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Plenary Session II

Networks of Influence & Economic Development

Speaker: Soung-Jin Chung

Chairman of the Korea Independent Commission
Against Corruption (KICAC)

1. Networks of influence in the initial stage of economic development in Korea

Fifty years ago, the Republic of Korea was in a state of extreme poverty. Nearly four decades of colonial rule, followed by the Korean War, devastated its industrial infrastructure and impoverished its population.

In 1953, following the ceasefire, Korea's per capita GDP was only 67 dollars. In 1960, as Korea was beginning to promote its economy, foreign exchange reserves were no more than 150 thousand dollars.

With the nation relying heavily on foreign aid to support its people, there was insufficient capital to devote to economic development. It was imperative that Korea effectively allocate what few resources it could muster.

For this reason the Korean government assumed the role of the market in allocating capital. It introduced foreign capital on credit and distributed it through state-controlled banks. The government even intervened in corporate activities in carrying out national development policy.

Considering a need to accelerate economic growth with very scarce resources, it was understandable that the government employed selective and preferential strategies in fostering industries and controlling the market.

Indeed, such strategies produced stunning results. Some 40 years after Korea launched its economic development drive, Korea's per capita GDP today stands at more than 16 thousand dollars. Its foreign exchange reserves exceed 230 billion dollars. In two short generations, Korea has grown from one of the poorest to the world's tenth largest economy.

On the other hand, Korea has seen some unwelcome consequences of these strategies, and I will now highlight some of those.

In exercising extensive authority over a vast part of the nation's economic life, past administrations were unknowingly creating obstacles to Korea's long-term development.

Some businesses grew dependent on government support and preference for their growth, rather than on innovation in response to market demand. The government and the politicians presumed on such needs of businesses to further their own ends.

Recognizing these problems, the Korean government has made steady efforts to ease regulations and liberalize the financial market since the 1980s. However, unethical ties between business and politics—a byproduct of past government-led development—have proven resistant to such efforts. Companies continued to take advantage of these longstanding networks to obtain government approval and permission, protect their markets, and secure monopolies.

It was in the late 1990s that such shady practices emerged as a grave challenge for the Korean economy.

2. Challenges for the past networks of influence

In December 1997, Korea experienced an economic crisis unprecedented in its history. The Korean Won-to-dollar exchange rate plunged, its foreign exchange reserves were being drained, and the country was on the brink of defaulting on its foreign loans.

Fortunately, Korea managed to overcome the crisis through relief loans from the International Monetary Fund and a series of drastic domestic reforms.

The experiences of late 1997 and 1998 taught Koreans an invaluable lesson: The past networks of influence are no longer a benefit to the national economy.

Observers have pointed out that corporate malpractices were one of the main causes of the financial crisis. Namely, several large conglomerates, under the auspices of political heavyweights, falsified their accounting records and obtained exorbitant bank loans in a bid to expand their business.

The government was also to blame since it failed to oversee such practices and rein in those who used them for personal gain.

3. Anti-corruption initiatives to dismantle networks of influence

In the wake of the financial crisis, the Korean government has taken a wide range of initiatives to improve corporate governance and accounting transparency. It has strengthened protection for minority shareholders, while requiring business groups to file combined financial statements if their affiliates' assets exceed a set amount. In addition, CEOs or CFOs must now verify the accuracy of publicly disclosed documents.

One may insist that recent wealth-transfer scandals involving Samsung and Hyundai are indicators of Korea's lack of transparency. Paradoxical as it may sound, the fact that these cases have come to light is, in itself, evidence of improved corporate governance and enhanced accounting transparency.

Many agree that under the incumbent administration, the political neutrality and independence of the Public Prosecutors' Office has greatly increased. Even a few years ago, one could not imagine crackdowns and investigations involving the President's aides. This attests to the stricter and freer investigative powers now enjoyed by the Public Prosecutors' Office.

Even as recently as the mid-1990s, Korea was plagued with rampant corruption involving political parties and businesses. However, for the past three years, it has yet to see a single case of systemic corruption in the central political arena.

Several factors have been responsible for this positive change. Among them were the amendment of key election laws in March 2004, which made political campaigning less costly. It is now illegal to operate district party chapters or to organize joint election campaigns. Furthermore, companies and organizations are now prohibited from making political contributions.

Another contributing factor in curbing corruption has been the rise of Korea's civic groups since the 1980s. They have become powerful watchdog of corporate behavior and the unhealthy collusion between businesspeople and politicians. Naturally, the media too has played a crucial role in the nation's crusade against corporate and government corruption.

4. The fruits of anti-corruption efforts

The fruits of Korea's anti-corruption efforts continue to multiply. One can certainly see significant improvement in just the past five to six years, not to mention the advances made prior to the 1990s.

As you can see from the Bribe Payers Index (BPI), the Corruption Perceptions Index (CPI) and other acclaimed international surveys, the status of corruption in Korea has improved steadily since 2000.

5. Challenges & future directions

Now, it is necessary to identify and cope with the ever-changing environment and demands of the day.

In addition to public organizations, it is also necessary to monitor private organizations and joint private/public committees more effectively. Specifically, stricter criteria need to be established as to the transparency and fairness of their formation, their selection of participants, and in their decision-making processes.

Of particular concern, the nontransparent criteria governing these organizations has led to the re-employment of retired public officials as executives and outside directors of relevant private companies or law firms.

Conclusions

Networks of influence in Korea have been shaped and influenced by government-led economic development strategies, as well as by established custom and cronyism.

KICAC will continue to make concerted efforts to develop and implement anti-corruption measures at home, while participating actively in the global movement against corruption.