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Bank Nationalization, Restructuring and Reprivatization: The Case of Korea Since the Asian Financial Crisis

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Abstract

This article is a case study of the political economy of bank restructuring, privatization and market liberalization in the South Korean banking sector since the 1997/1998 financial crisis. We show that the most crucial factor in that post-crisis bank restructuring was the quick and massive state intervention that involved nationalization or closure of failed banks and a "clean-up" of banks' bad assets through an injection of a huge amount of public funds. This strategy was feasible because the government successfully managed to suppress the vested interests of domestic market participants, including shareholders, employees, and borrowers. We argue that the process of bank restructuring and (re-) privatization in Korea cannot be explained just by market dynamics. On the contrary, we stress that a political economic approach offers a more consistent explanation of the government's rush to sell nationalized banks to foreign investors and international banks. Foreign ownership of domestic banks was a politically motivated agenda of the government designed to create an independent and profit-oriented banking sector that could curb the seemingly omnipotent power of the chaebol conglomerates within the Korean economy.

Keywords: Korea, Bank Privatization, Banking Reform, Financial Liberalization, Financial Crisis

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