

will boost the nation's capital stock and fast growth will occur. The contrasting growth patterns of Asian and Latin American countries have contributed to a reevaluation of that assumption.<sup>2</sup>

### *Low-Income Economies of Southeast Asia*

More than a hundred million people live in the low-income Southeast Asian economies of Burma (Myanmar), Vietnam, Kampuchea (Cambodia), and Laos. Burma, with more than forty million people, has been pursuing its own brand of socialism since 1962 and has one of the lowest standards of living in the world (less than US\$ 250 per capita in 1994). After years of stagnation, in the late 1970s and early 1980s there was a period of growth in Burma exceeding 6 percent annually, fueled by increased rice production and exports. However, exports remained at a third of their highest prewar level. Foreign debt has increased rapidly, reaching more than US\$ 4 billion by 1989; debt service payments equivalent to 30 percent of export value have encouraged Burma to diversify exports and increasingly to look abroad for foreign assistance. Until the late 1980s, no foreign investment existed in Burma and the government did not solicit investment despite its foreign capital needs. (Subsequently, companies in Thailand bought major timber-cutting concessions in Burma's rich tropical forests.) The private sector, theoretically nationalized in 1962, still accounts for more than half of production but current economic plans continue to call for a substantial increase in the state sector of the economy and a reduction in the private sector. Other indicators of socioeconomic development, such as longevity, access to clean water, and availability of medical care, are at far lower levels than in the ASEAN countries.

Vietnam also has had a serious foreign debt problem with little success in attracting foreign investment until it altered its investment laws in the 1990s. Early hopes that this country would concentrate on economic reconstruction following reunification were dashed by its 1978 invasion of Kampuchea (chapter 11) and by the mid-1980s more than 40 percent of Vietnam's budget was devoted to defense. Among Vietnam's many prob-

lems are fertilizer shortages, lack of petroleum for nonmilitary use, a poor transportation network, and inadequate power supplies. The most important economic priority is to continue to boost agricultural production. Like China, Vietnam has introduced a system allowing lands of the cooperatives to be tilled by individual families or small groups under a contract quota system.

Laos and war-torn Kampuchea have limited current economic prospects; maintaining an adequate food supply is the major economic problem for both, and they depend heavily on foreign assistance. Nevertheless, Kampuchea has long-term potential based on its endowment of rich agricultural lands.<sup>3</sup>



### **KOREA'S ECONOMIC DEVELOPMENT IN HISTORICAL PERSPECTIVE, 1945-1990**

—by Carter J. Eckert

The development of the South Korean economy is one of the great stories of the post-World War II era. It is a tale whose drama is heightened by breathtaking contrasts: a per capita GNP of about US\$ 100 in 1963 versus a figure of nearly US\$ 5,000 as the year 1990 began; a war-ravaged Seoul of gutted buildings, rubble, beggars, and orphans in 1953 versus the proud, bustling city of the 1988 Summer Olympics with its skyscrapers, subways, plush restaurants, boutiques, first-class hotels, and prosperous middle class; a country abjectly dependent on foreign aid in the 1950s versus a 1980s economic powerhouse - a factory to the world for everything from clothes, shoes, and electronic goods to steel, ships, and now even automobiles and semiconductors. Given these remarkable facts, it is not surprising that many popular writers and even a few scholars have taken to calling South Korea's economic transformation "the miracle on the Han."

The term "miracle," however, actually fails to do justice to the complexity of the story by implying that South Korea's growth was somehow contrary to reason or extraneous to history. Nothing, of course, could be further from the truth. Growth

was stimulated and conditioned by a number of international, social, political, and cultural factors—all deeply grounded in Korean history. Indeed, even though the most visible and striking aspects of South Korean development occurred after 1961, the post-1961 period of rapid growth can be fully understood only in the context of a long historical process that began in the late nineteenth century. The process and impact of economic growth, moreover, have also posed some fundamental problems and challenges for South Korean society, culture, politics, and international relations that the “miracle” sobriquet tends to obscure.

## INTERNATIONAL FACTORS

### *Historical Background*

While the credit and responsibility for South Korean development ultimately rests with the Koreans themselves, the influence of foreign powers in shaping the country's economy has been extraordinary. Korea's crucial geopolitical position at the cross-roads of northeast Asia has brought the peninsula into intimate and sustained contact with two of the most dynamic and expansive economies of the twentieth century, Japan and the United States. From the Korean viewpoint especially, the contact has not always been a happy one, and many scholars in South Korea, let alone in the north, have argued that foreign interference before and after 1945 has worked to distort a natural development of the economy that was already underway in the late nineteenth century. Such a view is deeply tinted with nationalist feeling and laden with presuppositions about the nature of economic development, but it correctly emphasizes the extent to which economic growth on the peninsula has been conditioned by external forces.

What can hardly be denied, however, is that Korea's special historical relationships with the major core countries of the international capitalist system have played a key role in fostering economic growth, even if a number of Koreans have found certain aspects of that growth objectionable. What, then, were these special relationships?

And how have they affected the development of the South Korean economy?

Before the late nineteenth century, Korea's international orientation was toward China, and the interaction between the two countries was less economic than diplomatic and cultural. After the Hideyoshi Invasions of the late sixteenth century, Koreans regarded Japan with a wary eye, and even though diplomatic relations were restored with the Tokugawa shogunate in 1609, Japanese were never permitted to go beyond Pusan, and the shogun was obliged to communicate with the Korean court either through sporadic Korean embassies to Edo or through the medium of Tsushima, a Tokugawa island domain that also maintained a semi-tributary relationship with Korea. From the Korean perspective, Japan was a peripheral, even culturally inferior, member of the Sinitic world order, and although the shogun was formally accorded a status equal to the Korean king by Korean diplomats, Koreans in general never demonstrated the kind of interest in and respect for Japan that they historically showed for China.

All this changed with the Western invasion of East Asia in the 1800s. The dynamo of Western power and imperialism was its great capitalist industrial base, and East Asian history since the 1840s has to a large extent been an attempt to come to terms with this new global economic force. Japan's early success in this regard gave it military and economic superiority in the region and compelled the surrounding countries, including Korea, to emulate Japan's achievement or face the threat of Japanese hegemony. By the turn of the century, there were signs that both Korea's government and private sectors were finally

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Figure 7.1 In the vicinity of Seoul in the late nineteenth century.

beginning to reform the economy and society along Western (and Meiji Japanese) lines, but it is impossible to say where such reform would have led had it been allowed to continue. In the end, it proved to be too little and too late to stem the Japanese advance, and Korea became a Japanese colony in 1910.

### *Impact of Japan's Colonialism*

It was thus Japanese colonialism that ultimately laid the foundations for a modern transformation of the economy. To be sure, colonial development was geared to Japanese, rather than Korean, goals and needs. But the changes effected were nevertheless historic. To appreciate how far reaching they were, one need only compare photographs of Seoul in the late Choson

period with similar photographs taken in the mid-1930s. The former show a city that seems distant and alien to the modern eye — less a city, in fact, than an overgrown village of thatched-roof cottages that the famous nineteenth-century explorer Isabella Bird Bishop likened to an “expanse of overripe mushrooms.” By contrast, pictures of Seoul in the 1930s show a city that is distinctly modern and familiar.

The altered face of Seoul was part and parcel of a general physical transformation of the country that occurred as colonial industry expanded with Japan's penetration of the Asian continent, especially in the 1930s and 1940s. Railways, roads, rice mills, textile factories, hydroelectric plants, smelters, oil refineries, shipyards, and even new cities were built to service the empire. The growth of manufacturing, in fact, averaged about 10 percent per year, and by 1940 about half

of all factory production was in heavy industry, located mainly in the north. By any standards such industrial growth was impressive; in the context of colonial rule, it was exceptional, a clear reflection of Korea's vital strategic role as Japan's military-economic link to the Asian mainland. Much of this industrial base was later lost to South Korea through the peninsula's partition and civil war, but some important elements, including the railway system and the textile industry (centered in the south), remained as a framework for reconstruction in the 1950s and for rapid export-led growth in the 1960s.

The physical changes wrought by colonialism, however, were probably less important for later South Korean development than the accompanying social changes. A small population of Japanese dominated the modern, urban sector of the colonial economy, but by 1945 millions of Koreans had been induced or forced into new modes of life and thought by the industrialization process. Between 1910 and 1941, the number of Koreans living in cities of 20,000 people or more increased over threefold, from about 6 percent to 20 percent of the total population. Perhaps four million Koreans (about 16 percent of the population) were in Japan and Manchuria by 1945, and many of these people, especially the two million or more in Japan, were also living in cities.

Most of the new Korean urban populace consisted of factory wage workers who only a short time before had been tilling the land literally in the footsteps of their fathers and forefathers. As a political safety valve, however, the Japanese had also opened the door for a small number of Koreans to develop into a urban elite of businessmen, bureaucrats, white-collar workers, technicians, lawyers, doctors, and other modern professionals. Together the workers and the urban elite provided the social core and framework for a new capitalist society that continued to develop with American support and aid in the south after 1945.

### *Japan's Post-War Influence*

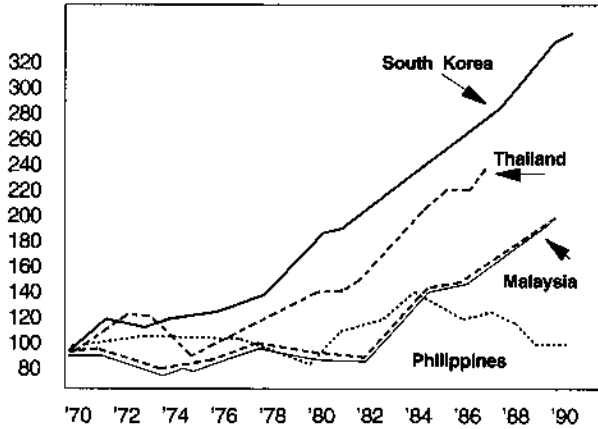
Liberation ended Korea's colonial tie with Japan, and regular diplomatic relations between Seoul and Tokyo were not resumed until 1965, in part because of an implacable anti-Japanese

stance by President Syngman Rhee. Private personal and professional relationships formed by Koreans and Japanese during the colonial period were by no means entirely severed, however, and for South Korea's elite, largely educated in the Japanese language, Japanese newspapers, magazines, and books continued to be a source of the latest information on everything from fashion to economic trends and industrial technology. Japan itself, moreover, remained a model of national and economic development for such people, especially as it began to reemerge as an important international economic force in the late 1950s and early 1960s. In that sense at least, the ROK-Japan Normalization Treaty, when it finally came in 1965, was less a break with the past than a resumption of an historic relationship under new conditions and on different terms. Indeed, although such a treaty had long been urged by the United States, South Koreans themselves took the initiative when the opportunity presented itself. Soon after Rhee was overthrown in 1960, South Korean official and private contacts with Japanese counterparts mushroomed, with Japanese-speaking Korean bureaucrats and businessmen of colonial vintage leading the way and working through a network of ex-colonial officials in Japan. And President Park Chung Hee, who was himself an elite product of the colonial military system, fluent in Japanese and deeply influenced both intellectually and emotionally by his training during Japan's period of Asian military industrial supremacy, seems to have needed little or no persuasion to continue this process after seizing power in 1961.

The normalization treaty of 1965 signaled the beginning of the second period of major Japanese influence on the Korean peninsula since the late nineteenth century, and opponents of the treaty in fact compared it to the forced Korea-Japan Kanghai Treaty of 1876 that had first opened Korea's ports to international trade. In one sense the comparison was misleading, since it was the South Koreans who were initiating normalization in the early 1960s, though the Japanese themselves certainly welcomed such a treaty for both political and economic reasons. On the other hand, normalization once again opened the door to widespread Japanese activity in Korea, and the results in terms of economic ties between the two

# Manufacturing Productivity

Index (1970 = 100)



Graph 7.8 Korea's manufacturing productivity, boosted in part by heavy Japanese investment, has outpaced even the faster growing ASEAN nations.

countries were immediate and dramatic. ROK-Japan trade had been growing since the 1950s despite the lack of formal diplomatic relations, but until 1965 the preponderance of South Korea's trade had been with the United States. Within little more than a year after the signing of the normalization agreement, however, Japan surpassed the United States as South Korea's most important trading partner and continued to hold this position throughout the period of rapid growth in the 1960s and 1970s. Since 1971, moreover, Japan's investment in South Korea has been considerably greater than that of any other country, accounting for about 54 percent of all foreign investment since 1962 (compared to about 26 percent for the United States).

The benefits of normalization for South Korean economic growth were enormous. At a time when American aid was being reduced and the Park government was desperately seeking alternative sources of capital to finance its new development plans, the treaty provided South Korea with US\$ 300 million in grants, US\$ 200 million in public loans, and US\$ 300 million in commercial credits (raised to US\$ 500 million in 1967) over a ten-year period. In 1982 the Chun Doo Hwan regime negotiated a second loan agreement for US\$ 4 billion with the Nakasone government that reaffirmed the Japanese economic

commitment to South Korea and eventually helped pay for the 1988 Summer Olympics in Seoul. Since 1965 Japanese private capital and technology have also flowed into South Korea in large quantities, propelling economic development. The recent triumph of the Hyundai subcompact car in the United States is a case in point: Mitsubishi owns about 10 percent of the Korean company and provides the car's engine and other key components.

The close economic interaction between South Korea and Japan has clearly been facilitated by geography. Seoul and Tokyo are only two hours apart by air and in the same time zone, and the economic advantages for both countries in terms of shipping costs and delivery times are obvious. Geographic proximity has also made the peninsula a continuing object of Japanese political and strategic concern and given Japan an incentive for contributing to the growth of a cooperative capitalist economy in South Korea.

Cultural similarity stemming from both countries' historical involvement with Chinese civilization and from the more recent heritage of colonialism has also played an important role in creating a special economic relationship. Language, for example, has been more of a bond than a problem. Since Korean and Japanese grammar and syntax are very similar in many respects and

both written languages make use of borrowed Chinese characters, Koreans and Japanese can master each other's languages with relative ease; with its comparatively simple sound system, Japanese is in fact particularly easy for Koreans to learn, and more and more younger South Koreans have been studying Japanese in schools, universities, and private institutes as economic relations between the two countries have progressed. The generation that has dominated South Korea over the last twenty-five years, moreover, was educated for the most part in the Japanese language, and key government and business figures in both countries have consequently been able to deal with one another comfortably and confidently in the Japanese language.

In addition to a relative absence of language problems, the Japanese have found in South Korea a government-business structure and culture that is strikingly like their own — even down to the informal parties of wine, women, and song that invariably follow serious business discussions in both countries. They have also found a people who, though generally more direct and out-spoken, possess a similarly keen sense of hierarchy and status. Indeed, there is surely no other foreign country in the world perhaps not even Taiwan where the Japanese have felt more at home doing business than in South Korea.<sup>4</sup>

Today as Seoul is sprouting flashy new suburbs like Apkujong-dong that increasingly resemble Shinjuku and other districts of Tokyo, plans are being laid by American and South Korean authorities to move the American military command out of the central part of Seoul which it has occupied since 1945 and to return the command's 700-acre compound of offices, barracks, schools, landscaped homes, and myriad recreational facilities (including clubs, movie theaters, swimming pools, a full-scale library, a baseball diamond, and an 18-hole golf course) to South Korea. Somehow this conjunction of events seems appropriate and symbolic: in the long-term judgment of history, America's total economic impact on Korea will probably shrink in comparison with Japan's. Nevertheless, for a period of about thirty years between 1945 and the mid-1970s, the U.S. played a critical role in the South Korean economy. Most of this complex story has yet to be written, but the following points seem clear.

The first and perhaps most important point — so obvious as to be forgotten — is that the United States since 1945 has been the decisive factor in the creation and maintenance of a political environment on the Korean Peninsula in which South Korea's particular capitalist development has taken place. Such a political framework was first established in 1945-48 by the United States Army Military Government in Korea (USAMGIK). What needs to be emphasized is that without American backing in 1945, Korea's nascent capitalist class, tainted by colonial collaboration, would in all likelihood have been severely purged or swept away in the politics of liberation, and the capitalist system itself would, at the very least, have been greatly modified.

In 1950, the United States again intervened in Korea to push back a North Korean invasion and saved the existing capitalist system a second time. Since then the U.S. has signed a mutual defense treaty with South Korea (1953) and maintained tens of thousands of American troops and even tactical nuclear weapons on the peninsula, while pouring vast sums of money into the development of South Korea's own military forces. The construction of this massively fortified political citadel has been an important prerequisite for continued capitalist development of the peninsula, especially in the first two decades after liberation.

In addition to insuring a political environment conducive to capitalist development, the U.S. has directly or indirectly sought to foster economic growth in South Korea. To be sure, interest in Korea has from the beginning been political and strategic rather than economic: support for South Korea since 1945 has been part of a global containment (and occasional rollback) of international communism centered on the Soviet Union. Nevertheless, American policymakers have also tended to see the development of a strong capitalist economy in Korea (and elsewhere) as an integral part of their anticommunist strategy and have consequently provided South Korea with large amounts of the two things it has needed most: capital and technology.

Between 1946 and 1976 the U.S. supplied a total of US\$ 12.6 billion in economic and military assistance to South Korea — more dollars per capita of aid than to any other foreign country

except South Vietnam and Israel. Although the growth rate achieved in the 1950s as a result of such assistance was only about 4 percent, American aid was clearly the crucial factor in South Korea's post-colonial economic survival between 1945-50 and in the country's postwar reconstruction after 1953. Indeed, between 1953 and 1962 American aid financed about 70 percent of South Korea's imports and accounted for nearly 80 percent of total fixed capital formation, mainly in the areas of transportation, manufacturing, and electric power. One of the most notable aid accomplishments was the resuscitation of the South Korean textile industry. Building on its colonial base, the textile industry experienced its most rapid expansion in history between 1953 and 1957, with growth rates averaging about 24 percent per year; by 1957 the industry had achieved complete import substitution in cotton, woolen, rayon, and knitted textiles and was beginning to explore possible export markets. Also worth noting is that nearly all of the American aid to South Korea before 1964 was provided on a grant basis, thus making it possible for the country to begin its export-led growth in the 1960s without a backlog of debt. Since then South Korea has gradually freed itself from a reliance on American economic grants, but it has continued to depend on U.S. support for concessional and commercial loans from the World Bank, the International Development Bank, the International Finance Corporation, and other international public and private lending institutions. American military aid, moreover, which totaled about US\$ 6.8 billion in the thirty years after liberation (not including the military equipment supplied during the Korean War), has also been an important factor in economic growth by freeing domestic resources for development.

The influx of American capital into South Korea has been accompanied by a corresponding flow of American technology and technical expertise. Aid has helped finance technology transfers from American firms and the creation of official research and development organizations like the Korea Development Institute and the Korea Institute of Science and Technology (KIST), while the U.S. itself has since 1945 been the primary training ground for South Korean economic and industrial technocrats, many of whom have been supported by aid funds.

American economic experts and technicians associated with the U.S. AID Mission in South Korea have also played a key role in shaping the South Korean economy through their allocation of aid funds for specific projects and their participation in the formation and implementation of South Korean government development plans. While the full dimensions of this particular American contribution are only now being investigated by scholars, it is clear that the direct and personal involvement of Americans in the South Korean economy has been extraordinary. Indeed, in the early 1960s the U.S. AID Mission in South Korea was one of the largest in the world, and AID officials had full access to South Korean government information and personnel. American experts spoke of "tutoring" President Park in economics and did not hesitate to use AID funds as leverage to force the South Korean government into compliance with their economic suggestions.

The special U.S.-ROK relationship also gave South Korea privileged access to U.S. markets. Until recently the U.S. more or less accepted South Korean protectionist policies as a necessary part of the growth process and accorded many South Korean exports duty-free status under the General System of Preferences (GSP), a program instituted in 1976 to promote trade with developing countries. Although the U.S. has gradually been withdrawing such favors as ROK development has proceeded, the economic gains to South Korea over the years have been considerable. In 1987, when the U.S. drastically reduced the scope of the GSP, South Korea accounted for about 14 percent of all GSP preferences. Today South Korea sends about 40 percent of its exports to the U.S., and in 1987 it enjoyed a US\$ 10 billion trade surplus with its former aid donor.

South Korea also reaped important economic benefits from its role as America's chief ally in the Vietnam War. In 1964-65 the Lyndon Johnson administration launched a major diplomatic effort to secure troop commitments for the war from European and Asian countries, both to create the impression of international solidarity with the United States on the war issue and also, secondarily, to reduce the burden on U.S. combat forces. Only Australia, New Zealand, the Philippines, Thailand, and South Korea responded positively, and South Korea eventually emerged as the most

important contributor by far, dispatching a total of about 300,000 troops to Vietnam between 1965 and 1973.

In return, the South Koreans demanded and received a remarkable package of military and economic payments and perquisites formalized in the so-called Brown Memorandum of 1966 (Winthrop Brown was the U.S. ambassador to the ROK at the time). In addition to agreeing to equip, train, supply, and pay all the ROK forces used in Vietnam, the U.S. further agreed to modernize the ROK forces in South Korea itself and to suspend the program, instituted by the U.S. in the early 1960s, to shift the burden of American military aid to the ROK defense budget. The U.S. also promised additional AID loans to the ROK and pledged itself to procure from South Korea insofar as possible and practicable supplies, services, and equipment for the various military forces in Vietnam, as well as a "substantial amount of goods" required by the AID Mission in South Vietnam for its work in rural construction, pacification, relief, logistics, and other areas. South Korean contractors, moreover, were to be given "expanded opportunities" to participate in American construction projects in South Vietnam and to provide other services, including the employment of skilled Korean civilians.

Vietnam quickly developed into an economic bonanza for South Korea. Although rapid export-led economic development was already underway in the country by 1965, the Vietnam War boom, like the ROK-Japan Normalization Treaty, gave the economy an important lift during the critical take-off period — similar, in that sense, to what the Korean War did for Japan in the 1950s. In 1966 the war accounted for 40 percent of South Korea's crucial foreign-exchange receipts, and by 1970, the last year for which we have published data, the total U.S. payments to South Korea under the Brown Memorandum were estimated by the U.S. Department of Defense to be nearly US\$ 1 billion.

The economic effects of South Korea's Vietnam's venture, moreover, went far beyond the simple acquisition of foreign exchange. Many South Korean business firms, including two of the largest business conglomerates or chaebol, Hanjin and Hyundai, got their first big economic boost from the war. Cho Chung-hun, Hanjin's founder, set up a land and marine transport company in

South Vietnam and eventually assumed responsibility, with the blessing of the U.S. Army, for the whole operation of the port of Qui Nhon. In 1967 Cho also established an air and sea transport firm in South Korea, mainly to carry South Korean products and workers to South Vietnam; two years later he took over an ailing Korean Air Lines from the government and used the Vietnam trade to help turn the company around and elevate Hanjin into the ranks of the major chaebol by the mid-1970s.

The Hyundai story was no less spectacular. Hyundai and other South Korean construction companies became major contractors for the U.S. Army in South Vietnam and later made use of their Vietnam contacts and experience to expand into the international construction business, most notably in the Middle East. Between 1974 and 1979 South Korea's top ten chaebol took home nearly US\$ 22 billion in Middle East construction sales, of which Hyundai's share alone was over US\$ 6 billion.

## INTERNAL SOCIAL AND POLITICAL FACTORS

### *Early Impediments to Development*

External influence, however important, is not sufficient to explain South Korea's economic growth; internal factors have also been crucial. In many countries the existence of a powerful landed elite opposed to agrarian taxation and reform has been a serious historical impediment to industrialization, and we can appreciate the significance of this point by looking at the Philippines and numerous Central and South American countries even today. On the other hand, the fact that Japan's traditional elite was a stipended urban bureaucracy without binding economic ties to the land has often been cited as one of the main underlying reasons behind Meiji Japan's rapid transformation into an industrial society. Another problem for many countries has been the lack, for a variety of reasons, of a dynamic class of entrepreneurs and/or of a class of dependable, efficient industrial workers; without such critical social elements to support and sustain the growth process in a developing country, the injection of foreign capital and



technology into the economy is likely to be wasted effort.

In the late nineteenth century Korea had one of the most entrenched landed aristocracies in the world, and the refusal of this class as a whole to countenance any serious change in the economic and political status quo was a major factor in the country's ultimate inability to meet the challenges of imperialism and ward off colonial domination. Colonialism removed this class from political power but strengthened and sustained it economically, so that in 1945, in spite of the existence of a new urban industrial sector built up largely by imported Japanese capital, the countryside was still dominated by the old landed elite. Nevertheless, by 1945 a progressive segment of this class had already begun to transfer some of its landed wealth into commerce and industry, and subsequent land reforms in South Korea under the American military government, North Korean occupation during the war, and the Syngman Rhee regime finally eliminated the landlords as a class and opened the door to full-scale industrialization of the South Korean economy.

Many post-reform landlords were, in fact, highly successful in making the transition to industrial society: a Harvard study conducted in 1976, for example, concluded that the vast majority of the country's business leaders have come from the landbased traditional elite. The process of transition, however, was not simply one of shifting assets from the land to urban enterprise. South Korean landlords were given government bonds denominated in rice as compensation for reform, but the bonds eventually lost about 90 percent of their value in the marketplace, largely because of the government's failure to redeem on schedule; they thus never provided a financial basis for landlord reinvestment in industry. Nevertheless, many landlords, anticipating reform, had already concluded satisfactory private sales with relatives and tenants by the time the reform was actually implemented, and even those landlords who were wiped out by the reform continued to retain the high level of education and the personal connections that have always been important factors for success in Korean society. In any case, by the mid-1950s not only was landlordism no longer an obstacle to economic growth, but former landlords themselves and their children

were already well on their way to becoming businessmen or white-collar professionals of one kind or another.

### *Entrepreneurial Growth*

Korean entrepreneurs have, in fact, been an important and constant part of the country's modern history, skillfully availing themselves of every major economic opportunity since the late nineteenth century. With the opening of Korea's ports in 1876, Korean landlords and commercial agents called *kaekchu* or *yogak* made fortunes in the new international trade in export rice and imported manufactures, thus initiating a process of capitalist accumulation and growth on the peninsula that continues in South Korea today. By the turn of the century, a number of these newly enriched Koreans were beginning to establish modern banks and commercial enterprises, but it was really the colonial period (especially after 1919) that saw the emergence of a nascent industrial capitalist class, which developed in cooperation with Japanese colonial economic interests. This story is perhaps best epitomized by the rise of the Kim family of Koch'ang County in North Cholla province from small enterprising landlords in the late nineteenth century to commercial and industrial magnates by 1945, but there were other similar, if less dramatic, cases of colonial entrepreneurship whose importance we can now more fully appreciate. No less than three of South Korea's top four *chaebol*, for example, were founded by men who began their business careers during the colonial period: Yi Pyong-ch'ol (Samsung), Ku In-hoe (Lucky), and Chong Chu-yong (Hyundai).

Since 1945, and especially since 1961, the process of capitalist growth has greatly accelerated in South Korea. Although there has been considerable entrepreneurial continuity throughout the post-1945 period and even extending back into the colonial period, each new economic opportunity since 1945 has also tended to spawn additional entrepreneurs, and some in each case have generally been able to carve out a lasting place in the economy. Broadly speaking, the main opportunities have come in connection with the following circumstances or events: the gradual sale of former Japanese properties by the South



Figure 7.2 Like a traditional Korean acrobat, depicted here in a performance in 1894, South Korea finds itself conducting a balancing act between the demand for foreign goods by its new “consumer society” and policies that discourage purchases of such goods.

Korean government at exceptionally favorable prices during the 1950s; the demand for goods and services (at inflated wartime prices) during the Korean War; the political economy of aid dependency and import substitution during the Rhee years, when fortunes could be made through the acquisition of foreign exchange, exclusive import licenses, public contracts, aid funds and materials, and cheap bank loans — all government-controlled; the new policies of export promotion after 1961, which gave exporters in targeted industries special licensing, tax, and financial privileges; the aforementioned economic environment created by South Korea’s participation in the Vietnam War, and the subsequent construction boom in the Middle East, where South Korea captured almost 7 percent of the market and became the sixth largest international contractor in the region. By the mid-1980s, the combined sales of South Korea’s top five chaebol (excluding intra-firm transactions) accounted for nearly 66 percent of GNP, and two of them, Samsung and Hyundai,

were, according to Fortune magazine, among the fifty largest business firms in the world.

### *The Korean Labor Force*

Equally if not more important than such entrepreneurship in the development process has been the contribution of South Korea’s workers. The growth of elementary and secondary schools during the colonial period and the participation of millions of Koreans in the pre-1945 industrialization of Korea, Japan, and Manchuria left the peninsula with an impressive pool of literate and experienced workers by 1945. Since then this pool has been continually enlarged in conjunction with the proliferation of new schools and the reconstruction and expansion of the manufacturing industry. Very few countries have been as blessed as South Korea with such a well-educated and adept working class in their early stages of development. Indeed, for so-called late- or late-late-

developing countries like South Korea, where success in the international market depends to no small degree on the ability of the country's workers to adapt quickly to changing foreign technologies, the existence of such a work force is a special desideratum.

South Korea's workers have not only been quick and skillful; until recently they have also been cheap. A number of factors have made this possible: the country's low standard of living in the early stages of the growth process; the workers' low pay relative to business profits; poor working conditions (especially at the smaller factories); the longest average work week in the world (about fifty-four hours); workers' forbearance in the face of such hardships, especially in the 1960s and early 1970s; and until recently the refusal of the South Korean government to permit workers freely to organize and take collective action in their own interests. For the past twenty-five years low labor costs have consistently been South Korea's chief, if not only, comparative advantage in the international export market; one of the main reasons, for example, that South Korean companies were able to compete so successfully in the Middle East construction market in the 1970s was their ability to offer package deals that included the utilization of thousands of experienced and inexpensive South Korean workers.

### *The Role of Government*

By the early 1960s South Korea already had many of the essential ingredients for rapid economic growth: international political support, access to foreign capital and technology, a small core class of entrepreneurs, and a reserve of actual and potential workers, quick to learn and cost-competitive in the international market. As the economist Alexander Gerschenkron has pointed out, however, late development assumes an active economic role for the state, and until 1961 South Korea did not have a state structure committed to and capable of galvanizing all its valuable international and social resources toward economic growth.

The problem of creating such a state had plagued Korea since the late nineteenth century. The late Choson state had lacked both the necessary vision and the autonomy from civil society to

take the lead in the industrialization process, and it was the Japanese who finally provided Korea with the kind of strong, autonomous, and developmental state that could initiate and carry out industrialization. The American military passed this state structure on virtually intact to the newly inaugurated ROK in 1948, but Syngman Rhee converted it into a political tool to perpetuate his own power, thus fostering a pattern of nonproductive interaction among the ruler, bureaucracy, and social elite that was reminiscent of the late Choson dynasty. The ill-starred Second Republic that followed Rhee made economic growth a priority and began to revive a development plan that the Rhee government had originally drafted and then neglected, but the new government was overthrown before the plan could be implemented. Even if the Second Republic had continued, however, there is considerable doubt whether the new ruling Democratic Party of Chang Myon, with its intimate ties to existing socioeconomic interests, would have been able to carry out the kind of economic transformation effected by the military under Park Chung Hee.

The Park government represented a return to the relatively autonomous and economically oriented state of the colonial period. The relative autonomy was a function of the Park group's position outside the South Korean socioeconomic, and even military, elite. Like the political leaders of Meiji Japan and the Kuomintang on Taiwan after 1949, Park and his followers were comparatively free of entangling personal and economic connections with the civil society and thus under far fewer constraints than their immediate predecessors with regard to making economic changes. This point, of course, should not be exaggerated — hence the term “relative autonomy.” Park never carried out what can be described as a genuine social revolution, and from the beginning he was to some extent dependent on the goodwill and cooperation of various key sectors of the society especially the business elite whom he disliked and distrusted (at least at first), but who were important in his plans for economic development. The South Korean state, moreover, has never enjoyed the same degree of autonomy vis-à-vis the international political and economic order that it has with respect to domestic forces. Nevertheless, the point to be noted here is that

compared to the Chang Myon, or even the Rhee, government, the Park regime was notably unhampered by ties to the existing South Korean establishment.

Such freedom allowed Park and his officials to devise a series of five-year economic development plans beginning in 1962 that were based largely on perceived economic efficiency, with initially little input and no serious interference from the civil society. Economic planning and monitoring were centered in a new Economic Planning Board (EPB), established in 1961, which was composed primarily of professional economists and other so-called technocrats, and headed by a Deputy Prime Minister who was himself a prominent technocrat. Probably the most important economic policy change of the Park government was its shift in the early 1960s from an import-substituting to an export-led economy, a move that both the Rhee and the Chang Myon government, with all their vested social, economic, and bureaucratic interests in import-substitution would have found difficult if not impossible to carry out. Since then, the state has continued to act as the general manager of the economy, supervising a major transition in the 1970s from an emphasis on labor intensive light industries like textiles to capital/technology intensive heavy industries like shipbuilding, petrochemicals, heavy machinery, electronics, and automobiles.

Official development plans were implemented in all the relevant sectors of society through a combination of state controls and incentives. As in the colonial period, labor and business were treated very differently. When workers, for example, began to demand better conditions and more freedom in the late 1900s and early 1970s, the labor laws were structured into an elaborate system of restraint on union activity, and the workers themselves were ruthlessly put down by the police and other security forces; only recently has the government modified its harsh treatment of workers to some extent. Businessmen too have ultimately been subject to the state's monopoly of violence, but in general Park and his successors have chosen to cultivate a cooperative relationship with business, leaders, gradually bringing them into the economic decision-making process through both formal and informal channels,

lavishing public praise and honors on them for achieving or exceeding development goals, and selectively allowing them to become rich.

At the same time, however, the state has been able to make businessmen adhere to its official development programs through the manipulation of a number of key economic controls, three of which have been particularly effective. One has been the state's allocation of business licenses, which precisely define and limit the scope of a firm's activity; all businessmen have been required to obtain such licenses from the appropriate government ministry or department in order to establish, modify, or expand a company. A second lever of control has been the government's domination of the financial system; through its ownership or supervision of all the country's banks and its power to set interest rates, the government has been able to direct capital into industries targeted for development and to make or break even large conglomerates. Even commercial loans induced from foreign countries have generally required approval and guarantee by the government. Finally, a third government control over business has existed in the Office of National Tax Administration (ONTA), which has been used by the government to insure that business expenditures and profits flow into approved areas, and to penalize or even ruin businessmen who have seriously violated the official guidelines and regulations or somehow offended the government authorities.

## THE ROLE OF CULTURE AND TIMING

### *National Identity*

The correlation of economic development with such things as access to international capital and technology, entrepreneurship, industrial labor, and a strong, developmental state seems direct and unequivocal. The role of culture and timing in this process, though probably no less significant, is far more difficult to pinpoint and delineate. Nevertheless, it is important to try, and the following general observations may be regarded as a tentative step in that direction.

Nationalism has often been cited as a cultural factor in economic growth, especially in late-developing countries, where it can function as an ideology of popular mobilization and legitimacy during the hardships and social disruption of rapid economic growth. Certainly nationalism has played such a role in the historical development of Japan, and to some extent in Taiwan after 1949; and although it does not seem to have been an important factor in the growth of Hong Kong or Singapore, perhaps this is because both are really city-states rather than nations. On the other hand, the absence of a strong national identity and pride or, conversely, the presence of deep subnational loyalties to a particular tribe, religion, or region has proven to be a serious obstacle to economic growth in many parts of the world.

In Korea there has been no such obstacle. One of Korea's most striking characteristics is that it has been a unified country, from the triumph of the Silla state in the seventh century CE to the artificial political division of the peninsula in 1945. Between 668 and 1910, moreover, there were only three Korean dynasties, and the third alone lasted over 500 years. Linguistic, ethnic, and religious divisions among the population have had little impact on the country's history, and only in the last decade or so has regionalism become an important socioeconomic and political issue as a result of South Korea's geographically skewed pattern of economic growth. In spite of numerous invasions and occupations, the Koreans have remained remarkably homogeneous, so much so in fact that they use the same term, *Han minjok*, to mean both "Korean nation" and "Korean race," and, indeed, do not clearly differentiate between the two ideas. (The Japanese also fail to make this distinction, but the Chinese in the PRC, at least since 1949, use the term "Chinese nation" or *Chung-hua min-tsu* to embrace a variety of ethnic minorities.)

Korea was not only unified for well over a millennium before 1945; until the twentieth century it was an active and leading participant in East Asia's Sinitic world civilization. If Japan's cultural achievements came largely from a departure from Chinese culture, Korea's came from a process of creation within the Chinese tradition, and its accomplishments often rivaled, and sometimes even surpassed, those of China itself. In the realm

of Neo-Confucian culture alone, Korea's contributions were "stellar;" to borrow the adjective used by Columbia scholar Wm. Theodore de Bary, and were creatively adapted to Korean conditions and needs. Indeed, Choson Korea's aristocratic elite were both self-consciously cosmopolitan and Korean at the same time, and they were capable, during China's Qing dynasty, for example, of looking down on China for abandoning cultural standards they themselves continued to uphold.

Although extra-familial loyalties in traditional Korea were focused on the ruling dynasty rather than on the abstract idea of Korea as a nation state, the country's essential homogeneity and historically based sense of cultural attainment helped pave the way for modern Korean nationalism, which gradually developed in reaction to foreign imperialism and occupation in the late nineteenth and twentieth centuries. Colonialism, in particular, intensified nascent nationalist feeling by providing a clear external enemy and by leaving many Koreans with a passionate post-colonial resolve to match or outdo the economic achievements of their former colonial overlords. The very fact, moreover, that the colonizer had been Japan, a culturally similar—indeed, from the Korean perspective, inferior country, rather than a totally alien Western nation, gave Koreans confidence in their ability to duplicate Japan's economic success. All these feelings — the continued strong sense of national unity and destiny and the catalytic bitterness and anger (*han* in Korean) of the colonial experience — have been consciously and effectively harnessed in the service of economic growth by South Korea's developmental state.

### *Confucian Tradition*

The postwar economic rise of East Asia (especially Japan, Korea, Taiwan, Hong Kong, and Singapore) has spurred a new interest in Confucianism, and there are presently a number of academic projects underway in the United States to explore the role of Confucianism and Confucian institutions in the process of rapid economic growth. Everyone involved seems to agree that Confucianism has indeed played such a role, but defining it — indeed, defining Confucianism itself — has proved to be more difficult than many

people had originally anticipated. Nevertheless, such projects have already gone a long way toward raising some of the fundamental questions that need to be confronted in dealing with this complicated topic, and substantive studies are likely to be published in the next few years. Such Western interest in Confucianism is of course highly ironic, since for decades scholars had followed the lead of Max Weber in considering Confucianism the main cultural impediment to economic development in East Asia; even research on the cultural origins of development in Japan, the only East Asian country at the time that seemed to demonstrate a capacity for economic growth, was focused primarily on Japan's indigenous cultural roots, especially those that were most reminiscent of the complex of values associated with Weber's so-called Protestant ethic.

In the case of Korea, perhaps the best way to approach this issue is through a few caveats, some of which may apply to one or more of the other East Asian countries as well. First, despite the recent focus on Confucianism, it is important to keep in mind that it is only one of several great religious or philosophical traditions in Korea. Two others which predate Confucianism and continue to exist in South Korea today are Buddhism and shamanism, but so far no one has seriously investigated their role, if any, in the country's economic growth. Nor has anyone sufficiently considered the impact of Christianity in this regard (Christianity has been growing in Korea since the late Choson period and now embraces about 25-30 percent of South Korea's population). As the anthropologist Vincent Brandt has suggested, moreover, the communitarian values that are generally associated with Confucianism and regarded as an ethical resource in late development (in contrast to the spirit of individualism associated with the original industrial revolution in the West) are only half of the Korean story; Brandt has pointed to an equally deep and persistent countervailing tendency in Korean culture toward individual self-assertion, and it may well be that this combination of opposing values and the tension between them, rather than communitarianism alone, provide a better explanation of Korea's particular type of development, with its aggressive entrepreneurship and, simultaneously, its close government-business relations.

A second point to remember is that many of the so-called typical Confucian values now seen as factors in South Korea's economic growth — filial piety and family loyalty, a perception and acceptance of the state as an active, moral agent in the development of society, a respect for status and hierarchy, an emphasis on self-cultivation and education, and the concern with social harmony mentioned above — were already present in varying degrees in Korean culture long before Neo-Confucianism became the country's ruling ideology in the Choson dynasty. What the Choson state's adoption of Neo-Confucianism seems to have done is to have given these values a more richly constructed philosophical framework and to have diffused them throughout the society at much deeper levels than ever before.

A third point to be considered in assessing the impact of Confucianism on South Korean growth involves coming to terms with the phenomenon that finally led Weber to conclude that Confucianism was a hindrance to economic development: the failure of a country like China or Korea to achieve an economic breakthrough at a time when Confucian influence in the society was at its peak. One might argue, of course, that strong negative factors, such as the existence of a powerful land-based aristocracy, overrode the positive force of Confucianism, but history does not really support such a view; Korea's aristocratic elite, for example, were well-educated Neo-Confucians and opposed economic and social reform on solid Neo-Confucian grounds.

A much more convincing explanation of this problem has been put forward by Harvard historian Tu Wei-ming. Tu avoids positing any kind of direct causal relationship between Confucianism and economic growth and even acknowledges the likely debilitating effect of a conscious, studious commitment to Neo-Confucian ethics on the development process. He suggests, however, that once the orientation of a society has shifted toward modernization, many of the values mentioned above, now internalized and no longer conscious, can provide a cultural basis for the requisite economic transformation. Following Tu, one may therefore conclude that the effect of Confucianism on East Asian economic growth has been a case of "unintended consequences," similar in that sense to the effect of Calvinism on early

Western capitalists. A good example of such an "unintended consequence" in South Korea has been the country's development of an exceptionally well-educated population, capable of rapid assimilation and adaptation of foreign technology and economic expertise. Instead of reading Mencius and Chu Hsi, ambitious South Koreans now read Paul Samuelson and Martin Feldstein, but the respect for education and commitment to self-improvement through study remain much the same as in the Choson dynasty.

### *The Role of Timing*

Timing, even more than culture, is one of those elusive variables of development that tend to defeat economic model-making and give the whole process of growth a stubbornly fortuitous cast. The reason, of course, is because timing, by definition, involves a conjunction or concatenation of events or situations that are usually unpredictable and unique. One good example of such timing was South Korea's economic opportunity in Vietnam, which came precisely at a time when the country was in dire need of new sources of foreign exchange. Another was the construction boom in the Middle East, which came just as the Vietnam War was winding down, and after South Korean firms had already acquired a decade of experience in the international construction industry in Southeast Asia as a result of the Vietnam War.

There have been other such examples, but two in particular deserve mention because their impact has been even more continuous and profound than the benefits from Vietnam and the Middle East. One concerns the international market as a whole. Until recently South Korea has been able to keep its own markets relatively closed to the world while having wide, and often preferential, access to the international market, both as a source of capital and technology and as a destination for South Korean exports. The importance of such access can hardly be overestimated for a country whose rapid growth since 1961 has been fueled almost entirely by exports. For some time now, however, the international market has been growing increasingly tighter for Korea, a function of the economic decline of the

United States and the rise of a number of other low-wage economic competitors (Thailand, Malaysia, and China), and there seems to be a perceptible drift toward protectionism and the development of regional economic blocs centered in East Asia, North America, and Western Europe. In retrospect, it seems that South Korea has been doubly fortunate, first in that its period of reconstruction in the 1950s came at a time when the United States was still willing and able to channel large amounts of concessional aid to developing nations, and second, in that its subsequent period of export-led growth occurred when the international market was still relatively open and outside pressures to open its own domestic market were slight to nonexistent.

South Korea's important cooperative economic relationship with Japan since 1965 has also been deeply affected by factors of timing. First, the relationship was initiated, structured, and developed by what was, in effect, Korea's last colonial generation, i.e., Koreans who had reached maturity (age 20 and above) while the country was still under colonial rule. Many of these Koreans already had personal connections dating from the colonial period with Japanese who were, or had subsequently become, influential elements in Japan's political and business elite. All spoke Japanese fluently (in some cases even better than Korean) and were well accustomed to, even genuinely comfortable in, Japanese social and cultural settings.

Second, the South Korea-Japan economic relationship has also grown because of the complementary nature of the two countries' economies, a function largely of the different historical timing of each country's industrialization. Since the colonial period Japan has been the moving force in the development of what some scholars have suggested is a transnational northeast Asian political economy. Both in the colonial period and again after 1965, Korea has in fact developed more in conjunction than in competition with the Japanese economy, often serving, like Taiwan, as a base for declining Japanese industries as Japan has moved upward through each product cycle and through progressively more advanced stages of industrialization. One sees this phenomenon perhaps most clearly in textiles, the oldest industry in both countries, but it has also been present

in steel, shipbuilding, automobiles, and other industries as well.

### *Problems and Prospects*

South Korea's transformation into an urban industrial society has raised the country's general standard of living far beyond the dreams of even the most visionary of the Choson dynasty's statecraft writers and justly commanded the attention and respect of the world. The legacy of this great change, however, has been mixed. A look back over the past one hundred years or so, for example, shows a history of industrialization that has been intimately connected with invasion and foreign occupation, war and other forms of organized violence, political repression, and the immiserization of millions of people.

The problems and issues raised by the country's economic growth have also been numerous and profound, and many are in fact a natural outgrowth of the various factors, discussed above, which have contributed most to the growth process. Reliance on foreign capital has given South Korea's business firms exceptionally high debt-equity ratios (some in the range of 8-1) and the country as a whole one of the largest foreign debts in the developing world, equal in 1986 to about 50 percent of South Korea's total GNP. A similar dependence on foreign technology (as late as 1980 only about six-tenths of 1 percent of GNP was spent for research and development) has also left the country with a weak indigenous technological base at a time when international economic competition is making the acquisition of new foreign technology increasing difficult, even at the high prices South Korea is now willing and able to pay. As noted above, South Korea's strategy of export-led growth is also beginning to run into protectionist barriers, especially in the crucial U.S. market.

South Korea's strong developmental state, which has jealously planned and guided the economy since 1961, has now become as much of a problem as a boon to continued growth. The increasing complexity of both the domestic and the international economy suggests a pressing need to transfer more of the economic decision-making power to the private sector. Even so, apart

from the knotty problem of infringement on vested political interests that such a shift would pose, there is some question as to the ability of the private sector in certain key areas like commercial banking, so long under the control or protection of the government, to adjust quickly or easily to such a change.

### *Distribution of Wealth*

The main social problem of South Korean development involves the question of economic justice in the distribution of wealth. In promoting export-led growth, the state has cultivated a junior partnership with the country's entrepreneurs and simultaneously kept workers' wages down to maintain comparative advantage in the international market. Although since 1961 both entrepreneurs and workers have benefited from the general rise in living standards and absolute poverty has been notably reduced, the entrepreneurs have reaped a disproportionate share of the new national wealth, especially in view of the workers' crucial contribution to the rapid growth of the economy. In the first decade of rapid growth, for example, annual business profits averaged about 20 percent, but real wages rose only about 9 percent. Since 1970, moreover, there has been a perceptible trend toward income inequality, a significant increase in relative poverty (income less than one-third of the national median income), and a striking concentration of national wealth in the hands of the business elite; between 1974 and 1984, for example, the estimated combined GNP share of value-added for South Korea's top five chaebol alone grew from 3.6 percent to 12.1 percent. None of these statistics would make any difference, of course, if South Korean workers were satisfied with what most U.S. and South Korean economists have praised as a relatively equitable distribution of wealth compared with other developing countries. But recent political events suggest that the workers are in fact far from satisfied, and South Korea's residual Confucian culture has always been much less tolerant of such income disparity than Western capitalism.

The contradictory linking of nationalist ideology and external dependency in the growth



process has also posed cultural and political challenges for South Korea. The cultural challenge has been to retain and develop a uniquely Korean identity while absorbing a constant and intense barrage of foreign cultural influences. Given the enormity of this task, it is hardly surprising that South Koreans in the last twenty-five years have tended to shift uncomfortably between two extremes: indiscriminate cultural imitation on the one hand, and militant cultural chauvinism on the other. Recently the pendulum has moved toward the latter, and traditional culture (both high and low), disdained as late as the 1960s by many South Koreans as unprogressive or simply embarrassing in a Western-oriented world, has been enjoying a renaissance of interest and respect. Folk culture in particular has become a new source of pride and inspiration, especially to nationalist (*minjok*) or populist (*minjun*) artists who have consciously identified the core of the nation with the history of the common people (or masses). Nevertheless, the question of how to be both modern and Korean at the same time remains a deeply felt problem in the society and is often reflected in South Korean newspaper and magazine articles, as well as television programs, that attempt to define — if only to celebrate — those things which are indisputably Korean.

The contradiction between nationalism and foreign dependency has also made potential political instability a structural problem for the state, the capitalist class, and perhaps even for South Korean capitalism itself. To understand why, one first has to remember that the whole process of capital accumulation in South Korea has taken place largely through the establishment of transnational state and class relationships, and that although actual foreign ownership of South Korean assets has been strictly controlled and limited by the state since 1948, such external linkages have kept both the state and the private sector in a relatively vulnerable economic position with respect to the outside world, and especially vis-à-vis the United States and Japan. South Korea's market liberalization in the past decade has been a case in point: although domestic as well as international forces have moved the country toward liberalization, there is no question that South Korea's heavy dependence on the U.S. as an export market has also limited its

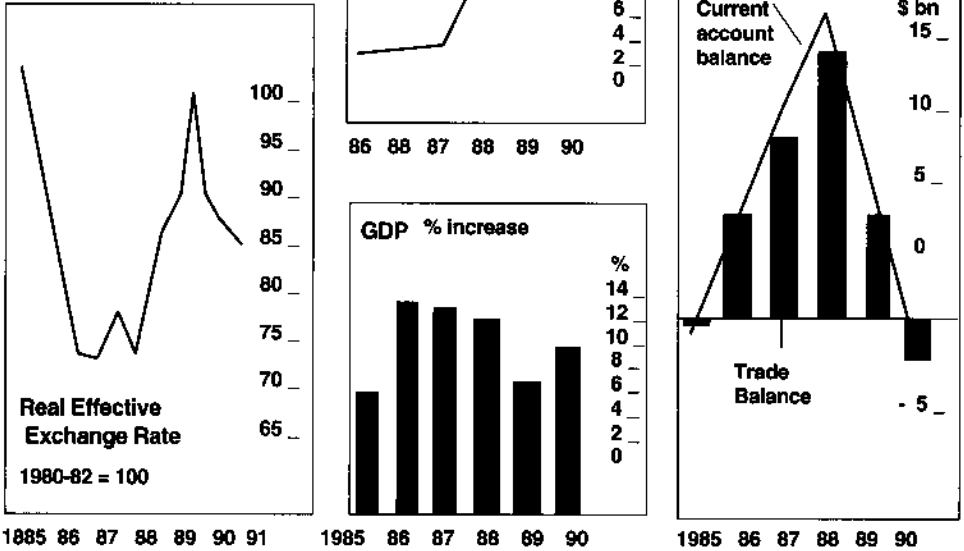
ability to withstand U.S. pressures to liberalize certain sectors of the economy, especially agriculture and services.

The economic relationship with Japan in the past two decades has been far more dependent and uneven than with the U.S. Indeed, according to Chang Key-young (Chang Ki-yong), former Deputy Prime Minister and head of the EPB in the period of transition to rapid export-led growth, the Park government consciously sought to promote an "organic division of labor" between Japan and South Korea that would marry Japanese capital and technology to cheap and unorganized South Korean labor. Park was, of course, successful in this endeavor, and the result has been a highly unbalanced relationship: South Korea's own economic growth has now become structurally linked to Japan's, both through the product cycle, mentioned above, and through an exceptional South Korean reliance on imported Japanese intermediate goods (between 60 percent and 100 percent of the total required, depending on the product). Ironically, U.S. pressures on South Korea to liberalize the economy have actually increased Japan's economic leverage in South Korea because of American inability to compete effectively with Japanese products.

The existence of such inherently unequal economic relationships with external powers is a politically volatile issue in South Korea because of the peninsula's history of foreign invasion and domination since the late nineteenth century and because successive South Korean governments since 1961 have not only fanned nationalism in South Korean society as a mobilizing ideology, but also consistently used nationalist themes, including economic self-reliance, as a justification for official policies. Many South Koreans have been disturbed and dismayed by the country's external economic dependency and by the apparent contradiction between official words and deeds, but the sharpest criticism has come from a small but growing radical left.

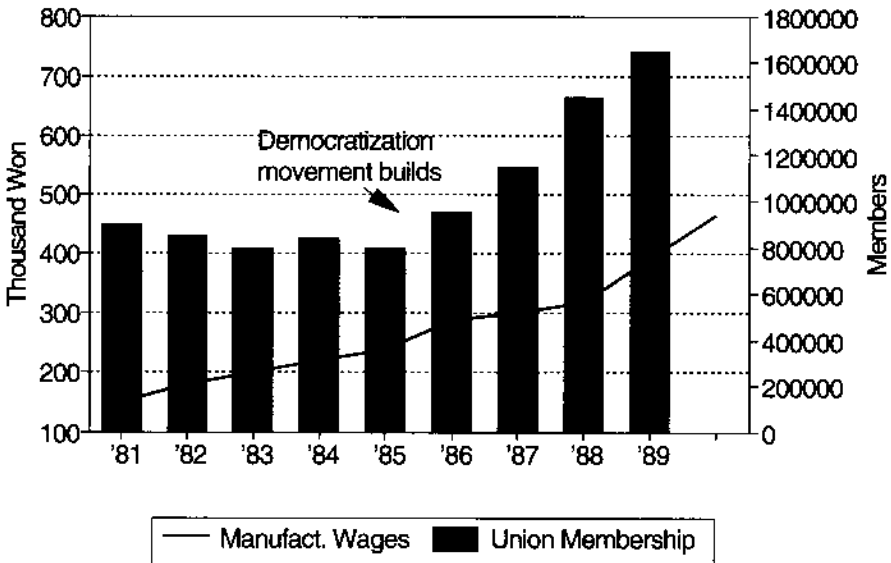
In the past decade or so, the radical left has carved out an important niche in nearly all of South Korea's major intellectual circles and has gradually been redefining Korean nationalism within the discourse of Western/Japanese neo-Marxism and dependency theory. The result has been a scathing attack on the government and the

# South Korea's Economy in the 80s



Graph 7.9

# South Korean Pay Pressures Union Membership and Wage Levels

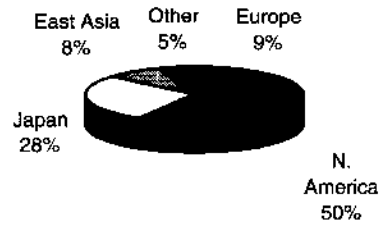


Graph 7.10

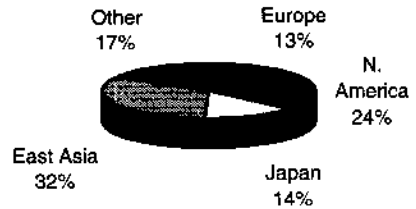


# Korea's Global Trade

1970



1993



Graph 7.11.

capitalist class for foreign toadyism, and even treason, and a scholarly investigation into what is perceived to be the anti-nationalist historical origins of Korean capitalism itself. Curiously, most of this criticism has been focused on South Korea's economic relationship with the United States rather than with Japan, even though the latter is much deeper, more unequal, and, in the long run, probably more important. Such myopia is understandable, however, in view of America's overarching political and military role in South Korea since 1945 and its direct and critical involvement in the economy through at least the mid-1960s. With some 40,000 troops stationed throughout the country, the U.S. has also been a highly visible and, especially since the Kwangju Incident, controversial, presence in South Korea, whereas the Japanese economic influence has so far been more subtle and hidden. If, as expected, Japan's economic penetration of South Korea grows in the next decade as a result of South Korea's current liberalization and Japan's new and increasingly important role as a financial, as well as an industrial, superpower, the imbalance in the ROK-Japan economic relationship may well become more conspicuous, more widely debated, and more politically uncomfortable for the South Korean government.

Through most of the 1980s the South Korean economy seemed strangely immune to these deep and complex problems. Economic development continued to advance at a rapid pace (over 12 percent between 1986 and 1988), thanks in large part to a decline in international oil prices and interest rates, the revival of the U.S. economy, and the increased competitiveness of South Korean exports following an appreciation of the Japanese yen. A current account surplus, first registered in 1986, allowed the government to reduce its foreign debt from a peak of about US\$ 47 billion in 1986 to about US\$ 35 billion in 1980, and there was even widespread talk among government officials of South Korea's becoming a net creditor as early as 1992.

By the end of the decade, however, it was clear that some of the structural weaknesses of the economy were beginning to take their toll. Political reform in 1987 opened the door to a long suppressed social conflict between capital and labor that interrupted production, raised wages

(in some cases by as much as 30 percent in a single year), and unnerved a business community accustomed to unequivocal support from above and no interference from below. At the same time, economic liberalization, especially in the form of a steady appreciation of the won after 1987 (including a 15.8 percent increase in 1988), exacerbated an already difficult situation by reducing the competitiveness of South Korean exports and raising the cost of imports. By the mid-1990s, South Korea's current account had slipped into annual deficits of over \$5 billion, yet the national growth rate remained above 7 percent. The country's trade deficit worsened as its limited number of export categories were insufficient to offset massive imports of machinery and equipment.

Such problems do not beget quick or easy answers. The continuing bitter confrontation between labor and management, probably the most serious obstacle to growth the country presently faces, is a product of nearly thirty years of institutionalized oppression and distrust, and it will take much time and effort on both sides

before a new institutional arrangement is devised that strikes a satisfactory balance between a commitment to productivity and a concern for the rights and needs of the working class. But the prospects are by no means bleak. Barring a major economic or military crisis, a return to the authoritarian past is not likely to be tolerated by the general public. And if the current economic problems are allowed to run their course in an atmosphere of free speech and association, they may well turn out to be no more than a necessary transition to a period of new growth, less dramatic, perhaps, than in earlier decades, but ultimately more equitable and stable.<sup>5</sup>

### EDITOR'S POSTSCRIPT

Amid nationwide strikes and protests in early 1997, Korea confronted the incompleteness of its economic and democratic transformation. An effort by the ruling majority party to enact a law that swept away key job protections for workers and permitted draconian measures by internal security forces in search of suspected terrorists outraged the labor unions. Their members took to the streets in protest and brought several key chaebol to a standstill. While participation in the strike was widespread, it was not uniform across industries, reflecting a growing perception among many well-paid Koreans that by crippling their employers, they might endanger their own survival in a competitive global economy.

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## CONFUCIANISM AND ECONOMIC GROWTH

### Introduction

It has long been accepted that cultural orientation plays a role in the economic behavior of individuals and even nations. Economists and economic planners, however, generally have tended to regard culture as a repository of traditions that inhibit modernization and economic development. The rapid growth of the Japanese,

South Korean, and Taiwanese economies in East Asia has forced a reassessment of this attitude and drawn new attention to positive ways in which culture might contribute to economic development.

Why do these East Asian economies have such high savings rates? Why have their societies been able to adapt so readily to industrialization, seemingly with a minimum of social disruption? What accounts for the apparently harmonious relations between government and industry or between management and labor? Why is income relatively equitably distributed in these countries, and why, when it is not, does the inequality attract so much attention?

To some observers the Confucian tradition common to the high-growth Asian economies seems to be important in answering some of these questions. As an ethical system Confucianism is concerned with correct relations between superiors and inferiors and stresses mutual obligations,



Figure 7.3 Confucius