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The Historical Comparison of Corporate Governance Structures in Japan and Korea: A Historical Process of Institutional Transplant of the American Model of Economic System into Japan and Korea

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Abstract

In the 21st Century, US is beefing up attempts to transplant its market-oriented economic system to nations under US political and economic controls. "Transplant" of the US-style systems has been employed as a tool to destroy feudal regimes (or some autocratic regimes) in transplantee nations under the name of "economic democratization," but US's aggressive approach has enhanced anti-American sentiments in Iraq and other Muslim nations. In addition, as seen in economic phenomena surrounding the recent "financial crisis," a lot of nations in which the US-style market principles have been transplanted are now facing so-called "market failures."

As possible solutions for contemporary theme, this paper identifies the historical process of failed "institutional transplant" to make clear the structure of temporal and institutional linkages in a nation. By doing so, this paper sends a warning message to hidden risks of "institutional transplant" from other nations that would interrupt a nation's historical continuity.

Key Words; Institutional Transplant, Corporate Governance, egalitarianism, "market failures", "unexpected results"

I. Introduction

This paper aims to make clear what would happen in a "transplantee" nation when economic system in a nation is transplanted to another nation through some sort of worldwide policies. Definitery, this Paper analyzes "institutional transplant"of US maket-oriennted economy into oter nations.

"Institutional transplant" in the context of this paper means politically/militarily dominant nation/region's diplomatic strategy to transplant its own economic system to politically/militarily subordinate nations/regions.[1] In analysis on "institutional transplant," this paper examines the US-Japan-South Korea relationship in the 1950s when the Cold War reached its peak. This is because

[1] In addition, "institutional transplant" also includes economically powerful nation/region's attempt to transplant its own economic system into economically dependent nations/regions.

the failure of "institutional transplant" of US-style market principles has yielded "unexpected results" to bring about unique corporate governance structures in Japan and South Korea.

First of all, this paper briefly discusses ideological history background on "market" and empirically analyzes the "transplant" historical process based on the analysis on ideological history. The US, the originator nation of "institutional transplant," is a unique nation because it has both the spontaneous order, as argued by the Austrian School's F. A. Hayek (Hayek, Friedrich A. von) and the concept of "institutions" named by the Institutional School economist T. Veblen (Veblen, Thorstein), who insisted on the necessity of "economic regulations." Due to such uniqueness, US's attempts to "transplant" its economic system would bring about "unexpected results" of beefing up the old-guard authoritarian regime in "transplantee" nations.

A pioneering example of such transplant cases is suggested in the US-Japan-South Korea relationships in the 1950s as mentioned earlier. "Institutional transplant" of the US-style market principles to Japan and South Korea means an attempt to transplant US-style financial system centered on Federal Reserve Board into Japan and South Korea, but such attempts have eventually met with "setback." Comparing and examining the effects of US's failed efforts on "institutional transplant" into Japan and South Korea in the 1950s will reveal the historical process of "unexpected results" that these two nations have both come to have old-guard authoritarian regime: Japan saw revival of Japanese-style conglomerates led by financial capital while South Korea has come to have preferential conglomerates.

II. Ideology of "transplanter" nation

1. Multilayerness of "institutions"

New Institutional School economist D. North (North, Douglass) is a typical researcher who identifies the meanings of "institutional" analysis from the viewpoint of multilayerness of institutions. He divided "institutions" into formal rules and informal rules, and made significant contribution to analysis on Multilayerness of "institutions".[2] This dual-partitioning approach is originally influenced by the approach of Old Institutional School economist W. H. Hamilton (Hamilton, Walton H.).[3] In particular, the argument that corporations would maintain the market order as a formal organization has been still posing impacts even today, because such hypothesis is handed over to the hierarchy concept as seen in "Market and Hierarchies" (1975) written by New Institutional School economist O.

[2] Formal rules include rules, legislations and constitutions. On the other hand, informal rules include standards of conducts, customs and code of conducts applicable to economic actors.

[3] This dual-partitioning approach defines common law, higher education, literary reviews and movement rules as informal customs, while corporations, the government, churches, universeities and labor unions as formal organizations.

E. Williamson (Williamson, Oliver E.) or is also taken over to the argument of R. Coase (Coase, Ronald) that corporations would save their price-setting costs in the market.[4]

As seen in these theories, the organizational theory that corporations would form a formal organization is derived from "exchanges" in the market as well as desirable social phenomenon surrounding the exchange economy. As pointed out by K. Polanyi (Polanyi, Karl) who argues a desirable society on a macro basis from the viewpoint of "exchanges" in the market, if economic policies are embedded and included in the systems, economic phenomena will also be embedded in the society through market "exchanges."[5] The legitimacy of "exchanges" in the market not only is related with desirable corporate community but also poses impacts on fairness of informal customs, such as standards of conducts, customs, and codes of conducts that economic entities impose on themselves.

The argument that calls for fairness based on the existence of ("exchanges" in) the market is also related with the purpose-independent "spontaneous order (kosmos)" concept of Hayek who finally advocated "evolutionary rationalism." As he recognizes the continental law is merely a typical constructivism, his "spontaneous order" is a tool that provides cultural and productive evolutions to moral rules, ownership framework, currency system and legal system (in a broader sense). However, this approach poses negative impacts to create outdated and inappropriate "institutions" because "justice-based rules" have started to play conservative roles on the premise of commands and organizations. Even if old-guard authoritarian leaders assert their powers in the market in order to attain the read-made concept of "spontaneous order," nobody will be able to deny it.

In this way, as the "spontaneous order" concept ironically maintains the command-based market system, this concept will inevitably generate "contradictions." From now on, in order to derive such contradiction, this paper will make clear the "spontaneous order" concept by citing the historical perspectives in US that has turned the "spontaneous order" concept into its own "egalitarianism."

2. US-style egalitarianism

Historically, US never had a class system and is recognized as an individualism-based nation. US has fortunately shifted to modern civil society without going through so-called "bourgeois revolution," the historical process to break free from feudal system as seen in European nations. Developing through unique historical process in this way, US generated "absolutized libertarianism" free of sense of rivalry through national doctrinaire bourgeoisie philosophy under the nation's traditional national credo "egalitarianism." As US had neither the noble class to fight against nor the

[4] Corporation's price-setting cost saving efforts in the market sometimes brings about adverse impacts, depending on the corporation's size.

[5] Economic policies in this context include formal policies or informal policies, or both.

commons to get united, US citizens have fostered the concept that their traditional national credo is "egalitarianism" and "democracy."

As US has moved through such unique historical process different from European nations, maintaining laissez-faire and free competition has been recognized as the only and one tool to attain "equality." As the Declaration of Independence includes the expression "All men are created equal," the "egalitarianism" concept in itself has directly served for accomplishing the American Independence Revolution. As accomplishment of revolution and independence at the same time has yielded unique "egalitarianism" in US, libertarianism has merged with nationalism over time, leading to the conservatism called "Americanism." As a result, all the conservatives uphold libertarianism, and all things have got simplified to the free "egalitarianism."[6]

On the other hand, this "simplification of the egalitarianism ideology" has prevented opinion formation among citizens in other nations that has been fostered for a long time or makes it impossible to solve the resultant problems in a multifaceted and spontaneous manner. In other words, US attempted to eradicate all factors that would threaten its domestic hegemony or its sense of value.[7]

US's such unique ideology played significantly important roles in the 1950s when confrontational ideologies got intensified due to the Cold War structure. While upholding its traditional national credo "egalitarianism," US attempted to forcibly spread out the US-style economic system without understanding heterogeneous systems in "transplantee" nations. In this process, by coupling its diplomatic policies with "absolutized libertarianism," US intended to transplant "egalitarianism" in which personal differences, such as power, intelligence, age, willingness and personal tendancy, would bring about free competition, natural selection and survival-of-the-fittest and enable progress of the society.

In connection with this trend, people who went unsuccessful under "equal opportunities" due to their physical strength, talent, acquired property/job, race, ethnicity or gender factors dropped out from "market competition" and had no choice but getting weaker. On the other hand, people who went successfully came on the top of "competitive market" due to their greed for money, desire for power or insatiable desire were highly praised as "winners of market competition" or the "fittest" in the society. As a result, the "survival-of-the-fittest" principle originating from US-style market principles accumulated wealth of capitalist class in "transplantee" nations and permitted unruly economic policies exclusively focusing on maintaining corporate earnings. Since egoistic market competition is a greedy thing and prefers an authoritarian political regime, the resultant collusive structure among politicians, bureaucrats and business executives tends to further enhance

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[6] For this reason, US independent history did not have European-style social democracy ideology that has been fostered through bourgeois revolutions.

[7] Fukuda Kanichi, *Modern Democracy and its Outlook*, Iwanami Shoten Publishers, 2003, p. 126

conservative ideologies. Anyway, “institutional transplant” of US-style market principles has yielded “unexpected results” because it enhances conservative (or traditional and feudal) structure in “transplantee” nations, leading to old-guard authoritarianism in these nations.

From now on, this paper makes clear how “institutional transplant” of “market principles” has yielded “unexpected results” in “transplantee” nations from the viewpoints of ideological history.

3. Ideological history on “market”

The fact that “unexpected results” of failed “institutional transplant” of US-style market principles has enhanced old-guard conservative authoritarianism in “transplantee” nations is explained by the concept of Hayek’s “spontaneous order (Cosmos).” For Hayek, as expressed as “abstract concept of tacit knowledge” by him, human beings were merely the existence that faces intellectual limitations. So, as “market” would “serve for controlling over human desires like using languages, traditions and customs,” market is recognized as an essential tool for controlling behaviors of human beings that have intellectual limitations.[8] Such impersonal “market” would serve as an arena where efforts of independent persons in various nations would establish credibility. In addition, it is also recognized as an arena to make maximum use of limited knowledge of market participants.

In Hayek’s “spontaneous order” concept, the utilitarianism of J. Bentham (Bentham, Jeremy) style that focuses on individual pleasure or happiness does not exist. Rather, since the market system would work through leader’s instructions or rules laid down by leaders, commands and organizations are closely connected each other in the “market.” As a result, desires or temptations for plunder or theft have disappeared and are always replaced with exchanges in the market. In other words, if “market” with impersonal mechanism works meaningfully, a feudal society will emerge where only highly competitive minorities are able to come on the top of the hierarchy.

In response to this trend, people coming on the top of the market structure are highly praised as winners with strong personality.[9] In addition, their costs spent for attaining their desires for power and money in the process of coming on the top of the market are also admired as the outcomes of their consistent behaviors based on moralism.[10] From these perspectives, Hayek’s “market principles” do not involve “legislations” or “commands” that permits cultural and productive evolutions through ownership system, currency system and legal system (in a broad sense). It is recognized as an arena to control over exchanges or transactions for spontaneous growth, and for this

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[8] Egashira Susumu and Nakamura Shuichi, “Chapter 4. Friedrich Hayek” (Okon Hiroyuki and Hashimoto Tsutomu（eds.）, *Austria School Economics*, Nihon Keizai Hyouronsha, 2003, p.146.

[9]“Stronger personalities” in this context mean virtue, such as hard-working, saving money and endurance, which respects morality in a feudal society.

[10]“Costs” in this context mean “feeling of satisfaction” to act in line with virtue, forgetting “jealousy” up until becoming powerful person or “sense of superiority” after becoming powerful person.

reason, it is recognized as an arena to unleash various desires to reach the top of the hierarchy.[11] As a result, attaching too much importance to market principles will turn the laissez-faire concept into a dogma, and will finally bring about a "morally unsound" society full of personal greed.

If "transplanting" such "market principles" that permit entrepreneurs to behave on animal-like fighting instincts, market participants in "transplantee" nations have no choice but making their maximum efforts to act on their instincts. In response to this, as "irrational market principles" would start working in "transplantee" nations, the "market" will fall into a chaos status full of frustrations.[12] As a result, even if "institutional transplant" has enhanced cozy relations among politicians, bureaucrats and business leaders in "transplantee" nation, such result has come from human's intellectual limitations and does not go against Hayek's "egalitarianism" concept at all.

As the "market" is recognized as an arena for competition among individuals that have limitations, Hayek's "market principles" concept affirms the "methodological individualism" notion in which an individual's behavior objectives are restricted by other person's behavior objectives. In other words, since the "market" enhances egoistic interrelationships, even if market participants' legal and rule-related problems are serving as a moral concept, these problems are not denied.[13] From this perspective, the factors of "unexpected results" that "institutional transplant" leads to old-guard authoritarianism in "transplantee" nations are recognized as market driving forces under moral standpoints of Hayek's "market principles."

Typical examples of such "unexpected results" are seen in US's attempts/failures of "institutional transplant" into Japan and South Korea in the 1950s. At that time, it was still soon after WWII for Japan, while South Korea also suffered the Korean War shortly before. Although these two nations absolutely needed national recovery from their war damages, their central banks that should take control over their swelling fiscal expenditures didn't attain political independence. As US-style market principles based on Hayek's "market principles" are transplanted to these nations, the "spontaneous order" concept was getting employed as a tool to control over swelling fiscal expenditures. As clearly explained later, there emerged "unexpected results" because Japan saw the revival of corporate system structure led by financial capital, while South Korea has come to have old-guard authoritarianism through corporate system led by preferential conglomerates.

III. History of "institutions" in US

1. Birth of American Institutional School

[11] These desires include appetite for power, thirst for money and exclusive egoism.

[12] For this reason, morality as argued by Hayek is a tool to overcome animal-like desires in the "market."

[13] Egashira Susumu and Nakamura Shuichi, "Chapter 4. Friedrich Hayek" (Okon Hiroyuki and Hashimoto Tsutomu (eds.), *Austria School Economics*, Nihon Keizai Hyouronsha, 2003, p.126

When analyzing US's ideological history, we should not ignore the fact that the US government has been attempting to attain "egalitarianism" through "economic regulations."[14] Democrats (Democratic Party's members at that time) mainly attempted to achieve such "egalitarianism" concept through government-led massive economic interventions (New Deal program). This "egalitarianism" concept is still employed as a part of Democratic Party's policies even now.

Calling for "economic regulations," New Dealers insisted that laissez-faire "market" has brought about collapse of the stock price at New York Stock Exchange on October 24, 1929. From the 19th Century to the 1920s, US had been in the state of "moral unsoundness" full of personal greed, and immoral behaviors, such as illegal manipulations in US's stock markets went unchallenged. Greedy investors issued shares in worthless companies, and some of them even engaged in fraudulent business practices. As the image for the entire stock market got deteriorated significantly since then, money inflow from non-investors started to decrease gradually.

Because of such "uncontrolled speculative transactions," New York Stock Exchange suffered the stock price meltdown, leading to so-called Great Depression. The market capitalization of listed shares at New York Stock Exchange stood at $89,668,276,854 on September 1, 1929, but it fell to $15,633,479,577 on July 1, 1932 shortly after the stock price meltdown, wiping out $74 billion in value or 82% of the market capitalization from the stock market. Since then, New Dealers led by Roosevelt's Democrat Administration aimed at setting up its unique "egalitarianism" concept and have launched "economic regulations" as a part of their egalitarianism programs. For example, Stock Exchange Commission (SEC) required disclosure of investors through "Securities Act of 1933" and "Securities Exchange Act of 1934," while "Banking Act of 1933" sets up "Board of Governors of the Federal Reserve System," which aims at the central bank's political independence, and the subsequent "Banking Act of 1935" lays down stricter legal framework on SEC. This legislation requires the Board to serve as "financial supreme court" free of any political influences.

On the other hand, new "economic regulations" concept in the New Deal era was originally influenced by "Institutional School economists," such as Veblen. As explained in his outstanding work "The Theory of the Leisure Class" (1899), Veblen recognized human beings as advanced living creatures that have a good sense to avoid direct conflicts with their competitors, rather than as an animal that would beat up their competitors. Severely criticizing market economy's societal wastefulness in the process of attaining "egalitarianism," he pointed out "habit of thought" as a solution to immoral and anti-social factors inherent in the market economy.[15] According to him,

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[14] For example, investment regulations on banks as set forth in "Banking Act of 1933" and interest regulations laid down in "Banking Act of 1935"

[15] To attain Hayek-style "spontaneous order" concept, it is necessary to beat up competitors. In addition, social problems would emerge, such as permeation of feudal conservatism, acceptance of market competition principles and emergence of a gap society. To address these problems, "habit of thought" is necessary.

human's habit of thought would serve as a driving force, which is found in every movement, for societal stability and harmony. In other words, it also includes rules leading to the state of equilibrium. He recognized that the habit of thought, which is absolutely necessary for maintaining desirable resource allocation in profit motivation-based capitalist economy, would serve effectively as a tool to attain "egalitarianism."

For this reason, for Veblen, "market" is ultimate laissez-faire that goes against the habit of thought on Hayek's "market principles" and would bring about various social problems that would send back market participants to the feudal era. As a result, people will have a new political mindset that acquisition of "war spoils" under the "market-oriented principle" should be praised. In this case, even if they regard it more efficient to accumulate their surplus products obtained through "plunder," such way of thinking does not go against Hayek's notion.

The Veblen-style "egalitarianism" sends warning messages against the Hayek-style "market principles" and has contributed to New Deal program's "economic regulations" unique to US. Then, what kind of ideological factors has contributed to formation of the Veblen-style "egalitarianism"? From now on, this paper briefly discusses the arguments of Institutional School economists, including Veblen, and makes clear their ideological background from historical perspectives.

2. Formation of American Institutional School

As mentioned earlier, Hayek's "spontaneous order" is based on the notion that extremely greedy "upper rank persons" are the "fittest" in the market. In other words, the "survival-of-the-fittest" law as argued by him will yield "unexpected results" that the government in "transplantee" nation would enhance its interventions into the market. For this reason, "market-oriented" policies will bring about "big government," which the conservatives hate the most. For example, J. Locke (Locke, John), T. Jefferson (Jefferson, Thomas), B. Franklin (Franklin, Benjamin) and E. Burke (Burke, Edmund) criticized collectivism because it denies "libertarianism" and collectivism is achieved through "big government" that the conservatives dislike the most. The conservatives criticize New Deal programs (big government) from their belief in "libertarianism," but it is "contradictory" because they also defend a big government from mental perspectives.[16]

To address "contradictions" in "transplantee" nations, this paper puts focus on the argument of Institutional School economist J. R. Commons (Commons, John R.), who insists on the importance of market morality as a tool to satisfy human's social security and expands human freedom from the viewpoint of "law and economics." For him, morality is important because it would contribute through social welfare legislations. Commons argues his approach that would get rid of unfair competition as well as forcible execution, blackmail, discrimination from other persons in order to

[16] Nakano Hideichiro, *Revival of American Conservatism: Intellectuals surrounding Hoover Institution*, Yuhikaku, 1982, pp.134-135

comply with morality as rules for group behaviors.[17]

This approach is called "Common Law Legal Model," which is originated from Veblen's "habit of thought" concept as mentioned earlier. Common' social welfare legislations, including the workers' accident compensation program and the unemployment insurance program during the New Deal era, have led to the modern welfare state concept. In addition, "Common Law Legal Model" also leads to evolutionary science of W. C. Mitchell (Mitchell, Wesley C.), who points out that human behaviors are unconsciously regulated with traditions or habits of thought. As an institutional school economist, he applies and expands the "regulation" concept as a social theory to further advance the social system, and he gave birth to the "economic regulation" concept so that human beings get unconsciously controlled with traditions or habits of thought. Mitchell played significant roles because his concept of "regulations" significantly served for emergence of economic regulations after the Great Depression.

We should not ignore the fact that Institutional School economists' way of thinking in this way is also "imported" from other nations. From now on, in order to explain historical background for importing the Institutional School's concepts, this paper briefly discuss how American Institutional School was formed through import of the ideology of German Historical School.

3. US as "transplantee" nation

From colonial wars through the Revolutionary War to the end of the 18th Century, economic thoughts in US did not have systematic structure. With the Classical School's books getting published in the 19th Century, universities in New England and southern part of US officially launched lectures on economics. They used textbooks written by J.B. Say (Say, Jean-Baptiste) or J. R. McCulloch (McCulloch, John Ramsay) and then libertarian textbooks written by T. Cooper (Cooper, Thomas) or A. Rand (Rand, Ayn).

As protectionism movement got stronger backed by industrial capitals in northern part of US around the 1820, D. Raymond (Raymond, Daniel), F. List (List, Friedrich), H. C. Carey (Carey, Henry C.) and some other economists started calling their theories "National Economics," playing their roles in "American System" economics. In 1885, they established the American Economic Association, which mainly consisted of younger researchers who completed their overseas studies in Germany. For example, R. T. Ely (Ely, Richard T.) who studied at Heidelberg University, Germany, in 1876, returned to US after engaging in historical and practical research projects by German Historical School economists. Having learned Historical School economists' approaches to criticize Classical School's arguments, he aimed at applying and expanding German Historical School

[17] Ko Cheol Nam, *Origin of Modern American Economic Ideologies*, 2004,University of Nagoya Press, pp.203-204

economists' arguments in a similar manner to Christian Reformism from social viewpoints. Like them, approximately 9,000 researchers studied in universities in Germany from 1820 to 1920. They imported the social organism concept, denial of speculative theories, trusts in empirical data, practices of higher criticism, comparative methodologies, etc. to US. In addition to these thoughts, US underwent "institutional transplant" from Germany in various areas, such as philosophy, jurisprudence, history studies, political science and sociology.

Over time, researchers returning from Germany formed American Historical School as "imported academism," and American Historical School enjoyed its glory days from the 1870s to 1880s. They called themselves "New School" and created new renaissance in US citizens' intellectual life, while launching bold controversies against traditional laissez-faire Classical School economists. "New School" fortunately had its successors, such as J. M. Clark (Clark, John B.), in addition to the aforementioned W. C. Mitchell and J. R. Commons, and made significant contributions in attaining institutional roles of US economy.

From the 1900s to the 1910s, "New School" ideology was handed over to "Institutional School" economists, such as Veblen as mentioned earlier. American Institutional School economists advocated evolutionary approaches to economic structures, relative analysis on technology advancement and institutional transformation, and adjustment of industrial structure and corporate structure. American Historical School's ideologies, which represent "institutional transplant" from Germany, were turned into reality because they were reflected in "economic regulations" argued by Mitchell and other Institutional School economists due to the Great Depression.

Although New Dealers conducted national reconstruction policies in Japan and South Korea in the 1950s, they attached importance to "institutional transplant" to Japan and South Korea along with recovery policies without sufficiently discussing "economic regulations." As mentioned earlier, US attempted to eradicate all factors that would threaten its own hegemony or its sense of values during the peak of the Cold War. As putting top priority on global military strategy at that time, US extinguished American Institutional School's ideology without advocating any "economic regulations" and concentrated on "transplant" of "US-style market principles" to Japan and South Korea.

As a result, "institutional transplant" of the US-style market principles has yielded "contradictions" in "transplantee" nations. At that time, Japan and South Korea both got incorporated in "US global military strategy" and pushed ahead with development-oriented policies under swelling fiscal expenditures during their reconstruction period. In response to this trend, "unregulated market principles" by US permitted government interventions into development policies, bringing bout "unexpected results" of yielding unique corporate governance structure in Japan and South Korea. In other words, "institutional transplant" of "unregulated market principles" into Japan and South Korea in the 1950s has fostered unique corporate governance structure under

feudal and conservative philosophies based on cozy relations among politicians, bureaucrats and business leaders in these two nations, leading to emergence of old-guard authoritarian regimes.

From now on, this paper makes clear the historical process of these "unexpected results" through empirical analysis on "conglomerates" in Japan and South Korea.

IV. Empirical analysis on "transplantee" nations

Generally speaking, Japan's corporate governance structure is influenced by "conglomerates" translated as "Zaibatsu" in English, while that in South Korea's is influenced by "conglomerates" translated as "Chaebol" in English. Although corporate governance structures in Japan and South Korea have progressed centering around "conglomerates" in this way, these two nations have corporate governance structures with different English translations because of the historical process as follows.

Japan's corporate governance structure, which emerged under centralized political regime from the 1920s to the 1930s, underwent "separation of management and ownership" due to post-war occupation policy by US (so-called "Zaibatsu dissolution" policy) and shifted from owner-based corporate structure to corporate groups on the premise of main-bank system and cross-shareholding practices. On the other hand, "no separation of ownership from management" has been widely seen in South Korea even today. For example, President Kim Dae Jung at the time of Asian Currency Crisis from 1997 met with the four major conglomerates (Hyundai, Samsung, LG and Daewoo) top leaders on January 13, 1998 to instruct them to reform their "no separation of ownership from management," but the structure of these conglomerates remained unchanged. In 2003 after the currency crisis, cross-shareholding controlled 41.3% of all shares in affiliate companies in South Korean corporate groups. By adding 5.2% family-owned shareholding ratio, the internal shareholding ratio for South Korean corporate groups stands at as high as 46.6%.[18]

Corporate governance structures in Japan and South Korea are so much different in this way because of the historical process of US's attempts and failure of "institutional transplant" into Japan and South Korea in the 1950s. The Cold War got intensified at that time. It was still soon after WWII for Japan, while South Korea also suffered the Korean War shortly before. Under the backdrop at that time, US recognized that intensified Cold War would threaten its hegemony and its sense of values and imposed "absolutized libertarianism" on Japan and South Korea to eliminate such risks. US intended to "transplant" into Japan and South Korea the Hayek-style "market principles" in which personal differences, such as power, intelligence, age, willingness and personal tendency,

[18] An Hui Seok, "Corporate Growth, Ownership and Management: Examples in South Korea," *Marketing and Distribution Science and Interactions with Market: Memorial Papers Collection to Commemorate Retirement of Professor Shiraishi Yoshiak, University of Marketing and Distribution Sciences of Nakauchi Gakuen*, 2004, p.154

would bring about free competition, natural selection and survival-of-the-fittest and enable progress of the society.

As a result, "unexpected results" have emerged because Japan, one of the "transplantee" nations, saw the revival of economic system led by financial capital, while preferential conglomerates stimulated government-driven capitalism under cozy relations among politicians, bureaucrats and business leaders in South Korea, the other "transplantee" nation.[19]

1. Attempts and failure of "transplant"

The historical process of "unexpected results" from "transplant" of "US-style market principles" has became visible through collapse of the Shoup Recommendation (released in 1949 and becoming effective in 1950), which addresses US-style direct investment-led financial structure in Japan. The Shoup Recommendation, which is originally based on New Deal program, mainly aimed at introducing the comprehensive income tax scheme (income distribution "institution") for "fairness of tax burden" by setting up comprehensive income (i.e., all increases in economic capabilities between two points of time) as tax base. Shoup (Shoup, Carl S.) aimed at such purpose because he recognized direct finance would provide efficient capital allocation and that capital allocation through stock market on the initiative of Federal Reserve Board (FRB) would lead to desirable capital accumulation.[20] Having concerned about the traditional accumulation approach in which financial capital got involved with high-risk capital transactions, Shoup included deposit interest income in the comprehensive income.

On the other hand, corporate income tax rate was fixed at a flat rate, and cross-shareholdings were tax exempt.[21] Interest tax was abolished because it would prevent retained earnings of corporations. In addition, Shoup introduced the tax declaration program on dividend income, excluded them from the comprehensive income and decided that 25% of dividend income receivable from corporations was deductible.

Shoup levied lighter tax burden on dividend income because he intended to transplant the US-style market principle that lighter tax burden would increase securities investment of high-income persons unlike low-income persons who would boost consumption. As a result, major shareholders with larger comprehensive income faced rather lighter tax burden, resulting in economy of scale. Since then, large corporations played leading roles in natural selection in the market. In

[19] In South Korea, preferential conglomerates pushed ahead with "development dictatorship" economic policies based on "no separation of ownership from management."

[20] This "recognition" is based on "institutional transplant" attempts of the US-style financial system into Japan.

[21] Corporate tax rate is set at 35% in order to mitigate corporation's tax burdens by set up a flat tax rate. Even if cross-shareholdings is tax exempt, interest tax surcharges will be levied as long as a corporation does not distribute its entire profits as dividends.

addition, former Zaibatsu, such as Mitsui, Mitsubishi, Sumitomo and Fuji (former Yasuda), which benefitted from corporate tax cut due to Shoup Recommendation, were able to revive through tax-exempt cross-shareholding practices. When Korean War broke out in June 1950, "revival of Zaibatsu" due to so-called "Korean War special procurement demand" has led to failure of "institutional transplant" of the US-style market principles, bringing about "unexpected results" that Japanese-style corporate governance structure has emerges under old-guard authoritarian regime.

In South Korea, A. I. Bloomfield（Bloomfield,Arthur I.）, Chief of Balance of Payments Division, Federal Reserve Bank of New York, and J. P. Jensen,(Jensen,John P.) Chief of Bank Supervision Division, Federal Reserve Bank of New York, conducted financial reforms in South Korea in 1949. As with the aforementioned "Shoup Recommendation," the recommendations of Bloomfield and his colleagues put focus on "transplanting" the financial system led by Federal Reserve Board (FRB) as well as necessary "system localizations" to do so. The attempt of this "transplant" was put into practice through setting up FRB's carbon copy "Monetary Policy Committee" in South Korea's central bank, the Bank of Korea. In other words, they set up "Monetary Policy Committee" in the Bank of Korea to assure the Committee's strong independence from any political power and expected that the Committee would play the same roles as FRB.

Despite this, after Korean War broke out in June 1950, Bloomfield and his colleagues permitted a lot of government officials to engage in "Monetary Policy Committee." They allowed a lot of government officials to get involved in "Monetary Policy Committee" in this way because US, which recognized that its hegemony and senses of values would be threatened, wanted the Committee to have deep relationships with pro-US government (the Yi Syngman Administration) and ironically employed Bloomfield's' concept as a necessary tool to transform the military and political global strategies of US.[22]

On October 1, 1954, the South Korean government established "Committee on Pushing Ahead with Selling Bank-owned Shares and Bank Shares" in the government to "transplant" direct finance-led "market-oriented" economy. However, as "Monetary Policy Committee" was employed as an economic intervention tool of the pro-US government, the Committee did not have enough capabilities to keep watch over the government's sale of shares. Since then, certain groups, such as some major landowners, former civil servants and emerging merchants, became able to acquire massive amount of bank shares through their personnel connections with the Yi Administration. Over time, they were able to consolidate their position as "preferential conglomerates" (Samsung,

[22] The fact that a lot of government officials engaged in "Monetary Policy Committee" means making obscure the legal provision for maintaining the central bank's political independence. "Institutional transplant" of the US-style market principles has yielded "unexpected results" because the central bank has lost its political independence due to the Cold War structure. To analyze effects of US's great-power global strategies, it is meaningful to make clear what has happened in "transplantee" nations.

Keumsung, Samho, Lucky, Dongyang and Pambon).

Then, how did Japan and South Korea form their corporate governance structures through the failure of "transplanting" the US-style market principles?[23] From now on, this paper makes clear the factors of "unexpected results" through comparing the history of how corporate governance structure was formed in Japan and South Korea.

2. Japan's corporate governance structure

Industrial revival in Japan turned into reality after "Meiji Restoration." Ideology behind Meiji Restoration is originally based on Confucianism. Confucianism was imported to Japan during Edo Period. Neo Confucianism, which was started by Shu Chin at the end of Sung Dynasty in the second half of the 12th Century, was the mainstream of Confucianism imported to Japan. At the end of Edo Period immediately before Meiji Restoration, clan was recognized as a state, domain and family. At that time, major clans in southwest part of Japan made efforts for wealthy nation and strong army through encouragement of new industries. In this process, lower-ranked samurai exclusively played important roles. As clans that had samurai as their subjects were regarded as "family," "Meiji Restoration" has led to encouragement of new industry as well as wealthy nation and strong army for clans, which means a country and a family.

Tokugawa Shogunate attempted to introduce Confucianism in this way because of political background at that time in which Tokugawa Shogunate needed to assure public order and discipline between the master and subordinates and enhanced the shogunate system by making feudal lords pledge loyalty to Tokugawa Shogunate. For this reason, historical continuity emerges from the Tokugawa Shogunate Period to Meiji Restoration. Confucianism served as the base for "Meiji Restoration" and has yielded Zaibatsu on later dates.

At that time, as heavy chemical industry has progressed since Meiji Restoration, Zaibatsu has strongly pushed ahead with enhancing their control over the economy and needed to centralize shareholdings as a part of their efforts. In response to this trend, as investment funds necessary for heavy chemical industrialization had no choice but going to Zaibatsu, Zaibatsu were able to collect massive amount of idle funds in the society. "Sumitomo's Family Constitution" is one of the family precept examples that lay down Confucianism ideology that has led to the ideology of Meiji Restoration.[24] Due to this family precept, Sumitomo Zaibatsu was able to further enhance its

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[23] Corporate governance structure means "Japanese-style Zaibatsu" that has developed at the initiatives of financial capitalists as well as preferential "South Korean-style Chaebol" with "no separation of ownership from management."

[24] Sumitomo's Family Constitution (in 1882)

Article 1. The householder shall mean the household head that inherits Sumitomo's family estate.

Article 2. The householder shall take control over all of Sumitomo family affairs and make efforts to well-being of the householder and prosperity of business activities.

pyramid-type shareholding structure in which the Zaibatsu headquarters owned shares in their subsidiaries, which in turn owned shares in their subsidiaries. Heavy chemical industry, which played important roles in Japan's industrialization, turned into reality, stimulated by enhancement of Zaibatsu's control based on Confucianism as mentioned earlier.

When lawmakers passed "Banking Act" (promulgated in March 1927 and becoming effective in January 1928) to address the outbreak of Showa financial crisis in March 1927, the central bank (Bank of Japan) started to chronically provide funds to commercial banks under strong supervisory authorities of Finance Ministry. Under the pretext to prevent moral hazards among commercial banks, the government started employing "economic control" to enhance its control, shifting away from its traditional approach Confucianism. Since then, the Japanese economy has come to have stabilized economic system through such "economic control," and monetary policies were exclusively employed as a tool to stabilize the economy. "Economic control" started working as a new tool to enhance regulatory powers at the government's initiative.

The outbreak of Second Sino-Japanese War in 1937 further enhanced such "economic control." First of all, "Temporary Fund Adjustment Act" (promulgated in September 1937 and becoming effective in 1938) took control over capacity investment from financial aspects, while "Business Fund Adjustment Standard" drafted in line with this legislation laid down financing scheme for the munitions industry. Then, "Corporate Earnings Dividend and Fund Facility Ordinance," which became effective in 1939, authorized Finance Minister to deliver financing orders via Industrial Bank of Japan (IBJ). In addition, "Bank Fund Management Ordinance," which became effective in 1940, also required banks other than IBJ to obey the financing order of Finance Minister. In 1940, "Emergent Syndicate Financing Consortium" was established to coordinate loans mainly provided by IBJ. In 1942, the government also launched "Finance Control Group Ordinance" to control financing, while "Bank of Japan Act" became effective in a similar manner Nazi Germany's Reichsbank approach. In this manner, the government added momentum to enhancement of

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Article 3. The householder shall deeply honor Sumitomo's ancestors and shall not neglect education for his descendants.
Article 4. The householder shall be sociable with his relatives and maintain friendships for a long time.
Article 5. The householder shall appoint, dismiss, downgrade, reward or punish employees of Sumitomo Family in accordance with the applicable family rules.
Article 6. The householder shall be of high morals, respect for morality and pay due attentions to cordial treatment of collateral family members and capable members.
Article 7. After discussing with the head clerk and the chief manager, the householder shall prepare for stable family operations by setting up appropriate methods for accumulating/keeping some cash other than operating capital.
-Omitted-
Article 14. The householder may not increase, decrease or amend the chapters or articles of this family constitution without obtaining consent of the head clerk and the chief manager. (Miyamoto Mataji, *Study on Sumitomo Family Constitution and Financial History*, Doubunkan Shuppan, 1988, pp.75-76)

"economic control."

After the end of WWII, "economic control," which aimed at the government-led financing, started to get employed as a tool to mitigate confusions immediately after WWII. Comprehensive income tax, which was the top priority of the aforementioned Shoup Recommendation, went unsuccessful because of the financial sector's intention to maintain and expand their profits through "financial control" since the pre-war era. Fearing possible negative impacts on savings propensity, Japan's financial sector expressed its intention to oppose government's policy that incorporates deposit interest income in the comprehensive income, resulting in collapse of Shoup Recommendation.

In response to the financial sector's such intention, the Japanese government introduced the 50% taxation rule (withholding tax option) on deposit interest income, which was subject to the comprehensive taxation scheme, in FY1951 tax system revision. Lawmakers discussed 5% cut of deposit interest income tax rate for FY1953 tax system revision, but Japanese Bankers Association complained about this tax cut and demanded 20% common withholding tax rate by entirely abolishing the portion of comprehensive taxation. In response to this request, the government lowered the deposit interest income tax rate to 10% (separate withholding taxation) in the FY1953 tax system revision. In addition, the government also cut down tax rate on long-term (1 year or longer) savings deposit interest income to 5% (separate withholding taxation) in the FY1954 tax system revision. Then, deposit interest income became entirely tax exempt in the FY1955 tax system revision.

In the 22nd Diet session in FY1955, Finance Minister Ichimada welcomed this deposit interest income tax exemption scheme, calling for economic policies at the initiative of financial capital.[25] As Japan enjoyed unexpected "special procurement demand" resulting from Korean War since 1950, lending from financial institutions was urgently necessary top-priority matter. In July 1951, under its global strategy, US stopped economic aids to Japan, which also required Japan to pay a portion of post-war expenditures (occupation expenditures), and allowed Japan to continue self-sustained national reconstruction policies led by financial institutions in the same manner as the pre-war era. Due to this trend, "institutional transplant" of the US-style financial system went unsuccessful, and market principles have brought about revival of Japanese-style corporate governance structure (Japanese-style Zaibatsu) under "economic control."

From the viewpoints stated above, there are the following relationships between Japanese-style corporate governance structure and "collapse of Shoup Taxation Scheme." Because Japan forced

[25]"In particular, to expand and develop our economy in the future, the top priority must be placed on enhancing savings through Japanese citizens' thriftiness and strengthening capital direct accumulation through sound corporate management. In other words, we should take the path to increase savings by reducing consumption, encourage the industrial activities and increase job opportunities. For this reason, the government intends to enhance corporate capital via cutting down corporate tax and to drastically increase savings by abolishing all taxes on interest incomes this time." (Japanese Bankers Association, *Finance*, 1954, pp.19-20)

through entirely tax exemption on deposit interest income in contradiction to Shoup Recommendation, deposits and savings have increased, leading to capital accumulation in the post-war Japan. Then, Japan again started aiming at economic growth led by financial institutions under swelling fiscal expenditures. With abundant cash flow, Japanese financial institutions, which took control over massive fiscal expenditures, repurchased their former subsidiaries and effectively used these shareholdings to successfully resume "Keiretsu lending" as seen in the pre-war era and during WWII. As a result, because close lending relationships between financial institutions and corporations have took root, so-called cross-shareholding practices have posed positive impacts for the post-war corporate rehabilitation plans. Without collapse of "Shoup Taxation Scheme," Zaibatsu in Japan would never have revived.

As bank's affiliated firms also emerged as major players during Japan's high economic growth in the 1950s under the main-bank system, former Zaibatsu groups, such as Mitsui, Mitsubishi, Sumitomo and Fuji (former Yasuda), have almost revived. Since then, former Zaibatsu affiliated firms gathered up again backed by "Meiji Restoration" ideology that fostered old-guard authoritarian scheme. In this way, failure of "institutional transplant" has yielded "unexpected results."[26]

3. Corporate governance structure in South Korea

South Korea's corporate governance structure, which is characterized by "no separation of ownership from management," is originally derived from corrupt Buddhism at the end of Goryeo Dynasty as well as Joseon Yi Dynasty's Confucianism-based reforms on corrupt Buddhism. Since then, Joseon Dynasty ruled the Korea society based on its official philosophy Confucianism and employed traditional cultures, which emphasize legitimacy and justifiable reason, as ideological tools. In response to this trend, Korean people enhanced their tendency to understand their traditional cultures based on their ethnically independent awareness.[27]

Due to this historical background, corporate governance structure in South Korea generally consists of family members (father, mother, child, grandfather and grandmother).[28] For this reason, as for corporate management in South Korea, biological "blood tie" is an absolutely necessary factor for corporate management members. As this characteristic of South Korean-style corporate governance structure is also incorporated in "conglomerates," it was a rare case to entrust corporate management to non-relatives. It was frequently seen that brothers of founders go independent by

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[26] Since then, Japan's unique corporate governance has revived.

[27] Translated by Mihashi Hiroo, "*World's Textbook Series* 15), *High School History Textbook in South Korea: Government-Designated High School Textbook on History*, Akashi Shoten, 2006, pp.288-289

[28] Hattori Tamio, *Development of Corporate Management Practices in South Korea*, Bunshin-do, 1989, pp.9-10

owning a portion of shares or management authorities in conglomerate's affiliated firm or that a corporate group is divided up when the founder hands over corporate management to his successor.[29]

In the 1950s, US attempted to "transplant" its market principles to South Korea that have the aforementioned ideological background, but such attempt has yielded "unexpected results" as mentioned earlier because it has brought about preferential corporate governance structure on the premise of "no separation of ownership from management." From now on, this paper makes clear how US's attempt of "institutional transplant" of US-style financial system went unsuccessful, and how preferential corporate governance structure has emerged.

As mentioned earlier, Bloomfield and Jensen, who attempted "institutional transplant" of the US-style financial system to South Korea, both occupied important position at Federal Reserve Board in US and served as active practitioners. These two experts visited South Korea in June 1949 to fulfill their tasks. As mentioned above, it is almost the same timing when the taxation investigation team led by Shoup visited Japan and submitted "Shoup Recommendation" calling for reforming/reconstructing taxation framework in Japan.

After returning to US from South Korea, Bloomfield and his colleagues had discussions with Federal Reserve Bank staff, compiled "South Korea Financial System Reform Recommendation (draft)," which consists of desirable reforms and specific approaches on South Korean financial system, and submitted it to the South Korean government.[30]

As with the aforementioned "Shoup Recommendation," Bloomfield's recommendation on South Korea also put emphasis on "transplant" of FRB-led financial system as well as "system localization" necessary for such institutional transplant. They set up "Monetary Policy Committee" in the Bank of Korea to assure the Committee's strong independence from any political power and expected that the Committee would play the same roles as FRB. The Committee, the supreme decision-making unit on monetary policy in "institutional transplant" of the US-style market principles, was entrusted the task to break away from the former monetary regime during the colonial era and to encourage smoother monetary policy under independent new monetary framework.

As with the case of "Shoup Recommendation" in Japan, "institutional transplant" of the US-style market model to South Korea did not accomplish its initial goals and went unsuccessful, yielding "unexpected results" of generating "preferential conglomerates" under cozy relations among politicians, bureaucrats and business leaders. Since these conglomerates enhanced their business

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[29] Hattori Tamio, "Chapter III-2. Chaebols and their Top Management," (Hattori Tamio〔ed.〕, *Industrialization in South Korea: Structure of Growth*, Institute of Developing Economies, pp. 160-161)

[30] Economic Cooperation Administration, Korea's administrative unit that was under the initiative of US and served as the liaison office in terms of economic aids from US.

[31]Typical chaebols would include Hwashin Group, Samyang Group, Daehan Group and Kaepung Group.

foundation by taking advantage of the government's sale of bank shares, they were connected through personal or political relations with President Yi Syngman in many cases, unlike "traditional conglomerates" during colonial era.[31] As preferential conglomerates have grown in (US-led) import substitution industries by processing assistance materials sent from US in the state of raw materials or half-finished products, they are different from "first emerging conglomerates" or "second emerging conglomerates" that emerged on later dates. Their corporate governance structure is based on "no separation of ownership from management." Due to their preferential status, all of them have attained business growth through cozy relationships with politicians.

Taechang Chaebol is the most typical example of conglomerates that have expanded like a political merchant in its initial phase. Taechang is called "the first chaebol" in South Korea, but it had way too close connections with the government at that time and it disappeared at the time of collapse of the Yi Syngman government. Hwashin and Samyang, which grew through cozy relationships with Korean Governor-General Office during the colonial era, also took a similar path. In addition, conglomerates that emerged in the beginning phase and took a path as industrial capitalist more than their initial phase would include Samho, Hanguk Silk, Keumsung (Ssangyong on later days), Seongyeong (SK on later days) and Lucky (the present LG), but they also had some cozy relations with the political and business communities. Sambo,[32] Hanguk Silk,[33] and Seongyeong[34] all enjoyed advantages when the government sold its bank shares. To secure aid funds from UNKRA (United Nations Korean Reconstruction Agency), Lucky also accepted as one of the executives a UNKRA official who was a close friend of Ku Pyeong Hoe, younger brother of Ku In Hoe.[35] In this way, even industrial capitalist conglomerates at their initial phase were able to grow due to preferential treatment resulting from cozy relationships with the political and business communities.

As for political background, South Korean chaebols' corporate governance structure has come to have preferential aspects due to nationalistic policies of President Park Chung Hee (1917-79). Generally speaking, analysts argue that South Korea during the Park Administration is called "compressed" economic growth and put emphasis on heavy chemical industrialization by placing the top priority on achieving nationalistic self-sustained economy. However, the Park Administration focused on "open market policies," such as eliminating tariff barrier and import quotas, and taking

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[32] On later dates, it became the largest cotton spinners in South Korea due to the government's sale of Korea Cotton Mill.

[33] On later dates, it assured the status as a major silken threads manufacturer, taking advant age of the government's sale of Korea Silk Fabric (former Asahi Silk Fabric) and acquisitio-n of Korea Yarn Manufacturer.

[34] On later dates, it established the foundation for business growth as giant conglomerate due to the government's sale of Seongyeong Fabric.

[35] Jeong Jang Yeon, *Study on South Korean Chaebol History: Segmentalized Capitalism and South Korean Chaebols*, Nihon Hyouronsha, 2007, pp.45-52

export-oriented industrialization policies.[36] So to speak, the South Korean government pushed ahead with introducing the US-style market principles, but it took such approaches based on nationalistic policy model created by President Park.

In his own book "Nation, Race and I," Park pointed out Japan's Meiji Restoration as his policy model and insisted that i) under the absolute leader, ii) Korea should conduct the government-led comprehensive reconstruction/development plans and iii) encourage independence of Korean people. However, this old-guard authoritarian framework has resulted in cozy relations among politicians, bureaucrats and business leaders and protracted preferential corporate governance structure even after the 1960s. Park insisted on old-guard authoritarian regime because he saw Yi Syngman government heavily depended on economic aids in the 1950s when US attempted "institutional transplant" of the US-style market principles. Park was concerned about assistance-based economic policies that would "paralyze or extinguish Korean people's independence mindset" as well as emergence of "Western-style democracy" that would "foster slimy attitude to live in idleness and scatter around windfall income, intensified egoism and worship of money."[37]

At that time, it was in the middle of Cold War and shortly after truce of Korean War. For this reason, Park not only expressed his political intention as transitory regime after military coup, but also planned the government-led comprehensive development plan[38] to achieve old-guard authoritarian regime, utterly different from "Western democracy" and to abolish "Western democracy" under the Yi Administration. Park's "open market policies" have enhanced the government's interventions into the economic processes under the old-guard authoritarian regime and also have strengthened preferential conglomerates' investments in core industries under "no separation of ownership from management."

As stated above, this paper makes clear how authoritarian tendency in corporate governance structure, which emerged under Park Administration in line with his own "Meiji Restoration" model, has yielded "distorted structure" of cozy relations among politicians, bureaucrats and business leaders through US-style market principles. After that, "institutional transplant" to spread out the US-style market principles has brought about "unexpected result" to generate preferential corporate governance structure under old-guard authoritarian regime during Park Administration.

V. Conclusion

As stated earlier, this paper first briefly discusses ideological background on "egalitarianism" and "market principles" of US, the transplant originator nation, as background for how "institutional

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[36] Watanabe Toshio, *Modern South Korea Economic Analysis: Developmental Economics and Modern Asia*, Keiso Shobo, 1982, p.8

[37] Park Chung Hee, *Park Chung Hee Collection*2: *Nation, Race and I*, Kajima Shuppansho Kenkyukai, 1970, pp.156-157

[38] Referring to, *First Economic Development 5-year Plan*, drafted by Park himself

transplant" of the "US-style market principles" has yielded "unexpected results." In addition, the paper empirically analyzes how "institutional transplant" of the US-style market principles has brought about "unexpected results" to lead to old-guard authoritarian regime under unique corporate governance structure in "transplantee" nations, Japan and South Korea.

As basic evidence for proving the aforementioned phenomena, it is meaningful to make analysis from the three major viewpoints as follows:

1) As the Cold War got intensified in the 1950s, US, which recognized that its hegemony and sense of values would be threatened, attempted "institutional transplant" of Hayek-style "market principles" to eradicate conflicting ideologies without calling for "economic regulations";
2) At that time, Japan and South Korea both needed to take control over their swelling fiscal expenditures during their national reconstruction phase. As a result, US government's attempts to "transplant" Veblen-style "egalitarianism" into Japan and South Korea (i.e., New Dealers' "Shoup Recommendation" in Japan and "Bloomfield Recommendation" in South Korea) went unsuccessful; and
3) "Institutional transplant" attempts, which are the core of "US-style market principles" as well as complex political economy dynamism up until the failure of such attempts have led to revival of financial capital-led corporate governance structure under cross-shareholding practices and main-bank system in Japan, and emergence of preferential corporate governance structure on the premise of "no separation of ownership from management" in South Korea. In other words, US's attempts to "transplant" its own market principles have brought about "unexpected results" that the corporate governance structures in Japan and South Korea are characterized by old-guard authoritarian structure.

In this way, attempts of "institutional transplant" of Hayek-style "market principles" not only brought about feudal regime with highly centralized political powers in the "transplantee" nations Japan and South Korea but also have led to ironical phenomenon that powerful financial capitalist or the government pushes ahead with direct interventions into the market to improve market capabilities among market participants (adjustment by the market).

US, which worked on "institutional transplant" of its own market principles under the name of globalization, has still been working on "institutional transplants" to spread out the "economic democratization" concept and necessary economic/social frameworks to do so in other nations, while these frameworks are generally called "global standards" in "transplantee" nations. Past examples in Japan and South Korea suggest very important implications to forecast possible results of US-led global policies (market principles).

As stated earlier, through analysis on US's "institutional transplant" into Japan and South Korea in the 1950s, this paper makes clear that reform efforts and their failure have yielded "unexpected results" to bring about old-guard authoritarian regimes in Japan and South Korea. This process

provides “pioneering examples” of rapidly globalized world trend under the present overconcentration of power to US.

Today, globalization of market principles is bringing about universalization of US-style frameworks, or to be more specific, “transplant” of US-style frameworks into other nations. We need to make “proactive policy choices” in order to address “negative legacies” resulting from US’s attempts and failure of “institutional transplant” into Japan and South Korea in the 1950s.

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