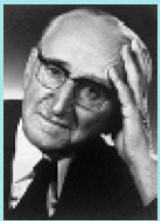




# Ordnungspolitische Diskurse

## Discourses in Social Market Economy



**Sung-Jo Park**

**Developmental State in Korea  
(60-70ties) Revisited:  
Institution-Building for the Making of  
'Coordinated Market'**

**Diskurs 2013 – 2**

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**Abstract**

The paper attempts to describe and analyze institutional and strategic variables for the success of developmental state under the Park Regime in the 60-70ties in Korea. Particular accent was placed on economic planning and its implementation supported by rationality-centered bureaucrats and foreign capital inducement. Mention was made about the export-led development strategy combined with the unbalanced growth model which resulted in severe regional development gap. A noteworthy strategy by the Park regime was to bring up Chaebols as development actors which contributed to a successful model of technology-intensive heavy and chemical industries.

**Keywords:** developmental state, planning, import substitution, chaebols, unbalanced growth

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# **Developmental State in Korea (60-70ties) Revisited: Institution-Building for the Making of 'Coordinated Market'**

*"The polity and the economy are inextricably linked in any understanding of the performance of an economy and therefore we must develop a true political economy discipline. A set of institutional constraints and consequent organizations defines the exchange relationships between the two and therefore determines the way a political/economic system works.." (North 1990, p. 21-22)*

## **1. Introduction**

How can we make capitalism in former colonies and former socialist economies? This question encountered Social Science after the Second World and since the end of the Cold War. The dealing with Third World countries as 'development policy' and with former socialist economies as 'system transformation' has been two challenging tasks for Social Science. It seems that, even though in both cases problem-solving attempts have been in full swing, general remedies seem not to be in sight (Park 2007; Andreff 1993; Merkl 1999; Mackow 2005).

The developmental state of Korea evoked much interest among scholars. What was the most significant factor for the economic performance in Korea in the 60-70ties? Experts concerned with economic development of Korea stress the role of the government (Kohli 2004; Sklair & Robbins 2002), government-business relations (corporatism) (Kang 2002; Lin 2001), role of big business groups (Chaebols) (Lombardi 2011; Cho 1990), human resources (Kim 2005), and the charismatic leadership of Park Chung Hee (Kim 2003). The institutional approaches by Choi (1987), Chung (1985) and Lee (1993) focused on the role of bureaucracy in the public administration.

The author leaning on the notion of the Northian institutional economics (North 1993) and VoC (Varieties of Capitalism) by Hall & Soskice (2003) aims to show how the private sector and market in Korea *developed* in the shade of the Second World War and Korean War legacies, and to describe how the Park Chung Hee regime (1961-1979) *guided the private sector* in the 60-70 ties. Particular attention will be directed

at the question how the state built up developmental institutions, big business groups (Chaebols) and how these institutions *worked together* which laid the foundation for development of the Korean type of capitalism.

Hall & Soskice (2003, p.8) defined the Korean capitalism as 'coordinated market economy' with the following characteristics: non-market relationships for coordination entailing relational contracting and network; equilibrium is outcome of interplay among market actors., not by supply and demand. Hall & Soskice (2003) dealt with mechanisms of the 'coordinated market economy', *not how it developed*. Until now little consideration was paid to the question, to which extent the development state under the Park Chung Hee regime contributed to the institution-building instrumental for development of the capitalism in Korea.

## **2. Birth of Developmental State, Planning, and Governance**

### **2.1. Economic Planning Board (EPB), Blue House, and Governance**

#### **2.1.1. EPB**

The take-over by General Park Chung-Hee of power in 1961 was not only a political coup d'Etat, but also brought about a radical economic change. Knowing that at that time Korea as one of the poorest countries in the world with less than per capita 80 US Dollars - over 60% of the population living still below the absolute poverty level - the highest infant mortality with 90%, and was struggling with devastations of material and social infrastructures caused by the Korean War Park Chung Hee laid the highest priority on precipitated economic recovery and development, and sought to find political legitimacy therein (Adelman 190?; retrieved March 2, 2013). As the first decision he abolished the Ministry of Reconstruction which was in charge of economic affairs in the 50ties, because it was caught in inertia and corruption. He instead established a 'super ministry', *Economic Planning Board (EPB)* which was expected to form the core of economic planning in future. Park having served the Japanese Army after the graduation from the Japanese military academy before 1945 had a profound knowledge about the role of the government in the industrialization of Meiji period in Japan.

Park's first priority was extended to the question of how to get a *self-reliant economy* free from foreign aid from the USA, on which the Korean economy under President Syngman Rhee depended to a large extent. Park did not want to continue being recipient of the American aid. That might have been the reason why his first visit to a foreign country is not USA, but Germany which extended the Park Government 'generous credits' for financing the construction of the Seoul-Pusan Highway under the contractual condition that Korean miners and nurses would be dispatched to West Germany suffering shortage of manpower in both fields.

Park tightened government control over the private sector by nationalizing banks, merged the agricultural cooperatives movement with the agricultural bank and announced a seemingly drastic *cleanup of illegally enriched companies*. From now on the Park government was able to exercise economic command through the EPB as "nerve center for Parks' plan to promote economic development". For the set-up of the EPB in the center of the entire executive Park must have had in mind the 'big state' modeled after Japanese MITI (tsusan sho) model (Amsden 1989; Johnson 1982).

Park equipped the head of the EPB with the status of a deputy prime minister, the EPB being staffed by "high intellectual capability and education background in business and economics". (<http://country studies.us/south-korea/47.htm>)

The super ministry was provided with *threefold function planning, budgeting and foreign capital inducement*. The epoch-making change was that instead of the separated function of planning and budgeting, as it has been the case in Korea, both functions were united under the same roof. Herewith the Park regime signaled a significant yardstick for a *Big State* for pushing ahead economic development (Lee 1993).

### **2.1.2. Flexibility of Planning Authorities: Power Shift from EPB to Blue House?**

The Park regime classified the planning *explicitly* into three categories: *normative, indicative, and imperative* (Park 1977; Park 1980; Lee 1993).

- ***under the auspices of the EPB:***

- 1) The *normative planning* beginning in 1961 was characterized not merely by indicating development goals, but by binding power to reach the announced develop-

ment goals *in compliance with financial allocation to a large extent*. The EBP's controlling over planning and budgeting was the very institution of mandatory power to pursue the planned goals for the three five year plans (1962-1976).

2) The *indicative planning* started in 1977 when the private sector, especially big business groups (Chaebols) reached a certain level of maturity in managerial and financial capability, and were capable of responding allegedly to market mechanisms by means of their diversification strategy ( Cho 1990; Song & Cho 1998). This implied that *big business groups were thoroughly in a situation to comply their business goals with the goals defined in the national five year plans (1977-1996)*.

- ***under the auspices of the Blue House***

3) The *Heavy and Chemical Industries (HCI) Plan (1973-1981)* had character of *Imperative Planning*: at the beginning of 70ties the Park regime became increasingly repressive and authoritarian. Instead of stepping down from the presidency, as President Park previously promised, his intention was to continue his dictatorial rule by means of the revision of the constitution in 1972 (the so called Yushin Constitution). Park sought to strengthen his position in dealing with oppositional forces. Since the Carter Administration announced the withdrawal of American troops from Korea and South Vietnam surrendered to the communists he thought the military self-strengthening as of pivotal importance for Korea's security. For this purpose he thought the accelerated development of heavy industries in close connection with establishment of defense industry as absolutely necessary. With this goal in mind he launched in 1973 the HCI Plan (planned investment volume : 9,6 billion US Dollars ) with 6 priority fields such as iron & steel, nonferrous metal, machinery, shipbuilding, electronics and petrochemical industries (Kim Hyung-A 2006). Park's actual plan was to combine this HCI Plan distinctly with defense industry in Korea.

The HCI Plan was classified by Park as an *imperative plan*, different from the previous five year plans, being composed of detailed project investment programs with exact time schedule. The Government, offering the diversified scope of projects, 'urged' only a handful of big business groups to join implementation of these projects by at the same time granting various incentives to them. The HCI Plan aimed at the *built-in cluster formation* which implies that the related industries of projects in a specific industry were to be forcibly placed in industrial parks such as the machine in-

dustry in Changwoon Machinery Industry Park, or the petrochemical industry in Ye-choen Industrial Park (Oh 2011).

President Park with the HCI Plan neglected economic-rationally founded arguments: Korea was in shortage of capital, technology and qualified manpower; the domestic absorptive capacity too small; the gestation period for huge investments too long and negative environmental effect would be immense. Even the EPB was also critical and upholstered a counter-position by pinpointing the Oil Crisis-driven recession of the global business entailing shrinking demand for capital goods. Critical arguments came not only from economists in Korea, but also from the American side, as the Korean investment inducement delegation was on a tour in USA (Lee 1993).

Given this constellation Park, convinced of necessity of the *institutional-backup* for the HCI Plan, strengthened the position of the Blue House Secretary in charge of defense industry and set up under his direct responsibility the HCI Promotion Council attuned to implementing the HCI Plan.

There was another reason for this responsibility shift. The conflict between the EPB focusing on *market orientation*, and other ministries (e.g. Ministry of Commerce and Industry, and Ministry of Finance) abiding by *state intervention* became increasingly virulent so that the governance at ministry level was seen as impossible. Finally the Blue House directly had to arbitrate conflicts. A critical moment was that the EPB failed to solve problems of insolvent companies at the end of 60ties. President Park must have thought that the 'autonomy' the EPB enjoyed in planning and policy-making to a large extent should be curbed by the Blue House. This led to considerable weakening of the EPB. In other terms, *the blueprinting and implementation of the HCI Plan hinged less on market rationality than state intervention*. The question how the Park regime 'successfully' managed to solve goal-and implementation-conflicts between market rationality and state intervention has remained unanswered until now.

Even the comprehensive studies by Dr. Lee Man Hee (1993) and Prof. Choi Byung-Sun (1987) do not provide a satisfactory reply.

The HCI Plan was formally overlapping with the ongoing third five year plan, but in reality undermined the Third Five Year Plan. The function of the HCI Council was

ranging from handpicking private investors to devising incentives. In line with this the important institution was National Investment Fund which tapped financial resources from public employee pension funds and a substantial portion of private savings at commercial banks. These funds were preferably allocated to those projects favored by the government. Further, banks were urged to finance projects requiring additional investment. Project-participating firms were granted tax concessions to draw back of customs duties on import of necessary machines and raw materials.<sup>1</sup> Through the decision by President Park in favor of the HCI Plan he ignored market-conform decision-making and created a more powerful institution for this plan than the EPB.

## **2.2. Implicit Knowledge of Planning and the Sogang School's Growth Ideology**

After the Second World War and the Korean War the ideas about the planning were offered by American experts. Even though in the second half of the 50ties the Korean Government frequently made mention about necessity of planning a large ambiguity about the planning knowledge was looming. Nevertheless Park hurried to assemble soon available economists and experts who were willing to contribute to economic development. Most experts ( such as Kim Yutek, Park Choonghun, Shin Hyunhak), trained in Korea or/and Japan, strongly inclined towards Keynesianism, were 'patriotism'-disposed enthusiastic bureaucrats instead of relying on profound knowledge about planning. Korea suffered lack of highly qualified experts in modern economic theories and policies. At the first stage of economic planning experts from the World Bank and USA extended consultancy as regards planning. Later, in the year 1969 Dr. Nam Duck Woo who returned from USA, and teaching at Sogang (Catholic) University was appointed Minister of Finance. With his nomination the expression 'Sogang School' was born. Very soon Dr. Lee Sung Hoon and Dr. Kim Manje also from Sogang University, both trained in USA, joined the Government by assuming high ranking position in economic policy.

This School is not comparable for instance to the Chicago School, or Frankfurter Schule as regards a consistent theoretical and methodological edifice. It stands for the group of economic bureaucrats who were graduated from or teaching at depart-

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<sup>1</sup> According to Kim Kyung-A (2003) not the EPB, but the Ministry of Commerce and Industry was believed to implement the HCI Plan, since there was a great number of civil servants specialized in engineering. After the coup d'Etat by General Chun Doo Whan at the end of 70ties the new National Committee of Emergency Measures for Protection of Security (Kuk Bo Whi) took over the planning responsibility for Heavy and Chemical Industries (Lee 1993)



ment of economics, Sogang University. The Sogang School<sup>2</sup> supporter of the economic growth has been playing the most decisive role in planning and policy making for economic development in the 70ties and 80 ties. The characteristics of this School in practical politics were and are: *first growth, then distribution, accent on export-orientation and on heavy and chemical industries, chaebol-friendly policies, on expansion of foreign trade and FDI* (Economy Chosun, retrieved February 24, 2013). The Sogang School was of considerable influence for the whole period of development state from president Park to Roh Tae Woo in policy making so that it is associated with the period of high growth and developmentalism in Korea. The debate between the growth-centered *Sogang School* and its counterpart, distribution-centered *Hakyun School* is still continuing. Depending on which political party the president is belonging to the orientation of economic policy toward growth or distribution is decided on. With the new president Park Geun Hye it is likely that the Sogang School - she is graduated from this university - gains more influence again.

Compared with practices in economic planning and policy making in other underdeveloped countries Korea under the Park regime was unique in the sense that neither the military nor former bureaucrats have exercised influence on developmental institutions, but instead relied on those experts with profound knowledge and experiences. This entailed strengthening of military-neutral effect so that by entry of the Sogang School's economic elite into the government gave a buoyant momentum to the rationalization of bureaucracy in Korea. Especially the EPB became emblematic of a rationally working institution.

By increasing the planning experiences knowledge and skills of planning-concerned bureaucrats developmental institutions became increasingly sophisticated. During the 18 years rule by the Park regime the best sophisticated five year plan was said to be the second five year plan based on input-output matrix and a dynamic projection model for the consistency of the overall plan as well as estimating sector-specific investment and import requirements. The plan has stressed further three aspects: implementation machinery, planning machinery and translation of the plan into action

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<sup>2</sup> The distribution-oriented economists graduated from Seoul National University were grouped around Prof. Byun Hyung Yoon (Seoul National University), called "Hakhyun School", having influenced the economic and financial policies under the Kim Dae-Jung and Roh Myun Yun president. This School, originating from Dept of Economics, SNU, consisted of left-wing, progressive economists trained in Korea and also partly in Germany. The most serious critics which met the Sogang School was that it was made responsible for causing the IMF Financial Crisis of 1997. One can describe the juxtaposition between the Sogang Univ.-centered growth orientation and the SNU-centered distribution orientation as still influential in economic debates.

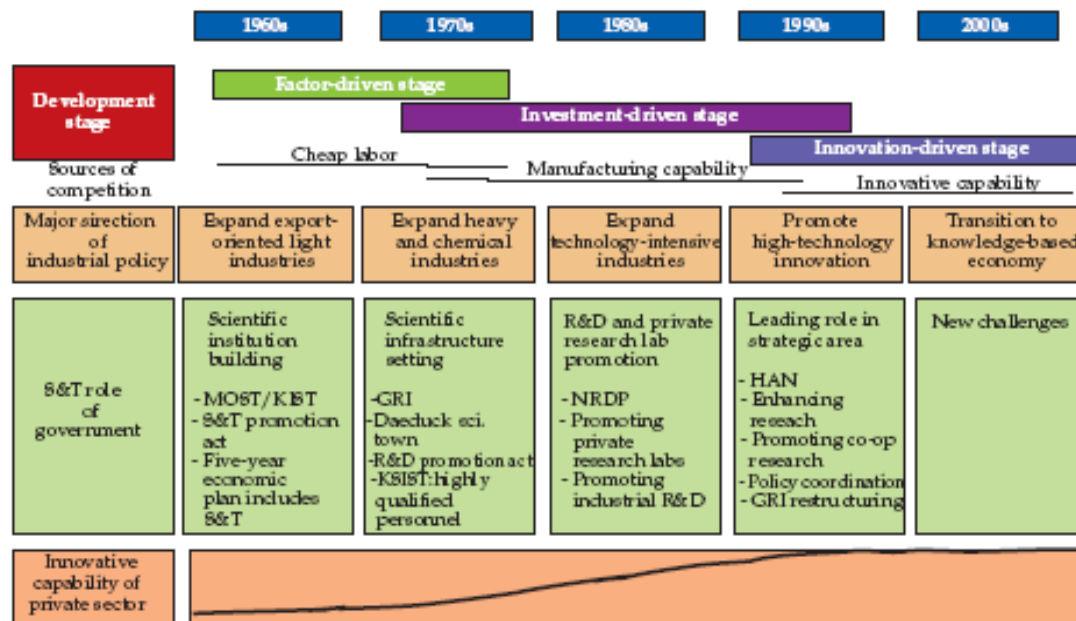
programs. Also the plan required other ministries and agencies of the government to participate in the planning.

Based on experiences with the implementation of five year plans the third and fourth plan were more diffused and decentralized, more detailed. This was thanks to the young generation of planners and bureaucrats in cooperation with the Korea Development Institute (founded in 1971) (Oh 2011).

### **2.3. Korea Institute of Science and Technology (KIST) and Brain Circulation**

The industrial policy undertaken, first of all, by the Park regime to accent electricity and electronics went together with shift from import-substitution to export-led strategy mid 60 ties which implied necessity to localize production of electronic parts. The problem was lack of relevant high tech and engineers. The establishment of KIST was thanks to the support by the American government to Korea. The American government requested President Park to dispatch Korean troops to the Vietnam war. In compensation for Korea's troops joining the US army in Vietnam President Johnson supported the establishment of KIST. The Report by Donald F. Hornig, special advisor to the President Johnson soon conducted a F/S study in Korea and recommended set-up of KIST.

However, the most difficult problem KIST was faced with was to pursue its *staffing* due to shortage of noteworthy scientists in Korea. The Battelle Institute suggested KIST to *recruit Korean scholars working abroad* which led to scouting young experts at Yutah University, Harvard University, Columbia University, and other universities and research institutes in USA. The next problem was the question whether a *special ministry* in charge of science and technology was needed. Scholars and scientists, in particular, the president Park favored a new ministry of science and technology which was established in 1967, this as the *first ministry of science and technology in the Third World*.



**Figure 1.** Changes of Science-and Technology-related Institutions (1960-2000).

Source: World Bank, Korea as a Knowledge Economy 2006, p. 20, cited from Mitchell 1997

The mission of KIST was to assume a central role as the first comprehensive research agency for promotion of the nation's modernization of engineering fields. It has since then developed into the foremost R&D organization and the foundation of technological development in Korea, now with four branches, three in Korea and the fourth in Saarbruecken, Germany.

As the Figure 1 indicates the Park Government has shown great interest to get institutions aiming at promoting science and technology. Especially in the 60 ties with the first and second five year plan, above all, the set-up of the Daeduk Science Park was stressed.

#### 2.4. Big Business Groups, Federation of Korean Industries (FKI), and Guided Corporatism

One speaks of the industrialization in Korea as not only government-led, but also Chaebol-led. The new government saw the major role in implementation of the five year plans in close cooperation with Chaebols.

Hall & Soskice (2003) described the capitalism in Korea as *group*-based, 'coordinated market economy', for which the *family-based* Chaebols are of crucial importance.

The coordination in Korea functioned formerly in more 'protectionistic' way than Japanese keiretsu ( Hall & Soskice 2003, p.34), but since the Financial Crisis of 1997 the coordination by Chaebols is opener than in the case of Japanese keiretsu. The IMF's bail-out enabled a significant corporate reform which led to foreign companies' joining in intra-company transactions.

At the beginning of the Park regime Korea suffered lack of big companies endowed with financial, managerial capability, and human resources. Park took the chance to bring up big business groups, Chaebols which were 'ordered' to reach the plan goals announced by the Government. At the time of seizure by Park Chung Hee of political power there were a small number of companies which enjoyed 'toleration' by the Japanese colonial rule thanks to their cooperation with it, and after the Second World War more or less successfully continuing their business owing to their 'crony' behaviors towards the Government, culminating in corruption. This plagued the Rhee Regime causing severe political instability.

President Park (1971) wrote in his book "Potential of the Korean Nation" : " one of the most serious impediments for the development is weakness of our companies in all respects and especially in shortage of new entrepreneurship". He must have thought of the situation, in which the government in the Japanese Meiji Period was helpless for embarking on industrialization at the end of 19th century, because it lacked noteworthy businessmen. It took some time until Samurai of Tokugawa Period changed its status into risky entrepreneurs. Which way should Park go in case of Korea in order to bring up market actors?

Park's political legitimacy should lie in eradication of corruption, for which the Cleanup of Illegal Enrichment Law was enacted. About 30 big companies violated this law. Park offered a compromise to these companies that in case of active implementation of the five year plans the Government would alleviate its strict position in anti-corruption policy. Business groups were instrumentalized for Park's economic plans. Around this time the terminology "Chaebol" came to use for the first time. From now on the adage was in full swing. "Plans came from the Park government, Chaebols carried out them"! The privileges Chaebols enjoyed were guarantee by the government of bank loans and foreign loans and grant by it of big specific projects participation, of which experts spoke 'guided capitalism'.

On the top of it, the Government needed a strong association of business groups, as it is the case in advanced countries. Park had probably the powerful Japanese enterprises association Keidanren in mind. He urged business groups to build up an association of enterprises as soon as possible. The currently powerful enterprise association, Federation of Korean Industries (FKI) goes back to this time. As the new Government under Park cleared the framework of the upcoming key industries, SOC, promotion of foreign trade etc., 20 private entrepreneurs such as Lee Byungchul (Samsung), Jung Jeho (Samho), Kim Yunsoo (Samyong), Sul Kyungdong (Dehan), Koo Inhoe (Lucky), Jung Jooyoung (Hyundai) etc. declared their willingness to join in implementation of the first five plan by establishing the Association for Promotion of Economic Reconstruction which was changed into FKI in 1968.

**Table 1.** Top 10 Chaebols in 50ties -80ties

Rank	Late 1950's	Mid-1960's	1974	1983
1	Samsung	Samsung	Samsung	Hyundai
2	Samho	Samho	LG	Samsung
3	Gaepung	LG	Hyundai	Daewoo
4	Daehan	Daehan	Hanjin	LG
5	LG	Gaepung	Ssangyong	Ssangyong
6	Tongyang	Samyang	SK	SK
7	Keukdong	Ssangyong	Hanhwa	Hanhwa
8	Hankook Glass	Hwashin	Daenong	Hanjin
9	Donglip	Panbon	Dong-Ah Const.	Kukje
10	Taechang	Tongyang	HanilSyn. Textile	Daelim

Source: <http://www.sjsu.edu/faculty/watkins/park.htm>

This Association emphasized its willingness for the new government in more concrete sense: in line with one of the new top policies by the Park government the new Association supported actively the promotion of electrification and dissemination of telephone system which was the first step towards government-business cooperative relations. In the case of Korea's FKI one could speak of the *guided corporatism* instead of the embedded corporatism.

Beside the enthusiastic intention by big business groups to cooperate with the Government in pursuing industrial policies they played an active role in inducing foreign capital. They needed capital, technology, and western management skills. Especially the *foreign capital inducement law* revised just before the second five year plan was enacted with a strong support by FKI. Thanks to the new Foreign Capital Inducement Law the number of direct investment by foreign MNCs rapidly increased. Noteworthy companies were Fairchild, IBM, Signetics, AMC, Motorola, etc. With Japanese firms emerged Japanese-Korea Joint Ventures such as Samsung-Sanyo, Samsung-NEC, Korea Micro Electronic, Komi Industries, Korea-Toshiba, etc. Particular note deserves in this regard the Korean-Japanese Normalization Treaty (1965) which opened for the Japanese business world the path toward their investments in Korea (Park 1969).

**Table 2.** Inflows of Foreign Capital

	(2005: US\$ million)			
	First plan (1962–66)	Second plan (1967–71)	Third plan (1972–76)	Fourth plan (1977–80)
Loans	291	2,166	5,432	10,256
Public	116	811	2,389	4,084
Commercial	175	1,355	3,043	6,172
FDI	17	96	557	425
Total	308	2,262	5,989	10,681

Source: cited from Government of the Republic of Korea 1982, p. 5.

In the time of the First and Second Five Year Plan the loans made up the major part of foreign capital inflow, whilst the foreign direct investment (FDI) stagnated due to market uncertainties caused by the Oil Crisis. As regards the technology import American MNCs were active in direct circuit and transistor related fields, whilst Japanese MNCs in the field of condenser, transformer, speaker, that is to say, electronic/ electric parts. Interesting was also the difference that American MNCs were active in the region of Seoul, Japanese MNCs in the newly opened Economic Special Zone of Masan.

### 3. Strategy Choice

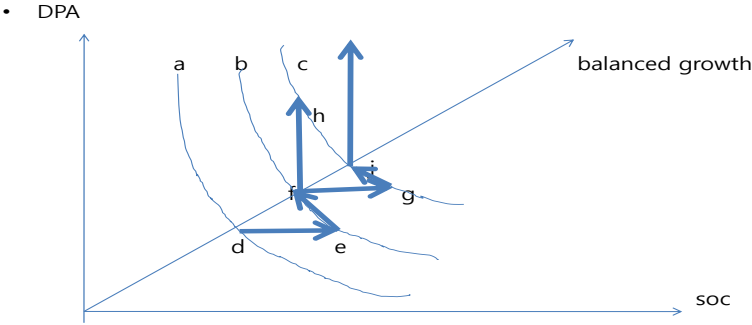
#### 3.1. Balanced Growth versus Unbalanced Growth

As regards the allocation of given resources for development there are two alternatives: the one is balanced growth strategy and the other unbalanced growth strategy. The former by Nurkse and Rosenstein-Rodan proceeds on the assumption that ad hoc investment is not sufficient, as demand in underdeveloped country is too low for development to be stimulated. Not even products manufactured at home would be consumed by the labor force which produced them. Here Say's theorem 'supply creates demand' does not work. Thus, what is necessary is 'big push', namely huge coordinated investments to create a demand which would stimulate production. This theory seems not to be tenable in the Third World. The second strategy by Hirschman, Singer and Myrdal stems from real situation of underdeveloped countries, that is to say, shortage of resources, especially financial resources and the lack of experienced entrepreneurs prepared to undertake (risky) investments. Therefore, preference should be given to those leading sectors, for instance, SOC, which entails larger linkage (forward/backward) effects on DPA (direct production activities).

A basic notion of the balanced growth concept is the assumption that all necessary factors must be available in the right place, at the right time and in adequate amounts. For pursuing this concept a centralized authoritarian strong, big state is *conditio sine qua non*. To be short, this strategy requires a *socialist regime*. In contrast, the unbalanced growth concept prefers purposively those sectors, in which available resources are 'concentrated' coupled with expectation that larger linkage effects are created. The attractiveness of this model is to create imbalance in order that those backward sectors should try to catch up with the leading sectors. According to Hirschman the imbalance is to lead to balance which culminates in development.

By taking both strategies into account the Korean Government, particularly the EPB gave more preference to the unbalanced growth strategy, with which the foundation for future economic development plans in Korea was laid. Decisions on construction of the Seoul-Pusan Highway, establishment of the Economic Special Zones such as Gumi, Masan, and further of economic growth centers such as Changwon (Industrial Estate), Pohang (Steel) and Ulsan (Ship-Building), and the Heavy and Chemical In-

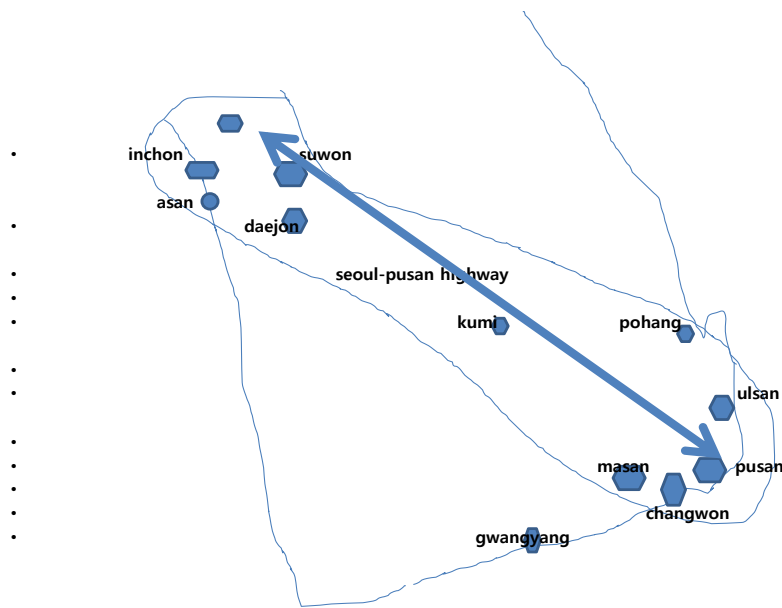
dustries Plan in the 70ties can be understood in the framework of the unbalanced growth strategy.



**Figure 2.** Unbalanced growth: investment in SOC or DPA.

In the framework of the unbalanced growth strategy the Government and the EPB exercised thoroughly the first three five year plans (1962-1976) (*normative planning*). Since the fourth five year plan (1977-81) the plans had character of *indicative planning* which lasted up to the 7th five year plan. The normative planning is state-led plan sticking to the governmental decisions on allocation principles and strategies. Also the late HCI Plan (imperative planning) leaned on the unbalanced growth concept. (see the map)





**Figure 3.** Economic Development based on Unbalanced Growth Model with extreme Regional Concentration

**Table 3.** Economic Plans based on unbalanced growth with regional concentration

Taxonomy of planning	priorities
<b><i>phase of normative planning:</i></b>	
First Five Year Plan (1962-1966):	electrical power, fertilizer production, petroleum refining, cement, synthetic fibers
Second Five Year Plan (67-71):	steel, machines, chemicals
Third Five Year Plan (72-76):	iron & steel, transport equipment, machines, ships, petrochemicals, electronics
<b><i>phase of indicative planning:</i></b>	
Fourth Five Year Plan (77-81):	iron & steel, machines, ships, petrochemicals, electronics, non-ferrous metals
Fifth Five Year Plan (82-86):	precision, machinery, electronics, technology industries
Sixth Five Year Plan (87-91):	higher technology, R/D, manpower training
Seventh Five Year Plan (92-96):	microelectronics, bioengineering, aerospace, fine chemicals
<b><i>Phase of Imperative Planning:</i></b>	
(1973-1981)	The Heavy and Chemical Industries Plan

Source: <http://www.sjsu.edu/faculty/watkins/park.htm>

The attitude of the Government towards the plan implementation did not stick to the planned targets. This was also the same with the allocation of resources. To a great degree the *flexibility* in plan implementation played an important role depending on functioning of domestic market forces and especially international market constellations. This means practically the Government tried to rely greatly on the well functioning of market forces for implementation of the plans, for which the incentive system and provision of information by the Government became greatly instrumental.

The private sector also had to deal with uncertainties entailed by the planned targets and plan implementation, and especially the export-led industrialization and international market.

As the following table indicates the realized GNP growth rate exceeded the planned targets which was due to government leadership, efficient resources allocation and, last but not least flexible response by private entrepreneurs. In order to react towards market uncertainties in a better way the Government took the initiative from 1967 on the Annual Overall Resource Budget (ORB) which formed a consistent basis for a short term policy making by taking into account past performance, set short-term targets and allocations, and appropriate implementation policies.

**Table 4.** Plan Targets and Realized Performance (unit: %)

<b>First Five Year Plan (1962-1966)</b>	
planned 7,1%	realized 8,3%
<b>Second Five Year Plan (1967-1971)</b>	
planned 7,0%	realized 11,4%
<b>Third Five Year Plan (1972-76)</b>	
planned 8,6%	realized 11,2%
<b>Fourth Five Year Plan (1977-81)</b>	
planned 9,2%	realized 5,5%

Source: data collected by the author

Evaluating the five year plans under the Park regime the most important result of them was said to bring the knowledge accumulation process among economic elites and to enhance capability of the private sector as regards how to deal with market forces. Prof. Oh is referring to flexibility of the Government's handling economic plans

as follows: " formal planning was only partially successful in mapping a detailed path for the economy to follow. Rather, it turned out to provide a focus for dialogue, training technocrats, articulating the leadership commitment, giving the general guidelines and implicit promises of support that facilitate private planning" (Oh 2011, p.8).

### **3.2. From import substitution to export-led growth strategy**

Talking about the alternative strategy between inward-looking and outward-looking strategy for development the author is reminded of the debate evoked by the German dependence theoreticians such as D. Senghaas, and U. Menzel in the 80 ties. They argued in favor of de-coupling from the dependence on the world economy reflecting on experiences of China, North Korea, Albania, Romania, Cuba, etc. This was called 'dissociative strategy'. The author was and is not sure of success of the dissociative strategy in any country. The question is, as a matter of fact, whether an economy with a small domestic demand should choose import substitution as development trajectory.

Interesting fact was that the Park Government was influenced by the nationalism-disposed self-reliance ideology culminating in import substitution policy. The first five year plan with priorities on petroleum refining and key raw materials producing industries such as fertilizer, cement, iron and steel, and synthetic fibers aimed at import substitution-based industrialization. It was expected to reach self-sufficiency during the first five year plan by increase in productivity by means of multiple cropping which was to be intensively associated with the New Village Movement later. The Government exercised import dampening policy especially for consumer goods and intermediates. The import prohibition and import quota system was introduced in 1965. The outcome of the first five year plan was ambivalent. The growth rate with more than 8% exceeded the planned goal of 7%, the industrial production increased also by 50%. Nevertheless the import substitution contributed to an increase of imported goods by 75%. The trade deficit boosted immensely. Poverty remained unchanged, with 2/5 of all households falling below the absolute poverty line. In sum, the supply of especially consumer goods was not sufficient, the effective demand was very low. Before the end of the first five plan the Government shifted the industrial policy from the import substitution to export-centered strategy (Adelman, op.cit.)

The revision of the import substitution was substantiated by concentration on use of comparative advantage of labor-intensive goods. "The combination of low-per capita income with small population (28.5 million) suggested that a domestic market oriented (import substitution) could not provide the scope for diversification need to achieve greater economic performance" (Adelman, op.cit).

This paradigm change was accompanied by increase in import of foreign capital, foreign technology and capital goods as well as import of raw materials. The first effort is opening of the Kuro Export Industry Zone in 1964 followed by the Gumi Industrial Zone in 1969. The Government hurried up to enact the Foreign Investment Law in 1974, according to which four kinds of industrial zone for export promotion were introduced.

- Government-guided Industrial Zone: Changwon, Ulsan, Gumi, Banwol
- Free Export Processing Zone: Masan and Iri
- Local Industrial Zone: Gwangjoo and Daegu
- Private Industrial Zone<sup>3</sup>

To sum up, the Outward Export-led Strategy which had begun mid 60ties the export of labor-intensive goods (e.g. whigs, textiles, etc.) had highest priority. Gradually it shifted from the labor-intensive phase to export of capital-intensive goods which was possible thanks to the HCI Plan standing for import of raw materials, foreign technology and foreign capital, for which the Chaebols played a decisive role. Iron and steel, electronics, petro-chemical products, cars, ships and machines made up the major share of the export. (cf. the following table)

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<sup>3</sup> These efforts were supported by the following measures:

1. The government set up a strict export target system. Firms having reached these targets they were awarded with special prizes.
2. The Government opened up Korea Trade Promotion Agency (KOTRA) in foreign countries in order to provide firms with information about new market and marketing strategies in foreign countries.
3. The President hosted the monthly export meeting in its Blue House.

**Table 5.** Share of Manufacturing Goods in Export 1962-1979

Share of Manufacturing Goods in Export:	
1962	27,0%
1970	83,6%
Share of Heavy and Chemical Industry Goods in Export:	
1970	15,5%
1979	43,1%

Source: Ministry of Finance and Economy

#### **4. Conclusion: Lessons from Korea?**

Park Chung-Hee who ruled the country for about 20 years has successfully exercised the first attempt in the Third World to pursue the overcoming of underdevelopment by means of state-led strategies, rationality-based developmental institutions and their knowledge accumulation and bringing up market actors (Chaebols). He laid the foundation for Korea to become an advanced country under the capitalistic system. Significant fact is that the path Korea went was overcoming legacies of the colonialism and two wars having shown that the state-led capitalism making in the Third World in the relatively short period is possible, however, needs at least two prerequisites: first, economic rationality - centered bureaucrats and second, firms, big and small, as market actors.

A significant advantage of Park's politics was his leadership commitment and confidence which he put in developmental institutions and policy making machinery to the effect that they were able to establish constructive, and reliant relations with other relevant institutions on the basis of rationality. The fact that Korean institutions proved to be working as rational institutions and making expedient decisions oriented towards pragmatism betrays the Weberian notion that economic rational behavior is solely in monopoly of the Western civilization. Of special advantage was that military personnel and previous bureaucrats did not seized those developmental institutions and policy making machinery.

The development policy by Park Chung Hee was *efficiency-oriented*. Almost all projects related to five year plans he launched had only the efficiency criteria. The quality-accentuating and structure-forming efforts were given the second priority. Park Chung Hee always was in a hurry to bring projects to an end even by ignoring market

principle. He, thus, associated this efficiency with his political legitimacy. The effectiveness and sustainability were for him foreign words.

His growth-centered policy later continued in the 80 ties entailed massive external diseconomies, of which the legacies are still noticeable in its full length.

Especially two aspects accompanied this growth-centered policy: *first*, regional concentration, and *second*, concentration of economic and knowledge power in Chaebols.

The growth strategy based on unbalanced growth was regionally *in toto* concentrated on the Eastern region (Youngnam) of South Korea by means of heavy and chemical industries and Economic Special Zones and Export Processing Zones, and highly developed infrastructures. As already stressed this development policy was carried out in tandem with active engagements by Chaebols, of which most of them stem from the Eastern region.

Adding these aspects together one could regard the development of South Korea essentially as *that of the Eastern region* which has been also criticized by people of the Western region (Honam). There has been an extreme income and developmental gap between both regions which has been forming a lasting theme of political and economic debates. One can go so far to argue that the origin of the left wing (current opposition party) versus right wing (ruling party) struggle in Korea may be abortive in Park's unbalanced growth strategy. The thesis by Hirschman attached to the Unbalanced Growth Model that the SOC investment would be accompanied by DPA (Direct Productive Activities) thanks to forward and backward linkage effects proved not to be verified in the period of the Park Chung Hee regime.

Making the balance sheet on the developmental state under President Park one can resume that he was successful in overcoming the absolute poverty Korea was faced with, and pursuing 'economic development' by planning at the same time through bringing up market actors. However, the planning in Korea was to a great degree characterized by resilience in beginning with normative planning in the time of absence of efficiently working enterprises, and gradually by developing actors for implementation of plans; Chaebols, then with indicative planning. Lastly President Park put imperative planning into effect for developing of heavy and chemical industries

contrary to market principle - despite worsening international market constellations and shrinking demand caused by the oil crisis at the beginning of 70ties and Korea's shortage of capital, technology and skilled workers. This was really a risky decision which finally led to a great success two decades later.

Last, but not least. Park's economic success had to be compensated for by political and social costs. Without the authoritarian dictatorship his economic success would not have been possible. This experience gives a momentum to reflect on western modernization theories which conceptualize the synchronic development between economic growth and democratization possible. The case of Korea cannot provide an evidence for validity of these theories. It seems that a certain level of economic growth - hand in hand with other variables such as SOC, education, dissemination of information etc. - is necessary.

### **Lessons from Korea's experiences?**

The author would be hesitant to offer any formulaic advices. The experiences Korea made under Park Chung Hee were 'unique' in many respects. Most Korea-concerned experts forget to consider the *state of war* lasting since the Korean War as an *essential development catalyst*. Korea has been living in crisis since more than 6 decades. In this context the author is allowed to give a reference to the book by Dan Senor and Saul Singer "Start-Up Nation. The Story of Israel's Economic Miracle".

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