

Lessons from Korea to Africa: Leaders, Politics and Developmental States

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(54,798 characters)

BEYOND THE DEVELOPMENTAL STATE: THE KOREAN CASE REVISITED

Studies of the Korean developmental state often reduce their analysis of the state to the examination of an autonomous and capable bureaucracy that selected and implemented policy goals that did not necessarily reflect the demands or interests of the society.¹In this sense, autonomy was seen as holding the “ability to formulate interests of its own, independent of the will of divergent social interests”, while capacity brought “the ability to implement strategies to achieve its economic, political, or social goals in society.”²The literature on the Korean developmental state, however, by confining its research essentially to the study of the role played by the strong bureaucracy in fostering economic growth and development, fails to capture a complete portrait of the multiple, dynamic and interactive levels within the state strata. Additionally, such literature neglects also interactions between this complex state and society. Hence, there is a need to analyse the state with regard to its several layers: executive leadership, executive-bureaucratic ties, intra-bureaucratic dynamics, executive-society ties and bureaucratic-society relations.³Ultimately, the capacity of the state to pursue developmental-oriented public policies relies on ongoing political relationships between these strata, in particular of the executive with the other strata.

The Korean state, as any other state, is a political realm that encompasses distinct, contending and at times colliding actors. Just as rulers' strategies are subjected to the interference and possible neutralising power of the political society (whether political parties, unions, or interest groups, as well as to the needs of regime survival), the activities of the bureaucracy are bounded by political leaders, competing state ministries or agencies, and their own constituents. As Hagen Koo points out for Korea:

¹See Alice Amsden, *Asia Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989), Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990), Ziya Önis, The Logic of the Developmentalist State, *Comparative Politics* 24:1 (October 1991) pp.109-126, and Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991).

²See Karen Barkey and Sunita Parikh, Comparative Perspectives on the State, *Annual Review of Sociology* 17 (1991), pp. 525-526.

³See Chung-in Moon and Rashemi Prasad, Beyond the Developmental State: Networks, Politics, and Institutions, *Governance: An International Journal of Policy and Administration* 7:4 (October 1994) p.364.

“In efforts to highlight the significance of the state as an autonomous actor, analyses conducted in the statist perspective often ignore that the state is embedded in society and draws its essential characteristics from society itself. Both state autonomy and state strength are the products of interactions between the state and society, in which even a weak society finds diverse ways to influence state structure. State strength is neither absolute nor fixed, but rather varies according to social struggles and accommodation in multiple arenas.”⁴

This scenario of the political fabric within the Korean state is one far from the portrait painted by the developmental state literature that underlines harmonious and stable features. In view of this dissonant and dynamic nature of the Korean state, political leadership cannot be assured, and like all other social actors, political leaders have also to protect their political interests. The developmental state literature, by equating state with bureaucracy, neglects the key role of those who control and direct the activities of the state.⁵In fact, the developmental state literature tells little about leadership, and about what stands at the “heart of a politics of economic growth”: “rulers’ and would be rulers calculations, that is, how they attempt to secure support, by what mix of policies, designed to appeal to which groups, with what political success, and at what economic cost.”⁶

Policy choices and implementation rest on the strategies designed by the rulers to boost their political legitimacy, to strengthen their power, and to guarantee regime survival. Strategies are not only a product of institutional opportunities and constraints, but also of history, context, coalition politics and ideological templates involving the actors at the time of action. In sum, state domination over society is far from being a fixed condition in Korea.

1. “SOCIALISATION OF PRIVATE RISK”: STATE FINANCE, *CHAEBOL* AND INDUSTRIAL DEVELOPMENT IN KOREA

Korea is usually portrayed by the developmental state school as an exemplary case of successful state-led economic and industrial development.⁸Specifically, this school posits that government control over banks in the Korean credit-based system was the critical tool to guide and discipline the business sector towards an effective industrial policy.⁹In accordance with this view, the Korean state, following the five-year economic development plans prepared by the Economic Planning Board (EPB), selected several export-oriented industrial sectors as “priority” sectors (such

⁴See Hagen Koo, Introduction in Hagen Koo, Ed., *State and Society in Contemporary Korea* (Ithaca: Cornell University Press, 1993) pp.5-6.

⁵See William Liddle, The Politics of Development Policy, *World Development* 20:6 (1992), pp.793-807.

⁶See Robert Wade, East Asia’s Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence, *World Politics* 44 (January 1992), p.309.

⁷*Chaebol* is the term commonly used to describe Korean large business conglomerates.

⁸See Alice Amsden (1989) Robert Wade (1990), and Ziya Önis (1991).

⁹See, in particular, Jung-en Woo (1991).

as automobiles, steel, shipbuilding, machinery and electronics) and provided them with massive aid, notably in terms of financial benefits.¹⁰ The “chosen” ones would have preferential access to rationed and subsidised credit, foreign exchange, state investment funds, tax advantages, as well as other supportive mechanisms such as import protection and sectoral entry restrictions. But on the other side, through so-called “administrative guidance”, the government would steer these industries in terms of acquisition and deployment of technology, capacity expansion, and prices. The ultimate consequence of this economic interchange between state and business was the institutionalisation of a system of “socialisation of private risk” in which the state sustains the potential risks associated with private investments.¹¹ This is regarded as the core of the Korean developmental state. This socialised risk can take such forms as deposit insurance, lender-of-last-resort, state guarantees, or subsidies to banks that become critically exposed to firms in financial difficulties. In the case of Korea, the state raised capital on the international markets and allocated the financial resources to private firms.¹²

But what seems to have distinguished Korea from most other late industrialising countries was the discipline exerted by the state over private firms through its control of capital flows.¹³ Thus, in the fast-growing economy of Korea, subsidies were provided under the principle of reciprocity, i.e., the recipient of subsidies had to obey certain performance standards in terms of output, product quality, investments in training, research development, and in particular, export targets. Export performance emerged as the state’s main benchmark to allocate credit to private firms. While the system of “socialisation of private risk” encouraged private investment, the Korean state, through direct monitoring and a market test based on export performance, contained the potential costs of ‘moral hazard’ that could be created by state-guaranteed debt financing.¹⁴ Discipline in Korea took mainly two forms: (1) rationalisation of industries which succumbed to overexpansion; (2) and bankruptcy of badly managed firms in otherwise healthy industries.¹⁵

The disciplinarian Korean state has been regarded as an “essentially” Weberian state, i.e. a state with the autonomy and capacity to formulate and implement economic choices free from the influence of private interests. Two crucial features are the basis of the East Asian developmental states: bureaucratic autonomy and public-private co-operation. It is “the coexistence of these two conditions that allows the state and the bureaucratic elites to develop independent national goals

¹⁰See Ha-joon Chang, The Political Economy of Industrial Policy in Korea, *Cambridge Journal of Economics* 17:2 (1993), 131-157.

¹¹See Robert Wade (1990), p.366.

¹²See Wonhyuk Lim, The Origin and Evolution of the Korean Economic System, *KDI Policy Study 2000-03* (Seoul: Korea Development Institute, 2000), pp.25-26.

¹³See Alice Amsden (1989), p.14. See also Jung-en Woo (1991), p.2.

¹⁴See Wonhyuk Lim (2000), p.26. The concept of moral hazard derives from the insurance literature and describes borrowing situations in which borrowers will have the propensity to be less cautious with borrowed money than if it was their own money

¹⁵See Alice Amsden (1989), pp.14-16.

and, in the subsequent state, to translate these broad national goals into effective policy action. The coexistence of these two conditions is critical.”¹⁶

1.1. Bureaucratic Autonomy

The state in Korea is usually equated with a strong and autonomous bureaucracy seen as a product of Confucian heritage and Japanese colonialism.¹⁷ The recruitment of bureaucrats developed along a meritocratic line, and the highly competitive entrance examination tended to attract the best national students. Among bureaucrats there was a tendency to generate a sense of unity and common identity offering the image of a corporate actor that delivered coherent, consistent and rational policies aimed at achieving long-term national development goals. This, however, was only possible as long as the bureaucracy was insulated from pressures by any interest groups or distributional coalitions.¹⁸ Consequently, the Korean developmental state has been described as a state where “bureaucrats rule while politicians reign”.¹⁹

1.2 Public-Private Cooperation

The other major feature of the Korean developmental state lies in the type of relationship built between the state and business sector. State and businesses have developed cooperative ties bounded by the system of “socialisation of private risk”. The strong state-centred literature further emphasise that in the Korean developmental state, the state and the private sector build cooperative ties, though the former is argued to set the rules of the game through the system of “socialisation of private risk”. Paradoxically, the only viable economic force at the time that could help the materialisation of the program was the country’s group of businessmen with “their singular advantage of organization, personnel, facilities, and capital resources.”²⁰ Though the government had seized the control of the country’s banks thus gaining the control of an important policy instrument, ultimately it had to find a compromise with the business sector.

1.3 Challenging Bureaucratic Autonomy and Public-Private Cooperation

The strong-state centred literature on the Korean development tends to reify the role of the bureaucracy as the main actor behind the country’s policymaking process. The bureaucracy is usually introduced as a meritocracy united and coherent in its selection and implementation of

¹⁶See Ziya Önis (1991), p.114.

¹⁷See Meredith Woo-Cumings, *The Korean Bureaucratic State: Historical Legacies and Comparative Perspectives* in James Cotton, Ed. *Politics and Policy in the New Korean State: From Roh Tae-woo and Kim Young-sam* (Melbourne: Longman Australia Pty Ltd, 1995). See also Atul Kohli, *Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea’s Developmental State*, *World Development* 22:9 (1999), pp.1269-1293.

¹⁸See Peter Evans, *Embedded Autonomy. States & Industrial Transformation* (Princeton: Princeton University Press, 1995), p.30.

¹⁹See Ziya Önis (1991), p.115.

²⁰See Kyong-Dong Kim, *Political Factors in the Formation of the Entrepreneurial Elite in South Korea*, *Asia Survey* 26:5 (May 1976), p.470.

development policies. Yet, this interpretation fails to understand the political features shaping the organisation and the workings of the bureaucratic machine. The Korean bureaucracy is indeed selected according to a highly competitive entrance examination that has usually attracted the country's best students. Despite the tendency to portray Korea as a homogenous country the political considerations of Presidents have used regional affiliations as an important factor defining the organisation of the bureaucracy. In fact, regionalism in civil service has continued to raise great debate in Korea.²¹ Since the 1970s, and through the last presidency of Cholla-native Kim Dae Jung (1998-2002), the home region, Kyongsang, of the last four presidents (Park Chung Hee, Chun Doo Hwan, Roh Tae Woo and Kim Young Sam), Kyongsang, has been over-represented in the bureaucracy. Hwang Jong-Sung argues that, "because President Park Chung Hee's legitimacy was weak due to his beginning in a military regime and his power was constantly challenged, he implemented the method of regional relationships to overcome potential uncertainty and danger."²² In a country where the state granted businesses with a large number of financial benefits and tax incentives, geographical affiliation, school connections and kinship network seemed to have played an important role in the selection of those to be rewarded. The emergence of big business groups such as LG and Samsung from Kyongsang and the relative decline of the Cholla-based Samyangsa Group and Kyongsung Textile Company since the 1960s show how regional affiliations seem to have been important for succeeding in business.²³

The workings of the Korean bureaucracy have been far from following the patterns of a united body that applies efficient economic policies. Lawrence Westphal and Irma Adelman point out in their analysis of the Korean planning process that "the spirit of competition appears to dominate the inter-agency dealings to the detriment of cooperation in planning the achievement of common goals."²⁴ The state-centric perspective is nonetheless right in emphasising the role played by the Economic Planning Board (EPB) as a central agency giving coherence to the government's economic policies.²⁵ The achievement of this coherence involved the resolution of conflicts between different ministries through several EPB-led consultation forums such as the Economic Minister's Consultation Meeting (EMCM) or the Industrial Policy Deliberation Council (IPDC). Yet, the technocratic bias of the statist perspective fails to acknowledge that the decisional power of the EPB ultimately rested on the political authority and support given by the President. Hence, during the 1970s, Park Chung Hee moved by economics, politics, national security and ideology decided

²¹See Heo Nam-chin, "What Happened to Promised Reforms?", *Joongang Ilbo* (March 13, 2001) Cho Ki-suk, "Regionalism Trivializes Korean Politics", *Joongang Ilbo* (March 21, 2001) Hwang Sung-dong, "Incomplete Study of Bias in Civil Service", *Joongang Ilbo*, March 22, 2001, and Hong Soon-il, Cronyism, *Korea Times* (June 7, 2001).

²²See Hwang Jong-Sung, Analysis of the Structure of the Korean Political Elite, *Korea Journal* vol.37, No.4 (Winter 1997), pp.113-114.

²³See Soohyun Chon (1992), p.170. See also Young-Iob Chung, Chaebol Entrepreneurs In the Early Stage of Korean Economic Development, *The Journal of Modern Korean Studies* vol.2 (December 1985), pp.23-25.

²⁴See Sung-Hwan Jo and Seong-Young Park, *Basic Documents and Selected Areas of Korea's Third Five-Year Development Plan (1972-1976)* (Seoul: Sogang University Press, 1972) p.19.

²⁵For a study on the role of the EPB in Korea, see Byung-sun Choi, *Institutionalizing A Liberal Economic Order in Korea: The Strategic Management of Economic Change*, Unpublished PhD dissertation, Harvard University Press (1987).

fully concentrate the country's resources in the development of heavy and chemical industrialisation (HCI). In doing so, Park bypassed the advice of the EPB which proposed a gradual promotion of heavy and chemical industries.²⁶ During the 1970s the Planning Council, under the direct control of the President, emerged as the centre for economic decision-making for HCI.²⁷

Additionally, the private sector was far from being an obedient and passive actor. As Chung-in Moon states: "Business might well choose a strategy of compliance and co-operation with the state if more benefits can be expected by doing it. It can also attempt to modify state behaviour through lobbying, protests, blackmail, and networking. In the worst case, business can pull itself out of (inter) dependence with the state and seek its own survival and expansion through such autonomous actions as diversifying political ties and even creating its own political shield (e.g., political parties)."²⁸

In sum, the activities of the Korean bureaucracy are subjected to the political interests of the country's leaders. In this sense, Korean bureaucracy is far from being the main actor setting the configuration of the policy process. Additionally, the spirit within the administrative apparatus seems to be more one of competition rather than one of cooperation and unity in purpose. Finally, cooperative ties between the executive and the private sector should be seen as more complex than the usual dichotomy strong versus weak. There is space for variation and that depends on the capacity of negotiation of both sides over policy choices.

2. AN ALTERNATIVE UNDERSTANDING OF THE KOREAN DEVELOPMENTAL CASE: POLITICAL LEADERS & THE BUILDING OF THE "SOCIALISATION OF PRIVATE RISK" SYSTEM (1961-1979)

As in any other country, policy choices in the Korean state are forged by political leaders. In Korea, the President and his staff at the Blue House have reigned over the process of decision-making. Korean Presidents are *de facto* in control and command of the policy process. Chung Duck-Koo, who spend 20 years of his life as an official at the Minister of Finance and who would become Vice Minister of Finance during the presidency of Kim Dae-Jung (1998-2003) leaves no margin for doubts when he describes the Korean political system: "It is [a] presidential system, not a cabinet system. The president has the last word [sic]."²⁹ Policy choices and implementation rest on strategies designed by Korean Presidents to boost their political legitimacy, to build up their power, and to secure regime survival. Their policy strategies, however, are far from being autonomously

²⁶See Chung-yun Kim, *Policymaking on the Front Lines: Memoirs of a Korean Practitioner*, EDI Retrospectives in Policymaking (Washington: The World Bank, 1994), pp.83-85.

²⁷See Byung-Sun Choi (1987), p.105.

²⁸See Chung-In Moon (1994), p.145. See also Jae Jean Suh, *The Social and Political Networks Of the Korean Capitalist Class*, *Asian Perspective* 13:2 (Fall-Winter 1989), pp.111-139.

²⁹Interview in Seoul, June 14, 2001.

taken as they are filtered by the complex interaction of institutions, history, context, ideas, and coalition politics. An analysis of the origins of the system of “socialisation of private risk” is the first step to open the Korean developmental state “black box” and understand the state’s logic behind the decision-making process.

The concentration of power in the executive, the re-organisation of the bureaucratic apparatus, and the introduction of policy changes, in particular in the financial system, may be regarded as the three major institutional and policy transformations during Park’s era that marked a turning point in the country’s economic development history.

2.1 Strengthening the Executive Power

In terms of the role of the executive in the policy process, President Park developed several executive mechanisms through which he commanded, coordinated and monitored the bureaucracy and its performance in implementing the country’s development strategy.³⁰First, Park enlarged, empowered and extensively used the presidential secretariat made up of a chief secretary and six to seven other senior secretaries who were usually among the country’s best economic bureaucrats and assisted the President in the coordination and management of the bureaucracy. As the country launched its economic development plans, the staff was expected to counsel the President particularly on economic issues. From a total number of 15 in 1961, the presidential staff rapidly grew to over 100 in 1967 and above 200 in 1968.³¹Consequently, the President and his secretariat became the dominant centre of policymaking and policy implementation. At the same time, Park built a coercive and repressive apparatus through not only a series of legal mechanisms such as the National Security Law, the Anti-Communist Law and the Law concerning Collective Demonstrations, but also the creation of security and intelligence agencies such as the Korean Central Intelligence Agency (KCIA).³²Created in 1961 with an initial 3,000 employees, the KCIA would grow in the following three years to an estimated 370,000 employees (a notable figure for a country at the time with 20 million people). But unlike its U.S. counterpart, the KCIA was explicitly framed to spy on its own citizens, to carry out both domestic and foreign operations.³³Together with the National Defence Security Command and the police, the KCIA served well the regime interests to control and keep in check political opposition and the civil society.

Second, Park relied on a group of so-called “bulldozer” type administrators that helped him achieved the expected economic outcomes in the early stages of the push for rapid economic

³⁰See Young-Whan Hahn, Administrative Capability for Economic Development: The Korean Experience, *Korean Review of Public Administration* 1:1 (1996), pp.186-190. See also Chung-Kil Chung, Presidential Decisionmaking and Bureaucratic Expertise in Korea, *Governance: An International Journal of Policy and Administration* 2:3 (July 1989), pp.267-292.

³¹See Byung Sun Choi (1987), p.33.

³²See Chung-in Moon and Yong-Cheol Kim, A Circle of Paradox: Development, Politics and Democracy in South Korea, in Adrian Leftwich, Ed. *Democracy and Development: Theory and Practice* (Cambridge: Polity Press, 1996), p.144.

³³See Mark Clifford, *Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea* (New York: M.E. Sharpe, Inc.1994), p.80.

growth.³⁴Third, in his attempts to scrutinise bureaucratic performance, the President initiated what was known as the “New Year Briefing Sessions” or visits to the offices of each ministry during the months of January and February to obtain briefings on plans and strategies for the coming year and performance achieved during the previous year. The sessions were also attended by all the ministers, presidential secretaries, governors, leaders of the ruling party and National Assembly, as well as most of the bureau chiefs and section chiefs. This new presidential mode of operation was a clear demonstration that Park Chung Hee had a great concern for results, and only those who succeeded in fully achieving or even more of the planned targets could survive or be promoted, with those failing to comply with the goals over a certain number of evaluation periods facing possible sacking.

Finally, the President himself personally became involved in the implementation of certain projects he deemed crucial for the country’s development. For examples, the cases of the Seoul-Pusan Highway, the Ulsan Industrial Complex, the Korean Institute of Science and Technology (KIST), or the POSCO steel mill. For Nam Duck Woo, one of the country’s top decision-makers during the 1960s and 1970s, the leadership of Park Chung Hee was crucial for the country’s economic development:

“He (Park) always think about in his head and mind, all the time, all the economic pictures, what is going on, and so on. Once he knows the problem he tries to solve it, one way or another, right or wrong. He defines the program and tries to work out the system to solve the problem. And then tries to maximise the efficiency of the organisation, and the system. He constantly summons the ministers, the secretaries. Once in a month, he attends these briefings at the EPB about the economic situation. He also heads the Export Promotion Meetings. Also every quarter, attends a conference to evaluate the programs. He is really committed himself [sic].”³⁵

With the executive showing a growing willingness to lead, manage and regulate economic policymaking to achieve growth and development, the transformation of the bureaucracy into a more effective apparatus was seen as necessary to carry out with the President’s economic goals.

2.2. *Reforming the Bureaucracy*

³⁴See Young Whan Hahn, Administration Capability for Economic Development: The Korean Experience, *Korean Review of Public Administration* 1:1 (1996), pp.188-189. Hahn Young Whan describes them in this way: “they were Park’s ‘alter ego’, an incarnation of President’s other self, so deeply committed to the realization of rapid growth. These bulldozers worked extremely hard. Their nickname ‘bulldozers’ came from their work style that did not pay much attention to difficulties or constraints of any nature. They just pushed the program through until the target could be realized. The President provided them with every possible means of support and defended them from all possible attacks. They reciprocated with achievements far better than the President had expected.” For the Park regime’s strong commitment to tax administration reform in Korea in the 1960s, see Chong Kee Park, *The 1966 Tax Administration Reform, Tax Law Reforms, and Government Saving*, in Lee-Jay Cho and Yoon Hyung Kim (1991).

³⁵Interview in Seoul, May 30, 2001.

A series of reforms were introduced in the organisation of the Korean bureaucracy during the 1960s. These led to the creation of new agencies and, the redefinition of competencies and conventions in order to attain better performances in the country's economic management. Among the major bureaucratic reforms was the official establishment of the Economic Planning Board (EPB), and new procedures for recruitment, training and promotion within the bureaucracy to improve professional competence.³⁶ The EPB began its official activities in July 1961 and soon became the main economic governmental body in charge of comprehensive planning and effective execution of country's Five-Year development plans, the first of these launched in 1962. Additionally, reaffirming the regime's pledge to economic planning and development, the head of the EPB was simultaneously given the position of Deputy Prime Minister (DPM) from December 1963.³⁷ The importance assigned to economic ministries and technocracy by Park Chung Hee was evident as he actively sought to insulate the EPB from political pressures, and to appoint mainly economic experts to these ministries. Hence, from 1964 to 1979, only seven (14.7 percent) of 47 economic ministers were formerly military, in comparison with the 46 (38.3 percent) of the 120 non-economic ministries.³⁸ Although less mentioned, the creation of the Office for National Tax Administration (ONTA) in 1966 was probably as important as the EPB for the institutionalisation of the system of "socialisation of private risk". Since its establishment, the ONTA has usually been regarded as the government's most powerful coercive policy instrument to guarantee: (1) that capital allocated to the private sector would go into officially approved business areas and; (2) to punish the businessmen who had violated national economic guidelines. This would usually take the form of tax evasion investigations that subjected the firms judged guilty not only to the payment of additional taxes and penalties, but also to criminal prosecution. Furthermore, tax investigation could result in a decrease of indirect financing funds from financial institutions.³⁹

Another major reform during the 1960s, involved the consolidation of a meritocratic system in the process of recruitment, training and promotion of the administrative machine.⁴⁰ The government re-introduced a highly competitive and open exam system for the higher and lower echelons of the civil service in 1963 that attracted the best Korean students from the country's top universities due to the social prestige usually associated with administrative positions.⁴¹ To secure the support and gain the loyalty of the growing number of mid-managers in the administration, Park Chung Hee pursued a strong policy of internal promotion, reducing the share of special appointees.⁴² Furthermore, new training programmes for all the higher-ranking civil service were established in 1961 in the Central Officials Training Institute and some ministries launched their

³⁶See Young-Whan Hahn (1996), pp.191-193.

³⁷See Byung-Sun Choi (1987), p.5.

³⁸See Young-Whan Hahn (1996), p.195.

³⁹On the role of the ONTA, see Carter Eckert, *The South Korean Bourgeoisie: A Class in Search of Hegemony*, in Hagen Koo (1993), pp.102-103.

⁴⁰For an overview of the Korean bureaucracy, see Meredith Woo-Cumings (1995).

⁴¹For a detailed study on the 1960s reforms on the Korean bureaucracy, see Byung-Kook Kim, *State Capacity for Reform: The State in Korea and Mexico*, *The Korean Journal of Policy Studies* Vol.3 (1988), pp. 69-91.

⁴²See Byung-Kook Kim (1988), p.82.

own think tanks. Among the most important ones were the Korean Institute of Science and Technology (KIST) in 1967 supported by President Park, and the Korean Development Institute (KDI) under the auspices of the EPB.⁴³ In sum, Park pursued a reform strategy for the bureaucracy that increased its size, improved professional competence and strengthened its capacity to deal with increasingly complex economic issues as the country focused on export-oriented industrialisation.

2.3 Changing the Economic Architecture

The reform of the political and bureaucratic institutions was accompanied by significant changes in the country's economic architecture. The new government set two main goals: (1) mobilisation and allocation of financial resources to strategic sectors (exports) as defined by industrial policies set in the country's development plans; and (2) the establishment of the foundations for full governmental control of the financial sector.⁴⁴ This involved: the implementation of a five-year development plan (FYDP) setting economic targets (namely in terms of gross domestic product, investment, domestic savings, foreign savings, exports and imports growth rates) under the supervision of the EPB, followed by; the allocation of resources to the industrial sectors considered a priority for national development.⁴⁵

Chang argues that the control played by the government aimed specifically at fighting "excessive competition" and "social waste", with violators subjected to penalties such as revocation of licences, fines, and even, prison sentences.⁴⁶ Additionally, the government developed a strict system to monitor the performance of the private sector and guarantee the compliance with the targets. The most famous example being the Monthly Export Promotion Meetings chaired by the President and gathering selected ministers and top bureaucrats responsible for trade and the economy; the chief executives of export associations and; presidents of several business groups or *chaebol*.⁴⁷ Ultimately, the meeting "permitted the President to act directly on problems that individual industries were facing, often by simply issuing directives on the spot."⁴⁸

In the early 1960s capital was scarce due to low domestic savings rate, underdeveloped financial and capital markets, as well as declining foreign aid. This led the government to initiate a series of financial reforms to provide it with the control of credit allocation in order to carry on with the industrial policies included in the development plans.⁴⁹ During this period, major changes included: the amendment of the Bank of Korea Act (making the central bank subordinate to the

⁴³See Young-Whan Hahn (1996), pp.192-193.

⁴⁴See Pyung Joo Kim, Financial System and Policy (1961-79): An Assessment of Park's Legacy, *KIF Paper* 95-02 (Seoul: Korea Institute of Finance, May 1995) p.19.

⁴⁵See Ha-joon Chang (1994), p.113.

⁴⁶See Ha-joon Chang, The Political Economy of Industrial Policy in Korea, *Cambridge Journal of Economics* 17:2 (1993), p.114.

⁴⁷On the Monthly Export Promotion Meeting, see Tu-jen Cheng, Stephan Haggard and David Kang, *Institutions, Economic Policy and Growth in the Republic of Korea and Taiwan Province of China*, East Asian Development: Lessons For A New Global Environment, Study 2 (Geneva: United Nations Conference on Trade and Development, 1996), pp.41-43.

⁴⁸See Tu-jen Cheng, Stephan Haggard and David Kang (1996), p.42.

⁴⁹See Lee-Jay Cho and Yoon Hyung Kim, Major Economic Policies of the Park Administration, in Lee-Jay Cho and Yoon Hyung Kim (1991), p.16.

Ministry of Finance); the nationalisation of commercial banks and; the creation of new specialised and local banks. Foreign banks were also allowed to enter the Korean market, but not without restrictions in their activities.⁵⁰

At the core of the new financial institutional framework was the policy loan, i.e., the major financial tool linking the government, banks and business groups in Korea.⁵¹ It was the policy loan that gave the government the capability to actively intervene in the country's patterns of industrialisation. Under the regime of Park Chung Hee, there were four types of systems delivering policy loans designed to support export-led growth and the Five-Year Development Plans: (1) via specialised banks (in particular the Korea Development Bank); (2) via commercial banks; (3) via National Investment Fund or NIF (created in 1973 to finance long-term investment in heavy and chemical industry plants and equipment); and (4) via rationing foreign credit.⁵²

Policy loans could be allocated in two ways: (1) Through designated credit programmes such as those for exports, agriculture, fisheries or small-and-medium-enterprises (SMEs). Loan eligibility was based on the specific program and borrowers received loans at preferential rates; (2) Through government directives, administrative guidance, and *ad hoc* interventions. Loans did not have preferential rates as the designated credit programmes above and fell into the same category as the general bank loans. These loans were usually made according to government assessment of the progress of specific key projects and the constraints facing specific firms or industries. Decisions were usually made in consultation between the government and business sectors, after close monitoring of the progress by the government. The government if necessary was known to resort to both formal and informal requests as ways to request the banks to support particular exporters.⁵³

In sum, the new regime led by Park Chung Hee pursued a series of reforms forming the basis of the country's system of "socialisation of private risk". The puzzle remains, however, on the motivations that led Park to favour and reinforce this system in pursuit of national growth and development. I argue that Park's strategic actions to build the system of "socialisation of private risk" were mediated by a combination of historical, international and ideological factors. But, it was Park's ability in assembling and mobilising a coalition during almost two decades of leadership that ultimately guaranteed the strength of the system, at the core of the Korean developmental state.

2.4 Shaping the System of "Socialisation of Private Risk": History, Institutional Legacies, Context and Ideas

2.4.1 The Historical Legacies of Syngman Rhee, Chang Myon and U.S. Aid (1948-1961)

⁵⁰See David Cole and Yung Chul Park, *Financial Development in Korea 1945-1978* (Cambridge, MA: Harvard University Press, 1983) (1983), pp.66-67.

⁵¹See Pyung Joo Kim (1995), p.49.

⁵²See Pyung Joo Kim (1995), pp.50-52.

⁵³See Yoon Je Cho and Joon-Kyung Kim, *Credit Policies and the Industrialization of Korea*, *World Bank Discussion Papers* 286 (Washington: The World Bank, 1995), p.32.

The First Republic under President Syngman Rhee (1948-1960) and the Second Republic headed by Prime Minister Chang Myon (Aug.1960-May 1961) left important legacies that serve as crucial indicators for the institutional transformation Park engineered to sculpt the system of “socialisation of private risk”. During the leadership of both Rhee and Chang, party politics hijacked the decision-making process, turning the economic bureaucracy into a hostage of the interests of the executive, ruling party and private firms.⁵⁴

Furthermore, from 1957, Washington not only decided to change its aid policies from provision of grants to loans, but ultimately to cease aid altogether during the 1960s.⁵⁵ Since 1945, and in particular after the Korean War, the U.S. played an important role in the country’s reconstruction through massive aid allocations.⁵⁶ With the end of the conflict in 1953, Korea became increasingly dependent on U.S. aid that financed nearly 70 percent of total imports between 1953 and 1961 and 75 percent of the total fixed capital formation.⁵⁷ In the late 1950s, U.S aid accounted for over 10 percent of Korea’s GDP.⁵⁸ In 1957, U.S. aid reached 382 million U.S. dollars, and from then it began to drop, to 321 million US dollars in 1958 and 222 million US dollars in 1959.

Thus, the potential lessons offered by the First and Second Republics showed that party politics undermined the decision-making process, weakened the economic bureaucracy, and politicised policy choices to ultimately jeopardise the country’s economic growth and development. Simultaneously, Washington’s decision to reduce aid only contributed to underline the need for the country to rapidly find solutions for its economic problems.

2.4.2 Economic Context and U.S. Pressures

After the military coup d’état in 1961, the new leadership launched a series of new economic programmes.⁵⁹ The new economic programmes were hoped to invigorate the economy. Instead, they not only led to a resurgence of high inflation rates, but also to substantial public

⁵⁴See Chung-in Moon and Sang-young Rhyu, ‘Overdeveloped’ State and the Political Economy of Development in the 1950s: A Reinterpretation, *Asian Perspective* 23:1 (1999), pp.179-203. For a general description of the patron-client ties during Rhee’s regime, see Joongi Kim, ‘Corruption, Clientelism and Economic Development in Korea’, Graduate School of International Studies, Yonsei University (mimeo), pp.6-9. See also Chung-in Moon and Sang-young Rhyu (1999), p.194 and pp.197-198. For the growing disenchantment in the Korean society with the government led by Chang Myon, and in particular with the ruling Democratic Party, see Kim Joung-won, *Divided Korea: The Politics of Development, 1945-1972* (Cambridge, MA: Harvard University Press, 1975), pp.221-222, David C. Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge, MA: Harvard University Press, 1971), pp.32-33, and Gregory Henderson, *Korea: The Politics of Vortex* (Cambridge, MA: Harvard University Press, 1978), pp.179-181.

⁵⁵See Tu-jen Cheng, Political Regimes and Development Strategies: South Korea and Taiwan, in Gary Gereffi and Donald L. Wyman, eds. *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (Princeton, NJ: Princeton University Press, 1990), p.154. For the changing US aid policies, see Jung-en Woo (1991), pp.69-72.

⁵⁶See Jung-en Woo (1991), p.45. From 1946 to 1976, Washington provided 12.6 billion U.S. dollars of economic and military aid from a total of 15 billion U.S. dollars. Japan contributed with one billion U.S. dollars, and international financial institutions with the remaining two billion U.S. dollars.

⁵⁷See Stephan Haggard and Chung-in Moon, The State, Politics, and Economic Development in Postwar South Korea, in Hagen Koo (1993), p.61.

⁵⁸See John Lie, *Han Unbound: The Political Economy of South Korea* (Stanford: Stanford University Press, 1998), p.29.

⁵⁹See above for the three major economic policies implemented by the new military regime during 1961 and 1963.

deficits starting in 1961.⁶⁰ Simultaneously, foreign reserves began to rapidly dwindle following the implementation of the country's first five-year development plan. With the new leadership engaged in building a self-sufficient economy, the plan led to a rapid increase in the import of raw materials and industrial machinery to stimulate industrial activities, in particular the construction of large-scale projects such as an integrated iron and steel mill. Since the mobilisation of foreign exchange resources through exports, inter-governmental and private loans failed to reach the planned value, the government was compelled to use the country's foreign reserves. By the end of 1963, Korea's foreign reserves had decreased to no more than 90 million US dollars.⁶¹ To worsen the economic scenario serious crop failures in 1962 and 1963 not only demanded a temporary rise in U.S. grant aid levels during the period but also strongly contributed to push inflation upwards.⁶² Inflation rates increased from around 10 percent in 1960 to almost 35 percent in 1964.⁶³ Faced with food shortages, rising inflation, decreasing foreign reserves, and under the threat of possible loss of much needed aid, the military government became politically vulnerable and seemed to have been left with no other choice but to comply with the U.S. pressure to pursue economic reforms.⁶⁴ The U.S. effect on Korean policies was made quite clear by Park Chung Hee in his writings: "As far as Korea is concerned, she must frankly admit that she is, realistically speaking, under the influence of the United States – whether she likes it or not!"⁶⁵ Between 1964 and 1966, the military regime pursued what was seen as U.S.-influenced economic reforms, namely currency devaluation, tax and interest rate reforms, foreign capital opening and export-promotion policies.⁶⁶

2.4.3 *State-led Economic Nationalism and "Growth-First" Developmental Paradigm*

The country's economic context, and dependence on US aid, imposed constraints on the behaviour of the new military regime, but it also opened opportunities in terms of policy choices that were embraced by the new leadership. As Wonhyuk Lim points out, "Park would go far beyond the orthodox economic policies prescribed by the Americans, and adopt drastic measures to promote exports and increase economic independence."⁶⁷ Economic nationalism was particularly sought after by the new leadership, and this was visible in the Korean government preference for foreign loans vis-à-vis foreign direct investment.⁶⁸ Since the domestic firms at the time, lacked the financial credibility to raise capital in international markets, the government allowed state-owned banks to guarantee foreign borrowing. The population was asked to contribute to the country's

⁶⁰See David C. Cole and Yung Chul Park (1983), p.226. See also Stephan Haggard, Richard N. Cooper and Chung-in Moon, Policy Reform in Korea, in Robert Bates and Anne O.Krueger, Eds. *Political and Economic Interactions in Economic Policy Reform* (Oxford: Blackwell, 1993), p.312.

⁶¹See Lee-Jay Cho and Yoon Hyung Kim (1991), p.20

⁶²See David C. Cole and Princeton N. Lyman (1971), p.172.

⁶³See David C. Cole and Yung Chul Park (1983), p.225.

⁶⁴On U.S. pressure, see Wonhyuk Lim (2000), pp.22-23.

⁶⁵See Park Chung Hee, *The Country, The Revolution and I* (Seoul: Hollym Corporation Publishers, 1970), p.153.

⁶⁶See Stephan Haggard, Richard N. Cooper and Chung-in Moon (1993), pp.315-324.

⁶⁷See Wonhyuk Lim (2000), p.24.

⁶⁸See Wonhyuk Lim (2000), p.25. See Dae-Hwan Kim, The Idea of National Economic Integration and the Experience of Korean Development, in John Borrego, Alejandro Alvarez Bejar and Jomo K.S., Eds *Capital, the State, and Late Industrialisation: Comparative Perspectives on the Pacific Rim* (Boulder: Westview Press, 1996), pp.85-87.

rapid economic development through such slogans as “Let’s try to live well” and “We too can do it”.⁶⁹ The actions, speeches and policy choices of Park Chung Hee revealed a leader who was interested in strengthening the nation through economic development.⁷⁰ In his nationalist stance, Park was not different from Syngman Rhee.⁷¹ What distinguished Rhee and Chang’s “free-market” approach from that of Park’s was that he believed the state had a role to modernise and build a strong nation through rapid economic growth and development.⁷² “Growth-first” soon became the motto at the heart of the new leadership’s developmental goals. In an interview, Nam Duck Woo clarifies the view of the new leadership: ‘(...)at the time, nobody, including the President and the bureaucracy believed in the so-called private function of the financial market. President Park had a strong belief that if government did take the hands of the bank system, then the banks would favour credit to some “unproductive sectors” like restaurants [sic].’⁷³ Park Tae Gyu points out that after the coup d’état, the new military regime employed a group of economists which he names the “state-led group”. These economists emphasised the interventionist role of the state in the economy and adopted as their models Third World nationalism from countries such as India, Egypt and Turkey.⁷⁴

South Korea’s particular historical legacies of Syngman Rhee and Chang Myon, the troubled economic environment under the continuous security threat from North Korea, the U.S.’s reduction of aid and pressure for economic reforms, and the new leadership’s belief in state-led economic nationalism emerged then as important variables shaping the incentives that led Park Chung Hee to establish a system of “socialisation of private risk”. The implementation of this system, nevertheless, would not have succeeded if Park Chung Hee had not strategically acted to control a meritocratic bureaucracy with the capacity to hold and maintain such reform initiatives, build a supporting coalition with the country’s farmers and business firms, and repress labour.

2.4.4 Co-opting Bureaucrats, Farmers and Businessmen

Reform of the bureaucracy permitted Park’s full control over the administrative apparatus, and to guarantee that it would become increasingly meritocratic and insulated from societal interests. He created a “bifurcated bureaucracy” feeding domestic-oriented ministries such as Transportation, Construction and Home Affairs with patronage appointments, while guaranteeing the professionalism of the economic ministries such as EPB, Finance or Trade and

⁶⁹See Dae-Hwan Kim (1996), p.86. Furthermore, the implementation of the leadership’s nationalist policy choices were facilitated by the cooperation of a population that, in face of the colonial experience under the Japanese, was itself strongly nationalist.

⁷⁰For a discussion of the impact of economic development as an ideology in the policy process, see Chung-kil Chung, *The Ideology of Economic Development And Its Impact on Policy Process*, *The Korean Journal of Policy Sciences* 1 (1986), pp.28-46.

⁷¹See David C. Cole and Princeton N. Lyman (1971), p.95.

⁷²Interview with Park Tae Gyu, Professor at the School of International and Area Studies at Seoul National University, Seoul, March 12, 2001. See Park Chung Hee, *Our Nation’s Path: Ideology of Social Reconstruction* (Seoul: Hollym Corporation Publishers, 1970), pp.37-38.

⁷³Interview in Seoul, May 30, 2001.

⁷⁴Interview in Seoul, March 12, 2001.

Industry.⁷⁵ Simultaneously, Park Chung Hee set in 1961 a Ministry of Government Affairs in charge of supervising and reorganising the bureaucracy, to impede the influence of the National Assembly on personnel policy, a widespread practice during the previous regimes. Under Park Chung Hee, bureaucrats were also given the assurance that if they achieved the performance goals set at the top, they could be promoted to a more prestigious position “all the way up to that of minister.”⁷⁶ Appointments of military officers were particularly important in the early years of the regime, because Park Chung Hee needed not only to keep military support in all sectors of the bureaucracy as a means of consolidating and keeping control, but also to include in the new administration individuals with management skills as the Korean military had become modernised more than any other national organisations.⁷⁷

Park’s regime also sought the involvement of the country’s farmers in this growth-oriented alliance. Park sought to establish the legitimacy of his regime by attracting the support of the rural majority in a country where the main economic activity was still agriculture. In Korea, even for authoritarian regimes, political legitimacy has rested on whether or not the ruler has the “mandate of heaven” to govern, drawn from the support of the people.⁷⁸ Despite the continuing allegations of illegal practices, the election process has been regarded as a mechanism capable to measure the degree of popular support for candidates. A majority of the votes would confer the highly symbolic “mandate of heaven.”⁷⁹ Several agricultural policies pursued by the regime had positive impact in the development of the rural economy. For example, the military regime reorganised the agricultural and marketing institutions by bringing together the agricultural cooperatives and the Agriculture Bank were brought together into one institution named National Agricultural Cooperatives Federation (NACF). This institution was to become responsible for allocating credit to farmers, provide them with agricultural inputs such as fertilizers and pesticides, and marketing farm crops. The creation of an Office for Rural Development (ORD) was also important for the distribution of improved seed, and information on new crops and cultivation techniques.⁸⁰

⁷⁵See David Kang, *Crony Capitalism: Corruption and Development in South Korea and the Philippines* (Cambridge: Cambridge University Press, 2002), pp.85-90.

⁷⁶See Young-Whan Hahn (1996) p.196.

⁷⁷See Wan Ki Paik, The Formation of the Governing Elites in Korean Society, in Gerald E. Caiden and Bun Woong Kim, *A Dragon’s Progress: Development Administration in Korea* (West Hartford, Connecticut: Kumarian Press, 1991), p.53. See also Lee Hahn Been, *Korea: Time, Change and Administration* (Honolulu: East and West Center Press, 1968) (1968), pp.88-89. Lee mentions, for example, the creation of the National Defense College and the ROK (Republic of Korea) Army Logistics in 1956. The ROK Army Logistics was, according to Lee, the first institution in Korea with an advanced management course using the “case-study method”.

⁷⁸See Soohyun Chon (2000), p.68. For studies on the Korean political tradition and its relation to Confucianism, see Hahm Pyong-Choon, *Korean Jurisprudence, Politics and Culture* (Seoul: Yonsei University Press, 1986) and *The Korean Political Tradition and Law: Essays in Korean Law and Legal History* (Seoul: Royal Asiatic Society, 4th Edition, 1987).

⁷⁹The adoption of “western” political institutions (such as the Constitution and other laws) and practices (such as elections) following the liberation from Japan represented the first step by the Korean elites to move away from the old Confucianist political heritage of the past. Consequently, for the Korean elites, legality – or at least the apparent conformity with laws – became the principal foundation of their legitimacy: “When he is elected or appointed in conformity with the constitution and laws, he enjoys a solid legitimacy”. See Hahm Pyong-Choon (1986), p.196.

⁸⁰For a more detailed analysis of the causes of agricultural growth, see David C. Cole and Princeton N. Lyman (1971), pp.142-153.

Finally, these institutional and policy reforms by strengthening the autonomy and capacity of the state, in particular of the executive, provided it with the power to transform the nature of state-business ties. Park's regime was still dependent on business to implement industrial policies and deliver economic growth. However, it also controlled the country's financial system which strengthened its capacity to negotiate the rules of the game. The relationship was thus more interdependent than one dominated by the state. The relationship between the two actors was further enhanced by Korean state willingness to prevent the formation of labour movements that could challenge the government's economic agenda.⁸¹

3. CONCLUSION

Park created a system of "socialisation of private risk" by redefining the role of the Korean state and strengthening its autonomy and capacity through four main strategies: (1) concentration of power in the executive; (2) the development of effective clusters comprised of professional economic bureaucrats; (3) state control of the financial system and; (4) an alliance with bureaucrats, farmers and business groups. I argue that the incentives that led Park to create such system were shaped by historical legacies, economic conditions, U.S. pressures for economic reform, and a belief on state-led economic nationalism. Park Chung Hee set the foundations for the system of "socialisation of private risk". The institutionalisation of the system rested on the capacity of Park Chung Hee to sustain the system through a credible commitment to an alliance with bureaucrats, *chaebol* and farmers. The credible commitment comprised not only of incentives but also penalties.

The Korean experience of building a developmental state does raise questions about the possibility to replicate it in other developing countries, particularly in Africa. If the instruments necessary to implement the developmental state - a strong executive power, a technocratic and competent bureaucracy and growth-oriented economic policies - can institutionally be put in place in other late developing countries they might not be sufficient to achieve the desired national development if there are not rulers with a growth-oriented vision politically supported by a strong local coalition.

⁸¹See Byung-Kook Kim and Hyun-Chin Lin, Labor Against Itself: Structural Dilemmas of State Monism, in Larry Diamond and Byung-Kook Kim, Eds. *Consolidating Democracy in South Korea* (Boulder, Co: Lynne Rienner Publishers, 2000), p.115.