle' real estate and non-essential subsidiaries and tight credit control over big business. Twenty-six of the largest *chaebol* were instructed to sell off 166 subsidiaries (from a total of 631) and to dispose of 459 tracts of idle land. And the Monopoly Regulation and Fair Trade Law was enacted in April 1981. However, there was little progress in reducing economic concentration during Chun's presidency. The FKI openly opposed and lobbied against the monopoly regulation law, tight credit controls, and industrial rationalization. Although the *chaebol* were forced to sell off a total of 166 subsidiaries in 1981, within four years 120 new subsidiaries were acquired. Similarly, the *chaebol* acquired new land holdings worth 20 times more than those they had sold off (Moon 1994).

Similar things were repeated under Roh Tae-woo and Kim Young-sam administrations. Like Chun, both Roh and Kim initially attempted to implement some measures to reduce economic concentration, primarily to improve public support. But at the end of each president's five-year term, *chaebol* ended up with increasing their size and power. In particular, both Chun and Roh met frequently with heads of *chaebol* individually and received huge amount of unofficial political donations. When Roh had to run for the direct presidential election, competing with Kim Young-sam and Kim Dae-jung, Chun was known to have met with 30 heads of *chaebol* and collected 5 billion won from each. Thus, he was easily able to raise funds, out of which he gave 100 billion won to Roh (Oh and Sim 1995). Although Kim Young-sam is known to not directly have received political donations from *chaebol* during presidency, he is known to have received 60 billion won from Chung Tae-soo, head of Hanbo group, when he was competing with Kim Dae-jung in 1992

presidential election (Woo 1991:60). Thus, reform of *chaebol* was not pursued with vigor and was effectively abandoned in exchange for illegal political donations.

As Table 9 shows, economic concentration by *chaebol* increased over time, and the really vigorous measures for reform of *chaebol* did not occur until Korea was hit by financial crisis and had to be bailed out by the IMF. Park's *chaebol*-centered industrialization strategy produced not only corruption and collusion between the government and *chaebol* but also increasingly created inefficiencies and widened inequality. It is well known that the collapse of overleveraged *chaebol* like Hanbo in 1997 and the excessive short-term debt of *chaebol* from foreign banks was one main reason why Korea became a victim of Asian financial crisis, while Taiwan was little affected by the crisis. In fact, the inefficiencies of 'chaebol economy' and the risks of overleveraged *chaebol* that became evident to everyone after 1997 were manifest much earlier. As early as 1980, Korean manufacturers had average debt equity ratio of 488 percent, while it remained below 200 percent in Taiwan (Kim and Im 2001).

Table 9. Trends in Chaebol Concentration, 1985-95

(Cumulative percent for manufacturing industry)

(unit: %)

# of chaebol	# of employees			sales			value added			assets		
	1985	1990	1995	1985	1990	1995	1985	1990	1995	1985	1990	1995
4	6.5	6.9	8.1	21.9	23.4	27.3	11.7	17	27.2	23.6	26	28
10	8.2	9	10.7	33.5	32.6	37.2	16.5	22.8	29.3	33.3	36.5	39.5
30	11.6	11.7	13.1	43.1	40.6	44.9	22.2	29	41	45.6	46.8	50.2

Source: Cho (1997)

The 1971 bail-out of big businesses, done at the expense of a large number of small creditors, signaled that the state would not be able to let a big business fail if only it is big enough for its failure to give the national economy an intolerable shock. Because the interest rate of the state-controlled banks was always much lower than the market interest rate, *chaebol* had an incentive to overinvest relying on overborrowing. When the size of the national economy was relatively small, the state could coordinate investments and prevent redundant and excessive investments. As

the national economy as well as the size of *chaebol* grew, the coordination became more and more difficult and inefficiencies grew.

Chaebol's investment was not limited to productive ones. One serious problem was land speculation of *chaebol*. The overexpansion of large cities in the 1970s brought about land shortage, which forced up the price of land and housing (Suh 1998:26). *Chaebol* purchased a large area of land not for productive but for speculative purpose with the low-interest bank loans. Because the price of land increased much more faster than the average price, it was a very profitable investment for *chaebol*. 5 percent of landowners owned 65 percent of private land in 1989, and their share increased to 83 percent in 2004 (Hangyoreh Sinmun 07-15-2005).

Chaebol-centered industrialization increased inequality of income and wealth. Gini index rose during the 1970s, fell a little in the 1980s, but rose again in the 1990s. In particular, income inequality is continuously increasing after the financial crisis of 1997 (Lee Forthcoming; Yoo and Kim 2002). Lee (1991) shows that increasing inequality in land ownership and capital gain from it contributes to income inequality a lot, although official income statistics fails to capture it. He estimated that unearned income from transactions of land accounted for 10-20 percent of GDP in the late 1980s. While the Gini index based on official income statistics was 33.6 in 1988, it was as high as 38.6 including capital gain from land, and 41.2 including capital gain from shares as well as land, according to his estimates. Although land reform contributed to an unusually low income inequality, it was restricted to farmland. Land speculation of the rich and the *chaebol* increasingly concentrated land ownership and worsened income distribution.

In summary, *chaebol* industrialization increased income inequality and wealth concentration over time, and the balance of power has shifted. The political power and *chaebol* exchanged favor (such as under-priced credit allocation) and political funds. Although the state had dominant position in the early period, *chaebol's* ability to buy political influence increased and the state was increasingly captured by *chaebol* due to corruption and the logic of "too big to fail."

Democratization and the development of civil society

As I earlier indicated in Table 3, the trend of the CPI shows corruption became lower under Kim Young-sam (1993-97: CPI of 4.3), Kim Dae-jung (1998-2002: CPI of 4.2), and Roh Moo-hyun (2003-04: CPI of 4.4) than under Chun (1981-87: CPI of 3.9) and Roh Tae-woo (1988-92: CPI of 3.5). If the CPI trend reflects the reality, the positive effect of democratization on controlling corruption was not realized immediately but several years after the democratization began in 1987.

Although Roh Tae-woo (1988-92) was elected President in a democratic election, thanks to split of votes between two former democratization fighters, Kim Dae-jung and Kim Young-sam, he was the second man in the 1980 military coup and Chun's pick as his successor. His anti-corruption campaign never gained public confidence, and he turned out to be no less corrupt than Chun.

Kim Young-sam (1993-97) was the first civilian President after Rhee, although his former Party for Unification and Democracy merged with Roh Tae-woo's Democratic Justice Party and thus was supported by former military political power. Kim Young-sam launched extensive anti-corruption drive, which were regarded as genuine by general public. He declared he would not receive any money as President unlike his predecessors, and introduced reforms such as disclosure of assets by high-level public officials, the real-name financial transaction system, and amendment of the Election Malpractice Prevention Act and the Political Fund Law. 1995 local elections were generally assessed to be very clean with marked decline in practices of vote-buying, but the ruling party was decisively defeated (Oh 1999). In 1996 national assembly elections, Kim Young-sam seemed to be more interested in results of the election than in the fair and clean processes.

Between the 1995 local elections and the 1996 national assembly elections, two former Presidents, Chun Doo-wan and Roh Tae-woo, were arrested and indicted in charges of corruption as well as mutiny and treason, and their trial began. Chun and Roh were sentenced to death and 22 and a half years in prison, respectively, in August 1996 (Oh 1999). They were later given presidential pardon with the agreement

between Kim Young-sam and Kim Dae-jung just after Kim Dae-jung was elected President in the midst of financial crisis in December 1997.

Although Kim Young-sam's anti-corruption drive reached a peak with the indictment of Chun and Roh, 1996 national elections revealed his political will to root out corruption has been compromised with the will to win. Hanbo corruption scandal and its bankruptcy in 1997 revealed not only weakness of the chaebol-centered economy but also corrupt relations between the chaebol and political elite including Kim Young-sam's son. Later, it was revealed that Kim Young-sam himself had received 60 billion won of donation from Chung Tae-soo of Hanbo in 1992 and that around 100 billion won of illegal funds were used in 1996 National Assembly elections when he was President.

Kim Dae-jung (1998-2002) was the first President in Korean history who was elected as an opposition candidate. With the economic crisis, public sentiment was very critical about *chaebol* and the collusion between government and chaebol, and public expectation for anti-corruption reform was high. Unlike Kim Young-sam's, Kim Dae-jung's reform was more focused on enhancing transparency of *chaebol* and public administration than purging corrupt politicians. A comprehensive Anti-Corruption Law was enacted in July 2001. Like Kim Young-sam, however, Kim Dae-jung's sons were found to be involved in corruption scandals.

Roh Moo-hyun (2003-2007) obtained the party's nomination through caucuses and primaries with relatively small campaign fund. He largely relied on small donations through internet and grassroots mobilization for his campaign fund for the presidential election, and defeated the conservative candidate, Lee Hoi-chang, who was later found to be illegally funded by *chaebol*. Roh Moo-hyun was not perfectly free from illegal funds, and his aids were prosecuted together with Lee Hoi-chang's campaign fundraisers. Samsung Group was found to have made illegal contribution of 34 billion won to Lee and 3 billion won to Roh in 2002 presidential election (PSPD 2005). The National Assembly elections in April 2004 were seen as relatively clean.

No less important anti-corruption campaign came from civil society. Civil society organizations launched "campaign for fair and clean elections" since 1991, and it is

believed that it contributed considerably to monitoring politicians and to increasing public awareness. Civil society organizations upgraded their movement in 2000. They released a list of corrupt politicians and launched negative campaign to defeat them. 70 percent of those candidates on the black list of CSOs were defeated in the National Assembly elections of April 2000 (You 2001).

The trend of CPI seems to reflect the reality to a certain degree. CPI was highest in 1995 (4.3) and 1996 (5.0) after Kim Young-sam's extensive anti-corruption drive. The relatively low scores of CPI in 1997 (4.3), 1998 (4.2), and 1999 (3.8) seem to reflect partly the corruption scandals such as Hanbo's that occurred in 1997 and partly the perceptions of crony capitalism by international community after the financial crisis of 1997. Although the trial of Chun Doo-whan and Roh Tae-woo was an expression of political will to cut corruption, it might have contributed to raising perceptions of corruption. The gradually increasing CPI scores in 2000 (4.0), 2001 (4.2), 2002 (4.5), 2003 (4.3), and 2004 (4.5) may reflect various reform measures taken during this period and recovery from the 'crony capitalism' perception effect as Korea has recovered from the economic crisis. Corruption scandals during 2002 may have been reflected in the CPI 2003 rather than in the CPI 2002.

There are some promising signs in recent years. Some surveys indicate that corruption has been slightly declining recently. The annual surveys of the Korea Independent Commission Against Corruption (KICAC) show that the percentage of clients that bribe public officials by money or entertainment has been declining from 4.1 percent in 2002, to 3.5 percent in 2003, to 1.5 percent in 2004. Public opinion surveys conducted in 1996 and 2003 show that Korean people are increasingly intolerant of corruption, as Table 10 indicates. TI's Global Barometer Survey also shows that Koreans are relatively optimistic about the prospect of controlling corruption. 34 percent of Koreans expected a decrease of corruption in the next three years compared to 17 percent of average people in the world, while 27 percent of Koreans expected an increase of corruption compared to 45 percent of world average.

Table 10. Public Opinion about Acceptability of Bribery

<Survey year>	To a traffic policeman		To a teacher		To a public official	
	1996	2003	1996	2003	1996	2003
Strongly oppose	36.2	61.9	55.9	66.8	44.6	71.0
Somewhat oppose	23.8	17.3	19.7	14.8	27.3	15.4
Uncertain	26.1	17.6	15.4	14.8	20.5	9.9
Somewhat acceptable	11.9	3.0	7.9	3.1	6.1	3.3
Very acceptable	1.8	0.3	0.8	0.6	0.8	0.3

Sources: Lim (1996) and Park (2003).

It seems that Korea is slowly but gradually reducing corruption, although it is too early to tell with certainty. In the earlier period of democratization, the corrupting effect due to increasing demand for political funds seemed to be stronger than the anti-corruption effect due to enhanced monitoring and accountability mechanisms. However, democratic reforms and the growth of civil society seem to increasingly play a positive role in curbing corruption. Many Koreans hope that the practice of huge amounts (billions of won) of illegal political contributions by *chaebol* will subside in the future, but it is yet to be seen whether new practices of transparent financing of political funds will be firmly established.

Conclusion

Among the conventionally accepted causes of corruption, only income inequality was significantly correlated with corruption among three countries of Korea, Taiwan, and the Philippines, consistent with the finding of the cross-national statistical study of You and Khagram (2005). Further analysis revealed that land reform in Korea and Taiwan dissolved the landed elite and produced unusually equal initial distribution of income and wealth, which helped the state apparatus from being hopelessly captured by powerful class. Corruption was not a main factor that determined the success or failure of land reform, and external factors played more important roles. Thus, land reform was exogenously given to Korea and Taiwan, where landlords lost political power because of their collaboration with the Japanese colonial rule, although capture

and corruption played a role in the Philippine case. Thus, the levels of corruption in Korea and Taiwan have been much lower than that in the Philippines.

Although it is hard to compare the level of corruption before and after the land reform in Korea because the government prior to reform was American Military Government, some observers report corruption decreased substantially after the reform in Taiwan (Putzel 1992). In contrast, in the Philippines, the failure of land reform maintained the power of landed oligarchy and led to high inequality in income and wealth. So, the landed and business elite was able to capture the state, and continuous redistributive pressures for land forced the politicians to repeatedly promise land reform and the landlords to increasingly rely on corruption.

Although both Korea and Taiwan enjoyed exceptionally high equality initially largely due to land reform, Korea's *chaebol*-centered industrialization policies increased income inequality and encouraged rent seeking and corruption at the same time. In contrast, Taiwan's monetary conservatism and small and medium-sized enterprise-centered industrialization did not encourage rent seeking and moral hazard. Thus, Korea's level of corruption has become a little higher than that of Taiwan. Again, corruption did not much affect the choice of different industrialization strategies, but different government policies had much impact on corruption, efficiency, and inequality.

This study suggests economic growth is rather a consequence than a cause of corruption. Inequality affected the level of corruption and capture, which in turn determined economic growth. Thus, corruption is likely to be an important channel through which inequality adversely affects economic growth (You and Khagram 2005). Although Alesina and Rodrik (1994) and Persson and Tabellini (1994) argued that the adverse effect of inequality on economic growth is attributable to high rates of taxation and redistribution, my findings suggest an alternative explanation, with corruption as a causal pathway. The Philippine case demonstrates that inequality does not necessarily cause redistribution. Inequality created redistributive demand, but the wealthy employed corruption and capture to avoid or minimize redistribution.

This paper also shows that government intervention does not necessarily increase corruption. Some kinds of government intervention increased inequality and corruption at the same time. Sale of Japanese vested properties and low-interest rate policy plus credit allocation are such examples. However, redistribution of farmland did not produce corruption probably because it was implemented in a transparent and participatory way. The extensive state ownership of big corporations in Taiwan did not create much corruption, while favoring big conglomerates in Korea did create much corruption. Thus, the policy implication of this study is that linking the extent of government intervention or size of government to corruption is too naïve and that the kind of intervention and the method of implementation should be considered.

In summary, this comparative historical analysis not only supports You and Khagram's argument for the causal effect of inequality on corruption, but also shows how different levels of income and wealth inequality due to exogenous shocks (land reform and industrial policy) affected corruption. The causal mechanisms identified by this study are: (1) higher inequality (due to failure of land reform) → stronger redistributive pressures → greater incentives and resources for corruption, (2) lower inequality (due to land reform) → more equal opportunity for education → meritocratic bureaucracy → lower corruption, and (3) certain government interventions (under-priced credit rationing for *chaebol*) → higher inequality and corruption at the same time.

Regarding the democracy effect, the Korean case illustrates both corrupting effect due to political financing needs and anti-corruption effect due to enhanced monitoring and accountability mechanisms. Increasing income inequality and economic concentration by *chaebol* are continuing concerns, while the positive effect of democratic reforms is a promising sign for Korea.

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