Economic bureaucracy and the South Korean developmental state

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ABSTRACT

South Korea underwent a period of high economic growth which propelled it from low to high income status in just a few decades. Instrumental in this process of rapid industrial transformation was the economic bureaucracy which formulated and implemented policies. This thesis details the role played by bureaucratic organizations in South Korea’s development and how they were able to formulate successful economic policies. In analyzing the economic bureaucracy in South Korea, a framework is used to determine its level of autonomy from special interests as well as the degree of public-private cooperation. The study finds that the high levels of corporate coherence and autonomy from special interests within the economic bureaucracy can partially be ascribed to the meticulously meritocratic recruitment and promotion process which was established prior to the first years of high economic growth. At a higher level of abstraction, the study concludes that South Korea benefited from having a strong imperative to develop its economy due to numerous external and domestic conditions. Although the level of applicability in other contexts is found to be limited, the emergence of a competent and relatively incorrupt bureaucracy remains one aspect which could possibly be reproduced elsewhere.

Keywords: economic development, bureaucratic institutions, developmental state, South Korea, East Asian miracle economies
CONTENTS

1. INTRODUCTION .......................................................................................................................... 1
  1.1 Research problem ................................................................................................................... 1
  1.2 Purpose of the study ................................................................................................................ 2
  1.3 Research questions ............................................................................................................... 2
  1.4 Research relevance ............................................................................................................... 2
  1.5 Analytical framework & methodology ................................................................................. 2
  1.7 Delimitations ......................................................................................................................... 3
  1.8 Limitations ............................................................................................................................. 3
  1.9 Disposition ............................................................................................................................. 3

2. THEORY & ANALYTICAL FRAMEWORK ................................................................................. 4
  2.1 Development & development economics .............................................................................. 4
  2.2 The East Asian development debate ...................................................................................... 4
    2.2.1 Literature review .............................................................................................................. 5
  2.3 Key concepts .......................................................................................................................... 7
    2.3.1 Developmental state ....................................................................................................... 7
    2.3.2 Industrial policy .............................................................................................................. 8
  2.4 Assessing institutional capacity: embedded autonomy .......................................................... 8
    2.4.1 Embeddedness ................................................................................................................. 8
    2.4.2 Autonomy ......................................................................................................................... 8
    2.4.3 Concretizing ‘embedded autonomy’ ............................................................................... 9
    2.4.4 Sources and methodology ............................................................................................ 10

3. KOREA’S ECONOMIC DEVELOPMENT .................................................................................. 11
  3.1.1 Overview ........................................................................................................................... 11
  3.2 Background ............................................................................................................................ 12
    3.2.1 Colonization and division .............................................................................................. 12
    3.2.2 War and reconstruction ................................................................................................. 13
  3.3 The Korean developmental state .......................................................................................... 15
3.3.1 Park Chung-hee: emergence of developmentalism (1961-1979) ............................................. 15
3.3.2 Chun Doo-hwan: towards economic liberalism (1980-1987) ............................................. 19
3.3.3 Democracy, financial crisis and beyond (1988-) ................................................................. 20

4. THE ROLE OF ECONOMIC BUREAUCRACY ........................................................................... 24
   4.1.1 Park Chung-hee’s presidency ............................................................................................. 24
   4.1.2 Chun Doo-hwan’s presidency ........................................................................................... 26
   4.1.3 Post-democratization: End of the Korean developmental state? ...................................... 28

5. A KOREAN DEVELOPMENT MODEL? ....................................................................................... 30
   5.1 Unique features ...................................................................................................................... 30
   5.2 Potentially transferable lessons ............................................................................................ 31

6. CONCLUSION ............................................................................................................................. 33

7. REFERENCES ............................................................................................................................... 34
TABLES AND FIGURES

Figure 1. South Korea: Real GDP per capita (constant 2000 USD), 1960-2011 __________ 11
Table 1. GDP per capita, PPP (constant 2005 USD)______________________________ 12

LIST OF ABBREVIATIONS

DPRK Democratic People's Republic of Korea
EPB Economic Planning Board
GDP Gross Domestic Product
GNP Gross National Product
HCI Heavy and Chemical Industries
ICT Information and Communications Technology
IMF International Monetary Fund
MCI Ministry of Commerce and Industry
MITI Ministry of International Trade and Industry
MoF Ministry of Finance
MOFE Ministry of Finance and Economy
OECD Organization for Economic Cooperation and Development
PPP Purchasing Power Parity
ROK Republic of Korea
SCNR Supreme Council for National Reconstruction
SME Small and Medium Enterprises
USD United States Dollar
1. INTRODUCTION

1.1 Research problem
The keys to unlocking a country’s economic growth potential are highly sought after by politicians and economists alike. A growing domestic economy can be utilized to raise the standard of living of a population and develop a nation but it can also be used to legitimize a ruler. How to achieve and sustain rapid growth is a hotly debated question with no simple answer but one way of contributing to the study of economic development is by examining the countries which have managed to achieve and maintain growth.

The nations in East Asia experienced unprecedented economic growth during the latter half of the 20th century and this has naturally made the region the subject of many studies inquiring into the source of that growth. One country in particular, South Korea\(^1\), went from being one of the world’s poorest countries to having the 13th largest economy in the world with a slightly higher GDP per capita (PPP) than the European Union average (Harvie & H. Lee, 2003; World Bank, 2012). Most staggering is the fact that it did this in less than half a century. Furthermore, in 2009 it became the first former aid-recipient to join the OECD’s Development Assistance Committee (J. Kim, 2011).

Though the exact role and importance of governmental interventions in the Korea’s economic development is contested, there is little debate over the fact that there were interventions. Neoliberalism, as prescribed by the World Bank and others, clashes with the wide-ranging government interventions practiced by Korea which, nevertheless, differed radically from the centrally planned economies of communist countries.

The combination of a governmental “visible hand” and the subsequent successful results naturally leads to questions concerning the configuration of government policy and the methods of implementation. In the context of Korea’s industrialization, policy-formulating agencies (i.e. the economic bureaucracy) formed the interface between a profit-seeking private sector and a political leadership which sought to use economic growth to legitimize and strengthen its rule.

As the world sees a resurgence of government intervention in the economic and financial arena following the recession of 2008-09, efforts to better understand the successful processes behind Korea’s industrial policies has regained salience.

\(^1\) This study will use South Korea (officially the Republic of Korea) and Korea interchangeably. Whenever North Korea (officially the Democratic People’s Republic of Korea) is referenced, South Korea will be used for the sake of clarity.
1.2 Purpose of the study
By drawing on existing research on South Korea’s often close ties between state, bureaucracy, and business, this study thus will attempt to provide a more complete picture of how this once poor East Asian country “took off”.

1.3 Research questions
In light of the stated research problem and purpose, the following questions will be answered:

- Which were the most important bureaucratic organs for the formulation of economic policy in South Korea?
- How did the organization of the economic bureaucracy change before the emergence of South Korea’s rapid economic growth?

1.4 Research relevance
Regardless of which measure of development one chooses to compare the progress of different countries over the last half-century, Korea is likely to emerge as one of the most successful cases. The analysis of Korea’s economic growth tends to be focused on either the power of the presidents or that of capital (in particular the enormous domestic conglomerates). This study, however, will focus on the link between them: the economic bureaucracy. To be sure, seminal works have been produced on the particular subject but many more take a wide view which attempts to cover every aspect of the country in its analysis. As such, this research will make an effort to contribute to the debate by closely examining the bureaucracy with the help of an analytical framework.

1.5 Analytical framework & methodology
In order to establish useful conclusions, this study will utilize an analytical framework to more fully understand what caused rapid economic development in South Korea. Primarily, Peter B. Evans’ theory of ‘embedded autonomy’ (1995) will be used in the analysis of government-business relations and their effect on economic growth. This theory makes assumptions about how the developmental states of East Asia produced rapid economic growth partially due to of the ‘embedded autonomy’ of the state bureaucracy vis-à-vis the private sector of the economy. In applying this as an analytical framework on South Korea, more concrete conclusions regarding the applicability (or uniqueness) of the Korean “model” of development can be drawn.

This study will take a qualitative approach and utilize secondary sources in order to achieve the purpose and answer the posed research questions. There has been plenty of research done on the topic of economic development and the experience of East Asian countries. The most pertinent works will be more closely examined in the literature chapter.
1.7 Delimitations
In his study of Korea’s development, David Hundt (2009) applies a five-pronged analytical tool in order to better compartmentalize the sources of economic growth. The variables are bureaucracy, social pressures, national security, economic conditions, and globalization. A more encompassing study would inquire into the effect of all variables but in order to narrow the scope, this study will concentrate on the bureaucracy and the way it interacts with the public and private sectors. The other variables will serve as auxiliary explanatory factors.

Even though the Korean state has, in one form or another, existed for a much longer time, this study will use the annexation of Korea by Japan in 1910 as a starting point while the thrust of the text will deal with the period following Park Chung-hee’s coup in 1961. This year saw the proclamation of the first ‘Five Year Economic Development Plan’ and was the period when Korea’s economic development started in earnest (J. Lee et al., 2012).

Even though Korea is currently a developed country in virtually every aspect (in spite of a recent UN report (2012) which incomprehensibly listed both Korea and Singapore as “developing countries”) the study will also encompass recent events and future prospects. Doing otherwise would shirk the financial crisis of the 1990s but also the subsequent recovery.

1.8 Limitations
No original research will be conducted due to time constraints. Even though the present author can read Korean, only English-language sources will be used in order to avoid the risk of mistranslations. The numerous books and academic papers that have been written on economic development in East Asia and Korea will be used throughout this paper.

1.9 Disposition
The thesis is divided into five chapters, the first of which is this introduction. The second chapter details the theoretical explanations of the East Asian countries and in particular South Korea, which then leads into the framework which will be used in the analytical part of the study.

The third chapter presents a chronological account of Korea’s economic development with a particular emphasis on the issues formulated in the beginning of this introductory chapter. This chapter provides a wider context for answering the research questions, a task which is more explicitly done in the fourth chapter. The fifth chapter attempts to establish whether any facet of South Korea’s development is applicable in other countries and contexts while the sixth and final chapter concludes the study.
2. THEORY & ANALYTICAL FRAMEWORK

2.1 Development & development economics

Gone are the days when a growing per-capita income was the sole measure of successful development but even as economic growth has moved from being an end to a means, the fact remains that growth is essential, though not necessarily sufficient, for achieving development (Todaro & Smith, 2011: 29).

Development economics is distinct from traditional economics in that it, in addition to studying the efficient allocation of resources, also concerns other factors with the aim of raising the standard of living in less developed countries (Todaro & Smith, 2011: 8). The best way to bring about such an improvement is a highly contested topic and proposed “solutions” to development have often been disproven and discarded.

Korea is a case in which the rapid economic growth translated into successful development for the benefit of its population and, as such, may provide useful lessons to other countries and the field of development studies as a whole.

2.2 The East Asian development debate

Just as the optimal methods of development are contested, so are the theoretical explanations of East Asia’s and Korea’s development successes. This section will first present the two primary models which have been used to explain the methods used by East Asian countries, followed by a review of the debate in which these models were first presented. Finally, some key concepts will be explained, which will be used throughout this study.

**Neoliberalism**

Neoliberalism arose in the 1980s as a strand of development studies and states that economic growth is hindered by too much government intervention and instead prescribe free trade, privatization of state-owned enterprises and other such measures with the aim of creating free markets (Todaro & Smith, 2011: 127). In the early 1980s, rapid economic growth in Korea and Taiwan, in particular, was considered to be a result of the private sector and free trade. As such, they were seen as successful cases of the neoliberal model put into practice (Stubbs, 2009).

**Interventionism**

Neoliberal market capitalism is just one form of capitalism and at the other side of the scale sits developmental (or dirigiste) capitalism in which the state plays a central role in “guiding” the market (Dicken, 2011: 178). Critics of neoliberalism argue that all developed countries used
targeted government interventions in trade and industry in their process of development (Cimoli et al., 2009: 107). Keeping in mind that the World Bank, a keen proponent of pro-market policies, reluctantly acknowledged that government intervention played a role in spurring economic growth in East Asia (1993), it seems apposite to adopt a stance which recognizes this when studying South Korea’s development.

2.2.1 Literature review

This literature review will chronologically present some of the most influential works dealing with the rapid economic growth in East Asia. The first works have been selected because they, at the time of their publication, starkly contradicted the prevailing neo-liberal explanatory models. The 1993 World Bank report could be seen as a response to the “revisionist” arguments but also a tacit acknowledgement that governments can play a role in economic development. Lastly, the review will explore some of the more recent literature on developmental states and the role of industrial policy. Since this study will make use of Peter Evans’ concept of ‘embedded autonomy’, his contributions to the field will be brought up in the next chapter.

Japan was undoubtedly the first of Asia’s growth miracles and is the subject of Chalmers Johnson’s ground-breaking book “MITI and the Japanese miracle” (1982) which covers the years 1925-75. In it, he puts forward the idea of Japan as a capitalist developmental state which grew rich due to conscious government policies. Four features characterize a developmental state according to Johnson: a competent elite bureaucracy, a political system in which the bureaucracy is given enough space to take initiative in carrying out its tasks, the perfection of market-conforming state interventions, and a pilot organization tasked with controlling the industrial policy (Johnson, 1999).

Johnson’s work was novel because it contradicted the established notion of the 1980s and 90s, championed by neo-classical economists, that East Asia’s “growth miracles” were the direct result of market incentives, a strong private sector, a free trade principles (Stubbs, 2009). Though Japan was the subject of Johnson’s study, he considers Korea to be the country which most closely followed the model of Japan’s developmental state (Johnson, 1999).

The existence of wide-ranging government interventions was not as contested in Japan as they were in the cases of Korea and Taiwan. Serious attempts to refute the neo-liberal view were made in the late 1980s, with the release of such books as “Asia’s Next Giant” (1989) by Alice Amsden and “Governing the Market” (1990) by Robert Wade.

In her country study on Korea’s industrialization and nascent rise in the international arena, Amsden stresses the vital role of the state but also that of partners (i.e. those industries and
companies targeted by state subsidies) engaged in the developmental project. She concludes that, among the late industrializing countries, where Korea stands out is in the discipline the state is able to exercise over private firms. This discipline constrained market rationality and was put to use in favor of a heavy focus on industrialization.

The novelty of Amsden’s study was its emphasis on the carrot-and-stick character of state-business relations during Korea’s period of industrialization. The government did make use of subsidies but, unlike many lower middle and middle income countries at the time, did not shy away from abandoning non-performers.

Building on the works of Johnson and Amsden, Robert Wade’s theory of a ‘governed market’ identifies three main causes for East Asian success: high levels of productive investment, investment in industries which would not survive without government support and high exposure to international competition, though not necessarily in the domestic market. At a higher level of abstraction he identifies intentional government policy devoted to development as instrumental which, in turn, requires a certain form of state organization (1990: 26).

In 1993, the World Bank released a report named “The East Asian Miracle: Economic Growth and Public Policy” which aimed to detail how eight high-performing Asian economies produced rapid economic growth in the preceding decades. The most pertinent (to this study) outcome of the report is the statement that government intervention “resulted in higher and more equal growth than otherwise would have occurred” in a few Northeast Asian economies (World Bank, 1993: 6).

The report lays out three different theoretical models to explain how this period of high economic growth came about. The first, neoclassical view, holds that while the government provided a stable macroeconomic environment, it did not intervene in the (supposedly) efficient market and growth mainly occurred due to static comparative advantages. The revisionist view grew from critique of the neoclassical view over its “lack of factual validity” and claims that East Asian success stems from functional and selective government interventions. Neither of these two views is, according to the report, sufficient to explain the “miracle”. Instead, a market-friendly approach is presented which falls in the middle-ground between the other two approaches and purports to best reflect the policies taken by the countries in the study. This approach is focused on establishing a sound macroeconomic environment and government intervention is limited to human capital formation (World Bank, 1993: 84).

‘The East Asian Miracle’ received criticism for leaving out any explanation of the institutions between government and industry, while also overlooking the protectionism and restrictions on
foreign investment practiced by the governments of the fast-growing Asian economies (Cassen & Lall, 1996). More harshly, the World Bank has been criticized for, like Narcissus, only seeing its own reflection in East Asia’s success. Furthermore, the report is riddled with counterfactuals claiming to prove that the industrial policies were ineffective simply because a neo-liberal approach would have produced an equally successful result (Amsden, 1994).

The East Asian financial crisis of 1997-98, which dealt a blow to the economic growth of several countries including South Korea, would seem to challenge the notion of an “economic miracle” and the developmental state. However, the fact that government control diminished in the 90s suggests that too little regulation (especially in the area of corporate debt) might have been the actual culprit (Stiglitz & Yusuf, 2001: 517).

The debate over the government’s role in development has not died down in recent years. Indeed, the financial crisis of 2008-09, when the world’s leading free-market proponents spent several hundred billion dollars to save their economies, lent much credence to a possible positive connection between government intervention and development.

2.3 Key concepts

As they will be used throughout the study, two key concepts relevant to Korea’s development will be defined in the following section.

2.3.1 Developmental state

In his work on Japan’s industrialization and the role of the powerful Ministry of International Trade and Industry (MITI), Chalmers Johnson described the core of the developmental state as a state in which “politicians reign and bureaucrats rule” (Johnson, 1982: 134). In other words, politicians hold off special interests in order to leave room for bureaucrats to form and implement policies related to economic development. A more recent description broadens the definition and defines the developmental state as one in which skilled public institutions are “at the centre of the developmental matrix” (Evans, 2010). The concept is thus very much in line with the interventionist view in which the state has a considerable, if not dominant, role in economic development.

Evans (1995) makes a distinction between predatory and developmental states. The former, exemplified by the Democratic Republic of the Congo (then Zaire), denotes a state in which individual incumbents pursue private goals instead of collective goals and ties to society are ties between individuals. In short, predatory states lack overarching goals and the autonomous
bureaucracy to implement them efficiently. Developmental states are by contrast defined by the presence of ‘embedded autonomy’, a concept which is elaborated below.

### 2.3.2 Industrial policy
States have a multitude of tools at their disposal to stimulate economic growth within their borders which can be categorized into strategies of trade, foreign investment, labor market, and industrial policy (Dicken, 2011). The term industrial policy denotes efforts taken by a government in order to promote industrial development beyond what results from free market forces (Lall, 1994). It has also been defined by the World Bank as efforts by the government to alter industrial structures in order to increase productivity-based growth (World Bank, 1993: 304). This study will use the former, more open, definition.

### 2.4 Assessing institutional capacity: embedded autonomy

As described above, key to the success of a developmental state is the existence of a common goal of economic growth which is shared by both the state and the domestic industry. The East Asian developmental states combined this goal with a capacity to actually implement it and, in doing so, successfully achieved economic development.

One way to understand how the relationship between government and industry in East Asia produced the results it did is the concept of “embedded autonomy” as put forward by Peter B. Evans (1995). Autonomy refers to the ability of the state to formulate its own goals (without too much interference by special interests) while at the same time being sufficiently embedded and close to industrial networks to implement those goals. In Evans’ view, joining these two is a prerequisite for a state to be called developmental.

#### 2.4.1 Embeddedness
This first half refers to the concrete ties between state and groups in society with whom the state “shares a joint project of transformation” (Ibid: 59). Since the overriding goal in achieving economic growth is the growth of industrial production (in particular at the early stages of South Korea’s development), the foremost of the societal groups is industrial capital. Just as markets in any capitalist system have to be embedded in society in order to operate efficiently, so does any state have to be connected (or embedded) in the society it governs.

#### 2.4.2 Autonomy
Evans’ definition of ‘autonomy’ refers to an institution capable of independently forming goals and then carrying out those goals without too much outside interference. This can be seen as an extension of Weber’s notion that a capitalist system is dependent upon a functioning and modern
bureaucracy. An autonomous economic bureaucracy is created through meritocratic recruitment, promises of long-term rewards, and a certain insulation from the demands of society which establishes what Evans calls “corporate coherence” (Ibid: 12). The dilemma, which ‘embedded autonomy’ seeks to address, is how to attain sufficient insulation without suffering from the cost of isolation.

2.4.3 Concretizing ‘embedded autonomy’
In order to establish a more tangible framework with which to analyze how South Korea’s degree of embedded autonomy contributed to its development, and how it changed over time, some concretization of Evans’ original theory is necessary. The following list includes examples of possible expressions of embedded autonomy, divided into its two components, which will be used in the analysis of Korean development:

Embeddedness
- Channels for state-society participation: this includes formal and informal relations between state agencies and organizations or individual firms. Since this study’s focus lies on state-industry ties, that aspect of state-society relations will be the primary subject of study. Channels may vary in form but the aim is to improve the co-operation and communication between state and society.
- State-business cohesion: a more close-knit relationship would signify a higher degree of embeddedness but could also mean diminished state autonomy.

Autonomy
The following examples draws on Linda Weiss’ (1998) analysis of the state’s role in Korean development. She suggests three conditions that were generally deemed helpful in establishing an autonomous state (in Evans’ sense of the word). These factors will be assessed throughout the period covered in this study:
- A prestigious and competent bureaucracy,
- An effective information-gathering infrastructure,
- An economic ‘pilot agency’ tasked with formulating and coordinating industrial transformation.

These conditions are not ends in themselves but can, if they are present and operate efficiently, be very useful in creating an autonomous state which can bind “the behavior of incumbents to its pursuit of collective end” and “can act with some independence in relation to particularistic societal pressures” (Evans, 1995: 59).
In this study, the concept of embedded autonomy will be used as an analytical tool in examining the economic bureaucracy’s role in Korea’s process of “industrial transformation”. The degree of both embeddedness and autonomy during the first decades of the developmental state (i.e. before the first democratic election in 1987) will be evaluated by using the above delineated criteria, in a separate chapter from the historical overview.

The period following democratization will not be analyzed in the same manner simply because industrialization had, to a large degree, already been achieved thus extending beyond the original purpose of the framework. Instead, a review of the state of the Korean developmental state will be conducted.

2.4.4 Sources and methodology
The study will utilize qualitative text analysis and apply the aforementioned analytical framework in order to answer the posed research questions. Plenty has been written on the subject of South Korea’s development and many books and academic papers will be put to use. Some are of a more controversial nature (such as those examined in the review) whereas others have tried to provide an objective retelling of Korea’s history of rapid economic growth (e.g. Song, 2003 and H. Kim, 2004). Furthermore, journals such as Asian Economic Policy Review and Korea Observer have published many informative papers, some of which will be used in this study.
3. KOREA'S ECONOMIC DEVELOPMENT

3.1.1 Overview

In 1963, Korea’s mostly exported primary goods of which the third-largest export was wigs made from human hair. A decade later, exports were dominated by manufactured goods such as textiles and electronic products, as well as steel and iron (Noland, 2012). The graph below shows the growth of the Korean economy which increased from $1180 (1961) to $16,684 (2011) per capita during the 50 years covered.

**Figure 1. South Korea: Real GDP per capita (constant 2000 USD), 1960-2011**

When the economy is adjusted for purchasing power, Korea has almost caught up with the average income of OECD-members (see Table 1) but fares even better on non-economic measures such as on the non-income Human Development Index (which measures education and health) where it ranks 5th in the world (UNDP, 2011). South Koreans born in 2010 are expected to live almost 30 years longer than if they were born a half-century earlier (World Bank, 2012) and Koreans are world-leading in terms of educational attainment (Pearson, 2012).
Table 1. GDP per capita, PPP (constant 2005 USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>1970</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD average</td>
<td>14 146</td>
<td>30 499</td>
</tr>
<tr>
<td>South Korea</td>
<td>2 432</td>
<td>27 541</td>
</tr>
</tbody>
</table>

Source: (OECD, 2013)

With these results in mind, the study now turns to the account of how South Korea progressed from poverty to affluence. The following chapter will chronologically delineate Korea’s modern history of economic development with a particular consideration of its degree of embedded autonomy. Focus will be placed on economic and political conditions, events, and changes with the aim of laying the groundwork for analysis. For this purpose, broader historical developments are also described in order to provide a more coherent context.

A background part details major events and the conditions for economic development before 1961, including the period of Japanese colonization, the Korean War, and the eight years preceding the coup. Thence follows the core of the text which includes the emergence of a developmental state, the transition to democracy, a financial crisis, and reflections on where South Korea stands today and where it might venture tomorrow.

3.2 Background

This background section describes Korea under Japanese colonial rule, the subsequent division of the country, the Korean War and its consequences, and the time preceding Park Chung-hee’s coup in 1961. Considering that this period was incredibly unsuccessful in terms of development, the ‘embedded autonomy’ will not be assessed in this chapter and focus will instead be placed on the institutional and economic conditions which the particular historical periods bequeathed.

3.2.1 Colonization and division

The colonization of Korea (1910-1945) by the Empire of Japan drastically changed the course of history on the peninsula which had been continuously ruled by the Joseon dynasty since 1392 (Seth, 2010: 35). Millennium-old institutions were torn down and the new rulers initiated sweeping changes: slavery was abolished, the rule of law was codified, and a tax system was put in place. However, the institutional legacy of the period is contested and it has been argued that Japan was better at dismantling old institutions than it was at putting in place new ones (Amsden, 1989: 32).
In simple economic terms, the Korean economy grew during the whole colonial period by about four percent per year although that growth accrued to the rulers in Tokyo, whereas the well-being of Koreans gradually worsened. The period leading up to, and during, the Japanese war effort further exacerbated the already poor economic situation. Over half of Korea’s rice production was sent to Japan between 1912-1931. Skilled Koreans were also sent to Japan (such as future president Park Chung-hee, who served in the Japanese military), while ordinary Koreans were restricted to primary education (Harvie & H. Lee, 2003).

The state, in this case the Empire of Japan, only allowed a small sliver of Korean capitalist entrepreneurs in order to placate the mass-protests that erupted in 1919. Instead, its focus was placed on the agricultural sector where land reforms structured agrarian Korea on a Japanese model. Rapidly increasing rents hit hard on peasants who, unlike their Japanese counterparts, had few opportunities of migrating to urban areas (Amsden, 1989: 33).

While the Japanese did establish modern infrastructure of finance, transportation, and commerce it prevented the emergence of Korean bureaucrats, politicians, scholars, and diplomats who could run the state (Ibid). Other aspects were, at the end of the colonial period, also highly conflicting. Even though brutal repression had fuelled Korean nationalism, there were more divisions in society than ever before: a disgruntled peasantry opposed the landlords, insurgents sought revenge on those deemed collaborators.

In 1945, while Japanese forces were retreating from Manchuria and the Korean peninsula with the Red Army on their heels, a line was drawn by the USA along the (arbitrarily chosen) 38th parallel to split Korea into two parts to be put under the trusteeship of the emerging super-powers. Celebrations among Koreans over their hard-won independence would prove to be short-lived.

### 3.2.2 War and reconstruction

Neither Soviet nor US leaders, and certainly not people of Korea, had plans for a permanent division of the country. In Soviet-US talks, the time plan for their trusteeships over the peninsula was revised down to 4-5 years from the 20-30 years which had been agreed upon at the famous Yalta conference in early 1945. Due to mutual recalcitrance, the Soviet-US talks on the future of Korea stalled and were postponed indefinitely in May, 1946. The USA then turned to the United Nations which decided that elections were to be held in the whole country. As expected, the Soviet Union refused entry to UN officials and the elections were thus limited to the US-controlled South.

Syngman Rhee, a bona-fide nationalist and anti-leftist in South Korea, was elected as chair of the assembly and appointed to become president of the Republic of Korea when it was declared a
sovereign state in August 1948. On the northern side of the now-closed border, the Democratic People’s Republic of Korea was created just weeks later, headed by the former anti-Japanese guerilla soldier and staunch communist Kim Il-sung who had been appointed by the Soviet Union (Seth, 2010).

Both the USA and the Soviet Union removed their troops from the peninsula soon after the new republics were proclaimed and instead chose to give aid and military support. Whereas the USA sought to restrain President Rhee by only providing South Korea’s army with small arms and a handful of aircraft, the Soviet Union gave both heavy equipment and the extensive training of Northern troops. This, in combination with Kim Il-sung’s strong desire for a unified Korea, eventually led to the North Korean invasion of South Korea in June 1950 and the Korean War.

North Korea swiftly overran the meagerly equipped southerners and soon held almost the whole peninsula save for the area around South’s second city Busan in the southeast. President Truman circumvented the war-weary and Republican-dominated US Congress and instead appealed directly to the UN Security Council, which was boycotted by the Soviets in protest against the exclusion of communist China, thus making for a swift decision in support of South Korea.

In a surprise attack orchestrated by General Douglas MacArthur, UN troops (the vast majority of whom were Americans) landed on the shores of Incheon, far behind enemy lines. North Korea’s army retreated back across the border but the South Koreans seized the momentum gained by its new strength and pushed northward, sweeping through Pyongyang and moving steadily towards the Chinese border. Then, just as Kim Il Sung was heading towards the mountains of Manchuria, two million Chinese soldiers stealthily crossed the Yalu River and pushed back the overstretched UN forces, reaching Seoul within weeks. By regrouping just south of the capital, UN forces could retake the city which then switched hands for the fourth time in less than a month.

A stalemate was reached in early 1951 along the 38th parallel, establishing a border roughly the same as it had been before the war. Though large-scale skirmishes all but ended, the war was far from over. Purges of suspected enemies lead to massacres on both sides and the US, with superior airpower facing little defensive capabilities, dropped more bombs on North Korean soil than it did on both Germany and Japan during World War Two. North Korea, China, and the US signed an armistice agreement in July 1953 whereas South Korean President Rhee still thought he could retake the North and thus refused (Seth, 2010: 109).

Grasping the scale of destruction of the Korean War is essential if we are to understand the challenges to development faced by President Syngman Rhee and his successors. Almost one million South Korean civilians are estimated to have been killed and the figure for North Koreans
is thought to have been even higher (MND, 2005). The war made South Korea even more destitute but the poverty was more evenly divided. Land reforms which were carried out during the war limited the amount of land a farmer could own, thus defanging the previously powerful noble classes whose power had already been much diminished during Japanese colonial rule. These reforms did have a positive impact on Korea’s economic growth in later years but were carried out to limit the appeal of socialism and prevent peasant uprisings, rather than for the sake of development (Hundt, 2009).

Economic policies in the post-war decade were concentrated on creating a self-reliant economy (mainly to distance South Korea from Japanese domination) by using strategies of import-substitution industrialization though with little success. Rhee prioritized anti-communism and consolidation of power, with economic development having to take a back-seat (Seth, 2010: 110). Economic bureaucracy under Rhee was both incompetent and corrupt, with just a small clique of developmentally-minded individuals whose operations were restricted by political interference from above. This faction would come to the fore under Park Chung-hee when their competence was actually put to use (Cheng et al., 1998).

Sustained by enormous amounts of US aid, President Rhee used repression and vote-rigging to stay in power until 1960 when massive protests and wide-spread discontent forced him to resign. His successor, Chang Myon, ruled even more ineffectually and was ousted within a year by an ambitious general called Park Chung-hee.

3.3 The Korean developmental state

With this background in mind, the study now turns to the (often) successful period of development following the military-backed coup in 1961. The chapter is divided into three sections: Park Chung-hee’s presidency (1961-1979), Chun Doo-hwan’s presidency (1980-1987), and the events following democratization (1988-). The last section also includes and the financial crisis (1988-1998), and the events following the crisis until the 2012 presidential election with reflections about South Korea’s future development.

This part will paint a broad picture of Korea’s economic development and although the economic bureaucracy and other administrative organs are described in this part, the more detailed analysis of its role in Korea’s development is organized in the next chapter.

3.3.1 Park Chung-hee: emergence of developmentalism (1961-1979)

Park Chung-hee, a second-tier general who had cunningly garnered support among officials, justified the coup of May 1961 by promising to clamp down on corruption while bringing about
economic development. Though a staunch anti-communist, the fact that North Korea seemed to industrialize much faster than South Korea was a strong incentive for Park to put South’s economy ahead of any dreams of reunification. Unlike his predecessors, at first he made no attempt to legitimize his rule through a façade of democracy.

Park and his team of economic advisors had several reasons to reverse the path to development proposed by Rhee and Chang. Import substitution had proven unfeasible due to the limited size of the Korean market while natural resources could not be relied on for export, because South Korea had none. US aid reached its peak in 1957 and started falling thereafter. What South Korea did have was a large and well-educated labor force (partially due to Rhee’s emphasis on the importance of education) and low wages. These circumstances lent themselves to light manufacturing and the export of such products, a fact which Park understood well (Harvie & H. Lee, 2003).

South Korea was at first ruled by the Supreme Council for National Reconstruction (SCNR), which was headed by Park. The first five-year plan of economic development (covering 1962-66) released by the SCNR was largely built upon a similar plan drawn up during Chang’s last days in office. The ambitious goal of an average annual economic growth of 7.1 percent during the duration of the plan was in fact far surpassed and exports grew at an annual rate of 29.2 percent during the period (E. Kim, 1997: 105). The second five-year plan (1967-71) shifted focus to basic infrastructure and to accumulating foreign currency in order to pay off the debt to other countries which had amassed in the pre-Park era.

Crucial to the formulation and execution of the five-year plans was the establishment of the Economic Planning Board (EPB) in July 1961, just months after the coup. It became the most important (and prestigious) ministry in charge of economic policy, attracting the brightest Korean economists, many of whom were educated in the USA (E. Kim, 1997: 102).

In order to increase exports, all major private banks were nationalized in the first year of Park’s rule which effectively consolidated governmental control over companies and allowed it to assign credit based on the stated goals. ‘Policy loans’ with lower interest rates than regular loans were offered to business which exported goods. Likewise, import restrictions were relaxed with the aim of orienting businesses toward exportability instead of having them seek profits merely from the domestic market (Ibid: 107).

The HCI-drive
South Korea’s economy had been drastically transformed in the decade leading up to 1971, when the second five-year plan drew to a close. Between 1961 and 1971, exports had increased almost
28 times (from $41m to $1113m) and the domestic savings ratio had increased from 21.6 percent to 60.9 percent of GNP (Harvie & H. Lee, 2003). These changed realities called for different policies and Park answered with a five-year plan intended to concentrate on developing Korea’s heavy and chemical industries (HCI) with six industries singled out as particularly important: steel, chemical, metal, machine building, shipbuilding, and electronics. $9 billion was to be invested in these sectors and Park promised that Korea’s GDP would treble and exports would grow six fold within a decade (B. Kim, 2011: 223).

The suggestion that Korea should move away from light manufacturing (or achieve a “balance” between light and heavy industries, as Park described it (E. Kim, 1997: 137)) after a mere decade of high economic growth from a very low base, was met with skepticism. According to orthodox economic theory at the time, Korea was encouraged to build industries matching the size of domestic demand. Park and his aides saw things differently and instead decided to put supply before demand by attempting to build sufficiently large industries to compete on the international market (B. Kim, 2011).

The EPB, which had been incredibly influential in policy-making during the previous decade (a role which will be further elaborated upon below), had little input on the new plan and was only brought in after it had been officially announced. This did nothing if not add to the growing mistrust among scholars and outside observers regarding this “HCI-drive” (Ibid: 141).

Park’s intention for focusing on heavy industries seems to have been to strengthen the defense industry in the wake of a considerable withdrawal of US troops from South Korea in 1971 (H. Kim, 2004: 196). North Korea, which at this time appeared relatively successful in its economic development, already had a considerable steel-making industry much to Park’s chagrin.

Another important aspect of the “HCI drive” was Park’s attempt to hold on to power after narrowly winning the 1971 presidential elections against Kim Dae Jung (who had to wait until 1998 to become president, then in a considerably less skewed election). The following year Park declared himself de facto president for life by dissolving the national assembly and implementing martial law. Just as when he first took power, Park saw rapid economic growth as the way to legitimize his rule and doubly so considering the dictatorial powers he gave himself.

On the whole, the “HCI drive” went on to prove the doubters wrong even though it was launched at a particularly inauspicious time: the first oil crisis shook the world market in 1973 and heavy and chemical industries relied on oil much more so than light manufacturing did. While Japanese auto-makers answered by making their cars more fuel-efficient, Korean conglomerates used their experience of construction in Southeast Asia and elsewhere to get contracts in the Middle East,
which was flooded with economic windfalls from the crisis. One example is Hyundai (with both car-making and construction arms) which built the Jubail Industrial Harbor in Saudi Arabia, a contract worth over $900 million or roughly half of South Korea’s national budget (E. Kim & G. Park, 2011: 292). Such projects were also a way for the Korean state to earn much-vaunted foreign currency and increased size of many chaebol to a considerable degree.

The second oil crisis at the end of the 1970s hit Korea harder than the first did. Dissatisfaction rose as the poor economic conditions (growth slowed to a “mere” six percent after a decade of 8-10 percent growth) were compounded by the worst rice harvest in living memory (Seth, 2010: 170). In October 1979 protests were spreading across the country in calling for democracy and human rights. After a night of drinking in the presidential palace, Park Chung-hee was killed along with his bodyguard by Kim Jae-gyu, the director of the South Korean intelligence agency and Park’s closest aide, who feared a bloody crackdown on the protestors (B. Kim, 2011).

Economic performance
Park Chung-hee’s legacy is highly contested as became evident in the 2012 South Korean presidential election, in which his daughter Park Geun-hye ran and won a majority of the vote (incidentally, she was the first winner to do so since her father won in 1971 (Chosun Ilbo, 2012)). If, as some have suggested (Choe, 2012), the decision on whom to vote for in 2012 depended in part on the voter’s opinion on Park Chung-hee, then his economic triumphs outweighed the repressive methods used for the purpose of staying in power and controlling dissent. Park, his followers insist, made South Korea into the powerful country it is today and looking at the economic indicators of his 18-years in power largely corroborates this view.

In the face of economic successes, Park’s critics point to the fact that upturns in the global market coincided fruitfully with the plans and strategies utilized by South Korea (B. Kim, 2011). Though somewhat relevant in the case of the early phase of the “HCI-drive”, the repeat achievements and effective adjustments during Park’s presidency can hardly be explained by fortune alone.

Business sector
To understand the Korean economy one must also understand the chaebol, large family-owned conglomerates operating in almost every sector from ship-making to consumer goods. In Korea, unlike Taiwan and China, conglomerates form the largest part of the business-side of the theory of ‘embedded autonomy’. In recent years, these companies have gone international and include such household names as Samsung, Hyundai and LG.

Though they share several characteristics, there is no fixed definition of a chaebol which simply refers to the largest Korean conglomerates (Chang, 1988). Most often, however, the chaebol are
owned and managed by a single family and constitute multiple business firms which are run through an opaque structure of governance. Through methods of cross-shareholding, cross-loan guarantees, internal subsidies, they manage to make use of the scarce resources offered to them by the government-controlled banks.

In this study, the *chaebol* are emphasized not only because of their dominance in almost every aspect of the Korean economy, but more importantly because they were the strongest partner (along with the state) in what has been called the Korean developmental alliance (Hundt, 2009). Unlike his predecessors, Park realized that the *chaebol* were crucial to the growth of the economy and, as long as they accepted the goals of economic development espoused by Park, they were given much power over the market and preferential access to government-controlled capital.

### 3.3.2 Chun Doo-hwan: towards economic liberalism (1980-1987)

Following the assassination of Park Chung-hee, South Korea seemed to be on the precipice of turmoil both politically and economically. Park’s prime minister was promoted to head a temporary care-taker government and quickly instigated political reforms. The authoritarian aspects of Park’s constitution were removed, political prisoners were released, and many expected the next president to be elected democratically.

A group of generals headed by Chun Doo-hwan had other plans for Korea’s future. In late 1979 they seized control of the army and gradually took control over the government, making Chun the *de facto* president in early 1980. The reforms were reversed and martial law was again declared. Chun’s coup added fuel to the fire of discontent in Korea in stark contrast to Park’s coup in 1961 which was generally viewed as a potential improvement to the corruption and backwardness of the time. In response to a pro-democracy uprising in the city of Gwangju in May 1980, troops sent by Chun killed up to 2000 demonstrators in an event which would forever leave a stain on Chun’s presidency (Seth, 2010: 189).

Chun Doo-hwan faced not only political challenges but also economical ones since the year of his coup saw a contraction of the Korean economy for the first time since before Park first took power. A remarkable recovery was followed by a decade of record-breaking growth and a dramatic transformation of the economy.

Aside from the oil crisis of 1979, a particularly bad harvest, and the tumult following Park Chung-hee’s assassination, the economic recession of 1980 was also a result of the oversized investments carried out during the “HCI-drive”. The down-turn was reversed mainly due to loans from the Japanese government and international financial institutions (Pirie, 2008: 76). Growth continued and the economic boom which occurred in 1985 has been ascribed to the “three low’s”:
low oil prices, low interest rates, and a low US dollar which benefited Korea’s export-oriented industries (Shin, 2000: 186).

Throughout the 1980s, a democratic opposition movement was gaining traction in the Korean society but also in the elected National Assembly, a body that was fashioned to benefit the party of President Chun. As Chun’s self-imposed limit of one seven-year term neared its end, the momentum of the democracy-movement increased with growing protests and the upcoming Seoul Olympics of 1988, which would put the international spotlight on Korea. Chun realized he could not realistically silence the protests without a compromise (additionally, he was not certain that the conscript army would follow his orders to repress the protestors). In 1987 he announced an end to censorship, a release of all political prisoners, and direct election of the next president.

3.3.3 Democracy, financial crisis and beyond (1988-)

Democratization
Roh Tae-woo, an army general who had been handpicked to become Chun’s successor long before the protestors’ demands were met and elections were announced, ran on the conservative ticket in the 1987 presidential election. His main opponents, the pro-democracy heavyweights Kim Dae-jung and Kim Young-sam, split the progressive vote evenly which handed the win to Roh, who only received the support of 37 percent of the electorate. In 1988, Roh’s was sworn in and his presidency was restricted by a revised constitution to a single 5-year term.

The 1988 Summer Olympics in Seoul was a success for South Korea and Roh, who had been the chairman of the Olympic committee. Slowly, South Korea was moving towards a genuine representative democracy as the National Assembly, in which the opposition held a majority, started investigations into the corruption of previous regimes while judicial independence was restored (Seth, 2010: 194).

The link between state bureaucracy and the ever-powerful chaebol, however, remained largely intact. This irked the labor movement which had grown during the 1980s and the combination of suppressed anger and the legal right to vent that anger caused an explosion of unionization, strikes, and demonstrations during Roh’s first years in power. One outcome of the labor movement’s efforts was a drastic increase of wages, the suppression of which had been beneficial to Korea’s international competitive edge. This, combined with the entry of China and Southeast Asian countries on the manufacturing market, forced Korean companies to move production to higher-value goods (Shin, 2000: 182).
The liberalization of the Korean economy which started under Chun Doo-hwan, and further accelerated under Roh Tae-woo, intensified under the presidency of Roh’s successor Kim Young-sam (1993-1998). Kim opened the Korean market to foreign investors and deregulated the domestic financial market, which caused a rush for credit among the chaebol.

The financial crisis

Having already hit several Southeast Asian countries in mid-1997, the Asian financial crisis reached Korea later that year. Korean companies had incurred massive debt following the opening up of the financial sector under Chun and Kim, with the top 30 chaebol having an average debt-to-equity ratio of 400 percent (Y. S. Park, 2011: 597) and some having a ratio of more than 1000 percent (Woo-Cumings, 2001: 356). Late 1997, five major business groups, with 100 000 employees between them, went bankrupt in quick succession and foreign investors, already spooked by the financial collapse of several Asian economies, withdrew their money from the Korean stock market. This saw the equity market contract by $1 billion in November alone (Jwa, 2001: 179). Within a period of six months, almost 15 000 firms went bankrupt and half-a-million people lost their employment (Song, 2003: 304).

An emergency loan worth $55 billion given by the International Monetary Fund (the largest loan in the history of the IMF) failed to prevent an economic downturn and in 1998, Korea’s economic growth rate was minus 6 percent whereas the unemployment rate increased from just 2 percent to over 8 percent (Shin, 2000: 181). After letting the won float, it settled at almost half the pre-crisis value, making imports and overseas travel prohibitively expensive to ordinary Koreans (Seth, 2010: 244).

Three principal strands of thought have emerged to explain roots of the financial crisis which struck Korea in 1997: over-expansion of chaebol fueled by external credit, poor government handling of the crisis, and an inevitable consequence of neo-liberal policies around the globe (Shin, 2000: 181). Though the proportion of blame may be discussed, these factors combined cover most explanations for the crisis.

Korea’s subsequent recovery was impressive considering the stupefying economic cost of the crisis (one estimate suggests the cost of the crisis to have been equivalent to 16 percent of the 2001 GDP (Noland, 2012)). In early 1998, with the economy in freefall, the first objective for the government of newly elected Kim Dae-jung (the same Kim who stood for president in 1971, 1987, and 1992) was to secure more foreign liquidity to avoid a sovereign default since the loan given by the IMF was not large enough. To this end, and perhaps more importantly to prevent
future crises and re-establish Korea’s strong growth, major economic and financial reforms were set in motion.

After a government review, only two of the seven largest banks were considered financially healthy and those deemed unhealthy were forced to let themselves be sold to foreign banks, merge, or go bankrupt. 64 trillion won\(^1\) (14 percent of GDP) was allocated to achieve this first round of restructuring while a second, more thorough, round in 2000 cost another 40 trillion won (Y. S. Park, 2011). A new government agency, the Financial Supervisory Board, was created in 1998 and was given broad powers to supervise financial institutions.

One notoriously unsustainable characteristic of the chaebol prior the crisis was their high debt-to-equity ratio. This was order to be reduced to below 200 percent before 1999 or else the chaebol risked having to immediately repay debts owed to domestic banks. Furthermore, major efforts were made by the government to remove market monopolies and to force chaebol to specialize in a smaller number of fields. Seeing how the chaebol had spread themselves too thin, thus reducing profitability, the government forced a number of swaps and takeovers between the chaebol. Among the largest such efforts was the swap of Samsung Motors for Daewoo Electronics and Hyundai Semiconductors takeover of LG Semiconductors (Shin, 2000: 191).

In addition to macroeconomic measures, the government also carried out reforms of the corporate structures of the chaebol and, among other things, forced them to appoint a CEO who could take full legal responsibility. Additionally, the chaebol had to appoint outside directors to their boards and use external auditing committees, neither of which was customary before the crisis (Y. S. Park, 2011). Finally, to remedy the social losses incurred as a consequence of the crisis, the system of social safety nets was broadened (Noland, 2012).

**Korea today and in the future**

In 2002, when Korea co-hosted the World Cup in football with Japan, it had fully repaid the IMF loan and the country recorded the highest economic growth rate among members of the OECD, which it had joined just prior to the crisis (Song, 2003: 302). In the subsequent decade, Korean companies have succeeded in making the progress to both high-end and (contrary to the old image of Korean companies as mere imitators of Western companies) innovative industries, as exemplified by electronics giant Samsung, now Korea’s largest chaebol and the world’s largest technology firm by revenue (AFP, 2012b).

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\(^1\) Won is the currency of South Korea
Movements towards expanding the area of information and communications technology (ICT) were part of the reforms following the financial crisis and it soon became a significant part of the Korean economy. Korea is second only to the USA in total value of ICT-export (OECD, 2011). In sharp contrast to the “HCI-drive” of the 1970s, the government used privatization and market competition in order to promote ICT (Chen & Suh, 2007: 81).

The global recession of 2008-09 also affected Korea and even though the economy stagnated during 2009, it rebounded and has grown by 4.9 percent the following year, faster than any other OECD member. Add to that relatively low unemployment, low government debt, a balanced budget and Korea is in an enviable position when compared to most high-income countries (OECD, 2012). As a consequence of slowing demand from the EU and USA, however, Korea’s growth in 2012 was revised down to just 2.1 percent but is expected to rise to 3 percent in 2013, when Park Geun-hye is sworn in as president (BBC, 2012).

What are the challenges and problems facing Korea today? Though Korea’s problems are largely products of success, they are serious nonetheless. Social and labor issues, most often ignored before the democratization, are pressing and previous economic successes must be translated into an improved quality of life. Korea’s suicide rate, which has doubled over the last decade and is far higher than any other high-income country (OECD, 2013), is especially alarming and signifies a society in dire need of change. North Korea and the division of the Korean peninsula remains a source of sorrow but also vexation by the increasing number of hostilities from the North. Fewer and fewer South Koreans have nostalgic memories of a time before division and many young Southerners are wary of the cost of a potential unification (Harlan, 2011).

Calls to regulate the chaebol were heard from every camp in the 2012 Korean presidential election, which was won by Park Geun-hye of the incumbent conservative party. “Economic democratization” was the buzzword of the campaign and, though its definition is vague, the term reflects a discontentment among Koreans with growing income inequality and the power of chaebol vis-à-vis SMEs (small and medium enterprises). The strong position of chaebol is seen to inhibit innovation and job growth (AFP, 2012a). What form “economic democratization” will take remains to be seen but, with five more years of conservative rule, the government’s role is likely to veer towards maintaining market competition rather than direct intervention in corporate structures.
4. THE ROLE OF ECONOMIC BUREAUCRACY

This chapter will detail the configuration of the economic bureaucracy under both Park Chung-hee and Chun Doo-hwan before employing the analytical framework of embedded autonomy in order to better understand their instrumentality in Korea’s industrialization.

4.1.1 Park Chung-hee’s presidency

Bureaucratic organization

Though Park Chung-hee was firmly in charge of South Korea’s broader economic policies, as was evident during the “HCI-drive” of the 1970s, he used several governmental organizations to formulate plans and put them into action. The most important were the Economic Planning Board (EPB), the Ministry of Commerce and Industry (MCI), and the Ministry of Finance (MoF), the responsibilities and authority of which fluctuated throughout Park’s time in power (H. Kim, 2004: 78).

Of these organs, the EPB was promoted by Park to become the leader of the pack because of its lack of sector-specific focus, instead seeing the whole economy as its territory. The board (which, by virtue of its designation, was ranked higher than ministries in the bureaucratic hierarchy (Jung, 2011)) was created from a merger of the Ministry of Reconstruction and the MCI’s budget bureau in 1961, both of which were known to be staffed by young and reform-minded personnel. It was tasked with not only planning the national budget but also had powers to regulate financial sectors, approve foreign loans and investments (B. Kim, 2011: 207). Most importantly, however, it was tasked with allocating capital to industries through the nationalized banks, which was the main tool used by the Korean state in directing its economic development. The Minister of the EPB also held the title of Deputy Prime Minister and was second only to the President in terms of power over the numerous economic ministries (Song, 2003: 168).

Though still powerful in its areas of command, the MCI was at first the least influential organization and the one most closely connected to the private sector. This connection made it, and other ministries of less importance, more likely to be swayed by interest groups into going against its set priorities, according to Park (B. Kim, 1992).

The economic bureaucracy entered a second stage in the early 1970s when Park Chung-hee decided to reorient the economy towards heavy and chemical industries in the “HCI-drive” (as described in the preceding chapter). Even though Park was very much in power, the autonomy of the economic bureaucracy meant that he had to incentivize it into agreeing to his new strategy. In order to convince both the EPB and the MoF that a “HCI-drive” was necessary, Park expanded
the organizations with dedicated HCI-bureaus and promoted those directors who proved themselves loyal to the new directives. The competency and well-established links to the private sector would suffer had he not acquired their willing cooperation. By 1973, Park had successfully convinced the economic bureaucracy of the desirability of pursuing the “HCI-drive” and the plan was set in motion.

Embedded autonomy
First and foremost, Park Chung-hee’s time in power was more successful in effecting economic growth than previous administrations because he had incentives to pursue that goal. After taking power in a decidedly undemocratic manner, he was given a short period of clemency by the general public in return for an improvement in their standard of living.

In other words, Park’s intention of staying in power (judging by the length of his tenure) aligned with the presumed desire of the Korean people to develop their country, although that relationship would become increasingly skewed as Park often used brutal methods to suppress opposition. The basic desire to develop, among leaders and citizens alike, when combined with a Weberian modern bureaucracy (in which individuals see the fulfillment of public goals as being in their own interest (Evans, 1995: 29–30)) seems to have established a solid foundation for Korea’s economic development.

Byung-kook Kim (2011: 203) has identified four principles which Park implemented in the economic bureaucracy: an insulation from politics, a professionalization through meritocratic recruitment and promotion, a segmentation into a hierarchy of more and less important groups, and he made it loyal to his wishes and orders. These are all useful methods for establishing an autonomous bureaucracy but, without it also being embedded in society, could possibly lead to its isolation from the outside world.

By first picking which chaebol to promote and then closely cooperate with them, Park Chung-hee managed to create a high level of embeddedness which, without the aforementioned bureaucratic autonomy, might have done more harm than good. One sign of Park’s belief in the necessity of strong state-business embeddedness is the fact that he, during his 18 years in power, attended every single monthly Export Promotion Meeting between heads of industry and government officials (Shin, 2000: 173). These meetings were also attended by directors of economic research institutes, prominent academics, and representatives of trading companies (Song, 2003: 168).

Economic policies under Park were formulated only after extensive consultation with the chaebol through several channels besides the monthly meetings, such as discussion groups, deliberation councils, and committees. These meeting places allowed the private actors to influence policy
according to their own interests but, in exchange, the state was able to effectively collect (and disseminate) information about market conditions (Chung, 2007: 83).

This combination of a high level of both autonomy (e.g. a competent bureaucracy, goal of development) and embeddedness (e.g. close state-business ties) provides at least some explanation for the developmental success during Park Chung-hee’s presidency.

### 4.1.2 Chun Doo-hwan’s presidency

**Bureaucratic organization**

The developmental state which had been established under Park was weakened under Chun’s rule because its very aim (i.e. the economic development of Korea) had in some regards been reached. In the wake of this, important institutions such as the EPB had to re-evaluate many of its functions.

Three major changes to the Korean developmental state can be identified during the 1980s (E. Kim, 1997: 169). Firstly, industrial policies were changed from being mere incentives (i.e. through ‘policy loans’) to instead play a more regulatory role. Secondly, government support to industry was reduced in both its amount and number of sectors it supported. Finally, many policy tools used by the state to punish and reward the private sector were phased out. One such tool was government control of the banking sector and between 1981 and 1983 all major banks were privatized although a single shareholder was not allowed to own more than 10 percent of the shares in a bank. This rule was implemented to prevent the chaebol from taking over financial institutions and thus grow beyond their capabilities (Woo, 1991: 196).

The EPB, which had been largely marginalized during the “HCI-drive”, was strengthened vis-à-vis the industry-oriented MCI and Chun decided that all economic decisions now had to be approved by the reform-minded board. Tellingly, the 1981 five-year economic development plan did away with quantitative export targets (a hallmark of the Park-era) and instead focused on structural reforms including import liberalization and banking reform (Pirie, 2008: 78).

More importantly, however, small steps to liberalize the Korean economy were set in motion. These steps, which were in line with Chun’s main economic policy of “Economic Stabilization and Economic Liberalization”, only amounted to minor reforms (such as a removal of entry barriers for domestic industries and diminished state support to the private sector) but still lay a foundation for further liberalization.
Embedded autonomy

The era of Chun Doo-hwan’s presidency saw the resurgence of the EPB as the most influential organ in formulating economic policy. The Board had been somewhat sidelined in 1973 when Park announced the “HCI-drive”, which called for firm government intervention in industry, but its well-known neo-liberal predilection made it useful for Chun and his influential aides (Chun, unlike Park, was largely ignorant of economic matters and was tutored almost daily by leading technocrats (Pirie, 2008: 78)).

Reining in government spending became the priority for the EPB after the crisis in 1980, which it saw as a result of the “HCI-drive” and the profligate MCI. As if to prove that its power had not diminished with the passing of Park, the Board picked the MoF as its partner in driving through a program of fiscal austerity combined with some financial liberalization (B. Kim, 1992).

The corporate coherence of the economic bureaucracy as a whole (though still strong in the individual agencies) broke down following the death of Park. The EPB strongly favored economic liberalization but met resistance in the ministries who, though acknowledging the need for reform of the old model following the economic slump in 1980, thought liberalism had been devastating in other developing countries (Pirie, 2008: 79). State-industry relations thus changed under Chun both because of the increasing power of the fast-growing chaebol, but also because of a less coherent economic bureaucracy.

The economic liberalization under Chun necessarily decreased the amount of embeddedness of the top bureaucratic organizations. Their role changed from being the allocator of capital (through policy loans) to that of a regulator. In sum, embedded autonomy was much lower under Chun than under Park but even so, the economy continued to grow at fast pace. One explanation for this somewhat paradoxical outcome is that industrial transformation, which high embedded autonomy is thought to support, had been completed in the 1980s in Korea. The growth of the chaebol had gained momentum during the “HCI-drive” and they were able to fuel the continued rapid growth of the Korean economy.

As has been showed, this (highly indebted) growth of the chaebol would come undone when the Asian financial crisis hit Korea. This could perhaps have been avoided had the bureaucracy been more aware of the financial situation of the chaebol.
4.1.3 Post-democratization: End of the Korean developmental state?

Bureaucratic organization

The Economic Planning Board was abolished in 1994, under the presidency of Kim Young-sam, and its functions were moved to the new Ministry of Finance and Economy (MOFE) through a merger with the Ministry of Finance. Following the financial crisis, the MOFE was also dissolved and its power was transferred to other ministries in order to prevent over-concentration of power.

These changes in the economic bureaucracy were part of an ostensible movement to create a regulatory state in place of the interventionist and developmentalist state which was first established by Park Chung-hee. Though liberalization of the financial market had begun under Chun Doo-hwan, it reached its peak during Kim Young-sam’s self-styled era of segyehwa. This rather diffuse term, which literally translates to ‘globalization’, was interpreted by Kim to entail a preparation of the Korean nation and its economy for the changes brought about by a globalized world. Segyehwa did not indicate that Korea would become a laissez-faire economy, but rather that it would move from being an industrialized developmental state to becoming a developmental state in the information and globalization era (Jung, 2011).

Within Kim’s decision to abolish the EPB lies the key to its success under previous presidents. The Board was created to be extremely powerful, insulated from special interests, and ultimately dependent on the support of the incumbent president. This combination served it well from its creation under Park Chung-hee, but Kim needed to create a momentum for the social reforms which would replace economic growth as the raison d’être of the Korean state. He did so by withdrawing his support for the EPB and closing it down within just 30 days (Ibid).

Being the successor of both the Ministry of Finance and the EPB, the MOFE lacked the checks and balances previously provided by the independence of the EPB. At the same time it merged budget and long-term economic planning with broad powers over finance. The failures of the resulting super-agency did nothing to reform the unviable economic model in the early 1990s. One example of this is its refusal to devalue the won in the face of falling profitability, instead opting for spending every dime of the $25 billion foreign exchange reserve to shore up the value of the currency (Shin, 2000: 189). In the end, Korea was powerless to prevent the Asian financial crisis from reaching its shores in 1997.

The existence of a Korean developmental state following economic liberalization and the subsequent crisis is a contested subject, with judgments ranging from those considering it “intact and strong” (Y. S. Park, 2011) to others who describe it as disintegrated and replaced by an “unambiguously neo-liberal state” (Pirie, 2008: 10).
The financial crisis of 1997-98 forced governments in the affected countries to reconsider the liberalization of finance of the preceding decades and, immediately following the crisis, Korea implemented much stronger financial regulation and reformed the banking system. By moving away from the pre-crisis neo-liberalism, the recent governments have not returned to the “guided economy” of Park Chung-hee, instead opting for an active role in market-regulation. Above all, this reflects the fact that Korea is nowadays a high-income economy in which the major companies are fully capable of competing internationally without government support (Stubbs, 2009).
5. A KOREAN DEVELOPMENT MODEL?

Having detailed Korea’s economic development and the changing role of economic bureaucracy in the planning and execution of government policy, reflections on its possible reproducibility in others contexts will be dealt with in this chapter. Beginning with a review of the unique features which shaped Korea’s development, the text then moves on to possible transferable lessons.

First and foremost, one should be cautious and humble when trying to extract anything universally applicable out of a single successful case of industrialization and development. Noting that every instance of rapid economic growth in a developing country engenders a new model for development, Henke & Boxill (2000) asks two questions. Firstly, if such models are universal, how come every new case seems to create its own unique model? And secondly, considering these circumstances, how can we explain the vast number of development models? A middle way between adequate applicability (to make it valid in other cultural and historical settings) and specificity (to avoid mere platitudes) must be found if the lessons are to be valuable.

5.1 Unique features

In order to find “lessons” from Korea’s history for low- or middle-income countries today, we must first broadly identify what unique features are likely to be irreproducible. In this study, several such features have emerged, outside of the categories described in the section labeled “delimitation”. Firstly, the colonization and the Korean War paved the way for a curtailment of the noble class and a sweeping land reform. When Korea became a front in the Cold War, support from the USA financed the country’s reconstruction and propped up the Rhee government whose unpopularity gave Park Chung-hee a chance to prove his mettle. It was in this context the foundation for Korea’s development was laid.

Cultural factors are often included in the explanations of why a country grows rich. South Korea is no exception and a traditional emphasis on education and a hardworking people are oft-cited examples (Song, 2003). Such explanations in the case of South Korea, however, often fall short due to the simple fact that North Korea shares those exact characteristics and has failed disastrously in its economic development in recent decades. This does not only signify a symbolic victory of capitalism over communism but, more than that, begs the question of what kind of capitalism South Korea pursued and how it succeeded.

Needless to say, the world has changed since Korea first started developing in the 1960s. Discussing the composition of a democratic 21st century developmental state, Peter Evans’ stresses the importance of high levels of embedded autonomy even as the aim of development has
expanded from only focusing on economic growth to encompass aspects concerning human well-being (Evans, 2010). The main partners in the developmental alliance, however, would be the state and its constituencies rather than the state and heads of industries as was the case in East Asia. Nevertheless, a competent and autonomous bureaucracy with close ties to civil society is necessary even if the locus of state intervention were moved from industry to capacity-building areas such as health and education.

South Korea and the other East Asian Tigers (including Singapore, Taiwan, and Hong Kong) were similar to each other in the period before their economic “take-off” because they lacked land and natural resources while having high levels of human and physical capital. These conditions were conducive to the exporting of manufactured goods even when the average level of income was low. Clearly, the East Asian Tigers were not the only countries to attempt to industrialize through manufacturing and some countries with similar initial features (e.g. the Philippines) seemed just as likely to succeed (Noland & Pack, 2003: 82). Instead, the institutional underpinning and the specific industrial policies must be examined, which brings us to the next section.

5.2 Potentially transferable lessons

Korea makes for a relatively good subject for study in comparison to the other East Asian Tigers, two of which are city-states with very unique histories whereas Taiwan’s relation and dependence on mainland China makes it quite distinctive. What possibly transferable lessons remain if we take the features unique to Korea, as outlined above, into consideration?

The meritocratic recruitment of bureaucrats could qualify as beneficial to creating a competent government in virtually every context. In the case of Korea, this was first implemented in governmental bureaus by Park Chung-hee but was a long-standing tradition in the academic world. Combined with the fact that 97 percent of the Korean bureaucratic elite were university graduates in 1980 (and 83 percent of those were graduates of the top-three universities (Hwang, 1996)), this double-meritocracy made sure that only the most competent were chosen to formulate Korea’s economic policies.

Cheng et al. (1998) details the steps taken by the government of Park Chung-hee to create a competent civil service with meritocratic recruitment. Among these measures were the implementation of centralized recruitment, a performance rating system, a position classification system, improved civil service exams, and improved pay administration.
However, even if an autonomous economic bureaucracy was to be described as generally positive for development, the issue of motivation remains. Park Chung-hee saw a competent civil service as a pre-requisite for economic growth which, in turn, was used to legitimize his undemocratic rule. Competition with North Korea as well as prodding (and support) from the USA provided further incentives for Park to dedicate himself to the project of development. Furthermore, he discarded both democracy and human rights in his pursuit of higher growth. This complication provides just one example of the more general problem of abstraction and application of successful cases of economic development.

**Pilot agencies**

Japan’s Ministry of International Trade and Industry (MITI) was perhaps the first successful example of a powerful ‘pilot agency’ tasked with formulating economic policy, as described by Chalmers Johnson (1982). Korea’s EPB, influenced by MITI’s accomplishments, has been described as the “exemplar nodal agency” for its role in making sure the disparate roles of economic ministries all centered around the goal of development (Chibber, 2003: 21). Are the developmentally-minded features of EPB reproducible in other countries?

Firstly, most of the factors which made the EPB operate efficiently could, without sufficient autonomy, easily have created a black hole of cronyism. One such factor was the fact that it was one step removed from the private sector in terms of administrative power. Instead, it operated through control of the budget whereas ministries (primarily the MCI during the period of industrialization) were tasked with subsidizing and regulating companies in accordance with the EPB’s orders (Jung, 2011). This reduced the risk for “capture” by special interests but, due to a complete lack of government transparency vis-à-vis civil society, ultimately made it responsible to no one except the president.

Fortunately, the EPB proved itself to be autonomous enough to carry out its stated objective of achieving economic growth. The Board might not have been as successful without a strong incentive to focus its attention on the task at hand, which returns us to the necessity of having a state which is both capable of formulating appropriate policies and which, importantly, also has the political capacity to reinforce them.

Historical circumstances presented Korea with an opportunity to build consensus around the goal of developing the country which then impelled the leaders to establish a competent bureaucracy. Whether or not such a strong imperative for development can be constructed in other countries and contexts is beyond the scope of this study, but it is an issue which deserves to be explored.
6. CONCLUSION

This study has attempted to describe the role of economic bureaucracy in South Korea’s economic development by detailing the different governmental organs and their varying degrees of influence throughout the decades covered.

The economic bureaucracy certainly played an important role in the emergence of the Korean developmental state but the importance of the various agencies fluctuated wildly in the subsequent decades. During the early stages of industrialization, in particular, the EPB was crucial in coordinating and implementing policy in an environment which had little in the way of industrial capacity. The high autonomy among the top bureaucratic organizations combined with close private-public cooperation added to their competence.

Behind the successful operations of the economic bureaucracy, however, was a deeply entrenched determination regarding the necessity of development among both the leadership and the administrative organizations. This determination, which admittedly may be hard to emulate in other historical and cultural contexts, reduced the risk of cronyism while encouraging a stronger sense of coherence. Clearly, there are no silver bullets for economic development and successful cases (such as that of Korea) are always brimful of traits which seem to make them more or less conducive to achieving development. This makes it exceedingly difficult to make generalizing statements regarding any universally applicable facets lifted from Korea’s process of development.

When the ceasefire agreement was signed 60 years ago, signaling the end of the Korean War, the odds were stacked against South Korea. What followed, however, was a period of rapid development (economic and otherwise) during which the few resources available were put to good use. Taken together, the findings of this study suggest that the most salient lesson Korea has to offer the world is that even a desperately poor country can grow and eventually join the group of developed nations.
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