

*learning from the south korean  
developmental success*  
*effective developmental cooperation  
and synergistic institutions and policies*

*edited by ilcheong yi  
and thandika mkandawire*



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# Learning from the South Korean Developmental Success

## Effective Developmental Cooperation and Synergistic Institutions and Policies

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*In memory of*  
*Alice Amsden (1944–2012)*

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# Foreword

South Korea's remarkable economic development is frequently presented as the post-war developmental success story *par excellence*. Widely divergent accounts of this success reflect the deep fault lines between market fundamentalists and proponents of strong, even authoritarian, developmental states. These diverse explanations for the growth of South Korea and other 'miracle' economies have, however, shared a common feature: they have neglected or downplayed the role of social policy in their analyses.

Previous United Nations Research Institute for Social Development (UNRISD) research drew attention to the important role played by social policy in the development and catch-up process, as it sought to narrow the gap between theories of welfare regimes and developmental states (Mkandawire 2004). Neoliberal interpretations, with their central message that the role of government should be limited to making markets work efficiently, firmly embedded the misperception of development as a natural consequence of economic growth. In this view, social policies are restricted to residual safety nets for those who fail to participate in the growth process. Developmental state theorists focused instead on a strong role for the state in economic and particularly industrial policy. Here, social policies were interpreted at best as the handmaiden of economic development within 'productivist' welfare regimes or as a means to maintain state legitimacy and buy social peace. National efforts to build policies that recognized the intrinsic value of social objectives, such as poverty reduction, equity and social cohesion, have been sidelined in both these narratives.

And yet careful examination of South Korea's developmental trajectory shows that its success owes much to institutions and policies intentionally designed to promote 'social' – that is, more equitable or (in current parlance) 'inclusive' – national development. In the complex processes of accumulation and investment that underpin any economic transformation, social tensions and distributive conflicts inevitably arise and need to be managed and resolved. This requires attention not just to production, but also to issues of distribution and protection. The failure of analysts to recognize such efforts by states in part arises from ideological biases noted above; but, additionally, the frame of social policy emanating from advanced economies has often blinded them

to the actual policies and institutional arrangements – described in this volume – which served as implicit or surrogate social policy or social protection by other means.

This volume provides a new perspective on South Korea's experience by analyzing the country's development through the lens of social policy, identifying key policy initiatives and their interlinkages. As the editors note, 'there are no automatic mechanisms for transforming economic growth into social welfare'. The objective of this book, rather, is to 'identify the implicit and explicit social policy measures behind what has been a virtuous circle of economic growth and human development' (p. 3). The book demonstrates that social policies were not only instrumental to production, with a strong focus on social investment (in infrastructure and human capital), but were also focused on intrinsic social goals through mechanisms of protection and distribution. The chapters also show how a complex set of interrelated policies for economic and social development evolved – whether with intent or through serendipity – in the South Korean case.

The findings presented in this volume also challenge a tendency in the development literature, and among donor countries eager to disseminate the lessons of their own experiences, to interpret successful development as composed only of good things, neglecting inevitable failures. The book aims to correct the tendency to interpret a developmental history full of trial and error as a case of mechanical causation, or to distort the past to win contemporary ideological battles. This correction is crucial to making international development cooperation effective and beneficial for developing countries.

Learning lessons, whether of success or failure, from any developmental experience is no easy task. It demands that 'learners' or late developers recognize the context, as well as understand possible distortions in the interpretation of history. It requires both a willingness and capacity to learn lessons – not so much imitating, but rather adapting, and where possible 'leapfrogging' forerunners. This volume aims to ease the burden of those later developers who are eager to understand, adapt and where possible leap frog Korea's development experiences.

The book is the outcome of a joint research project Making International Development Cooperation Effective undertaken by UNRISD and the Korea International Cooperation Agency (KOICA). UNRISD would like to take this opportunity to thank KOICA for showing a genuine spirit of research partnership in every sense, as well as all the contributing authors, discussants and reviewers. The papers were presented at a workshop in May 2011 and an international conference

in October 2011, both held in Seoul and jointly organized by KOICA and UNRISD. Staff from both institutions participated in this project: You-ah Chung and Hyunjoo Rhee of KOICA and Olive Cocoman and Elizabeth Koechlein of UNRISD made a tremendous contribution with roles ranging from writing to editing, and project coordination. In Kim, Jiyeon Kim and Soomin Jeon of KOICA and Sungmi Kim, Ellie Seo, Emma Malcolm, Claire Petersen, Sarah Parker, Rewa El-Oubari, Barbara Walter and Subhash Ghimire of UNRISD have provided research and other assistance at various stages. Dr Raymond Chan, City University of Hong Kong, and Dr Sangheon Lee, International Labour Organization (ILO), generously reviewed the whole manuscript and provided valuable comments that improved the quality of the book. UNRISD appreciates the contributions and support of many other people who cannot all be named here.

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Last but not least, staff and friends of UNRISD would like to express our sincere appreciation for the work of the late Alice H. Amsden, Barton L. Weller Professor of Political Economy at MIT. Professor Amsden was an active and enthusiastic participant of this project and her contributions are greatly valued. Professor Amsden sadly passed away in 2012 during the course of this project. She was a true intellectual giant, bringing a formidable rigor to research coupled with an indomitable passion for creating a better world. This book is dedicated to her memory.

*Sarah Cook*  
*Director, UNRISD*

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# List of Acronyms

ADB	Asian Development Bank
AIDS	acquired immunodeficiency syndrome
BNDES	Brazil State Owned Development Bank
BRICs	Brazil, Russian Federation, India and China
BRICKs	Brazil, Russian Federation, India and Republic of Korea
CEO	chief executive officer
CIA	Central Intelligence Agency
CRIK	Civil Relief in Korea
DAC	Development Assistance Committee
ECA	Economic Cooperation Agency
EOI	export-oriented industrialization
EU	European Union
FDI	foreign direct investment
FOE	foreign-owned enterprise
FPMC	Family Planning Mothers' Clubs
GARIOA	Government Aid and Relief in Occupied Areas
GDP	gross domestic product
GNP	gross national product
HCI	heavy chemical industrialization
HDI	Human Development Index
HIV	human immunodeficiency virus
HYV	high-yielding variety
IBRD	International Bank for Reconstruction and Development
ICA	International Cooperation Agency
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMF	International Monetary Fund
ISI	import substitution industrialization

IUD	intrauterine device
KAIS	Korea Advanced Institute of Science
KAIST	Korea Advanced Institute of Science and Technology
KAVA	Korean Association of Voluntary Agencies
KDI	Korea Development Institute
KEPB	Korean Economic Planning Board
KIET	Korea Institute for Industrial Economics and Trade
KIFP	Korea Institute of Family Planning
KIST	Korea Institute of Science and Technology
km	kilometer
KNCW	Korean National Council of Women
KOICA	Korea International Cooperation Agency
MIT	Massachusetts Institute of Technology
MNC	multinational company
NAFTA	North American Free Trade Agreement
NBLSS	National Basic Livelihood Security System
NCSUMK	National Council of the <i>Saemaul Undong</i> Movement
NGO	non-governmental organization
NHIS	National Health Insurance Service
NIE	newly industrializing economy
NOC	national oil company
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFDI	outward foreign direct investment
OPEC	Organization of the Petroleum Exporting Countries
PCSD	Presidential Commission on Sustainable Development
PL 480	US Public Law 480
POE	privately owned enterprise
PPFK	Planned Parenthood Federation of Korea
PSPD	People's Solidarity for Participatory Democracy
R&D	research and development

SME	small and medium-sized enterprise
SNU	Seoul National University
SOE	state-owned enterprise
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children’s Fund
UNIDO	United Nations Industrial Development Organization
UNKRA	United Nations Korean Reconstruction Agency
UNRISD	United Nations Research Institute for Social Development
US	United States
USA	United States of America
USAID	US Agency for International Development
USAMGIK	United States Army Military Government in Korea
USGAO	US Government Accountability Office
USOMK	US Operations Mission to Korea
USTR	Office of the United States Trade Representative
VAT	value added tax
WHO	World Health Organization
WTO	World Trade Organization

# 1

## Overview: Learning from Developmental Success

*Thandika Mkandawire and Ilcheong Yi*

In his seminal work, *Economic Backwardness in Historical Perspective* (1962), Alexander Gerschenkron pointed out that only in a loose sense could the less advanced countries be said to follow the path traced by the ‘pioneers’ or forerunners of development. There are, instead, a multitude of actual paths taken by the latecomers to development that are fundamentally different. There are many reasons for this. First, the nature and attributes of the ‘backwardness’ of the followers today are not the same as those of their forerunners; the ‘initial conditions’ are different. Secondly, and most significantly, the followers have at their disposal knowledge and lessons that were not available to the forerunners, so that the path followed to development may be based on the ‘advantage of backwardness’ derived from their exploitation of the knowledge and experience of forerunners. Thirdly, followers are driven by an entirely different ‘spirit’ or ideology, which includes the drive to ‘catch up’, a drive that did not exist for the pioneers. This nonlinear view of history and development suggests the importance of learning from others so as not to mechanically retrace the path traversed by the forerunners with the purpose of avoiding some of the errors that they may have made over certain periods, of discovering new possibilities and of ‘leapfrogging’ over various phases. For the late latecomers, the number of countries to catch up to may be daunting, but the vast range of lessons at their disposal provides great opportunities for learning, adaptation and innovation, and for forging paths of development appropriate to their circumstances and preferences. However, the exploitation of this advantage was conditional and contingent upon what Abramovitz (1995) referred to as the ‘social capability’ of the latecomers. For the learning process to be a useful exchange of experience, openness to new ideas and creative adaptation is essential. Clearly, the



relevance of the lessons for each country will depend on its own history and current condition.

The spectacular performance of East Asia has, during the second half of the last century, added valuable development knowledge, which has attracted considerable interest and, not surprisingly, induced many writers to draw 'policy lessons' from them for other developing countries. Unfortunately, all too often the lessons drawn have been tendentious, tainted by the presuppositions of the observers or retrofitted to suit current policy exigencies, with the consequence that the East Asian experiences have been used to justify a whole range of contradictory positions. The great challenge is to see the Korean experience together with that of other East Asian countries through much less ideologically tainted lenses, and with a greater sense of context specificity. There also has been a tendency to treat the 'developmental state' as something omnipotent and omniscient, the consequence of which being that insufficient attention has been paid to the 'trial and error' nature of some of the 'lessons'. Not all of the beneficial lessons learned through the development experience were intended. Indeed, many lessons we draw today only became known to be useful practice *ex post facto*.

## **Explaining economic and social development in South Korea**

Perhaps the most widely acknowledged feature of the Korean experience is that a developmental state played a central role in the economic and structural transformation of the economy.<sup>1</sup> Yet, quite remarkably, until recently the welfare regimes associated with developmental states had received little attention. When social policy was considered, it was often subordinated to the exigencies of accumulation and structural change. Indeed, one of the most evoked features of the developmental state is that it instrumentalized social policy and denied or downplayed the intrinsic value of the goals of social policy. This thesis, that social policy was subordinated to economic growth, became a core element constituting the approaches labelled 'productivist welfare regime' or 'developmental welfare state' theories, which have many variants.<sup>2</sup> Studies based on the subordination thesis have mainly focused on the questions of what the defining characteristics of South Korean social policy are, and how they have served the achievement of the state's overarching economic goals. For instance, it has been argued that for the three decades of the 1960s–1990s, the residual and minimalist social

policies or 'selective developmental welfare state' had served rapid economic growth (Holliday 2000). As the change in the economic goal moved from 'economic growth' to 'economic competitiveness', the 'selective developmental welfare state' explanation transformed into the 'inclusive welfare state' (Kwon 2007).

Although the subordination thesis highlights the linkage between social policy and economic policy, it does not identify the diverse forms and nature of the subordination of social policy: whether it was solely productivist or if it also reduced poverty; whether it provided protection or was redistributive; during which phases of the process of industrialization it was implemented; and which relative weights were attached to these objectives over the different phases of industrialization. Therefore, little is still known about the role of social policy in different patterns of economic growth over time, such as import substitution industrialization (ISI) in the 1950s, export-oriented industrialization (EOI) based on light goods in the 1960s and EOI based on heavy and chemical goods in the 1970s and 1980s.

One of the puzzles of the East Asian development experience was the high social outcomes from authoritarian economic policy regimes that made policy unencumbered by pressures for welfare measures and presumably devoid of social policy. Although the expansion of education and the role of an educated and skilled labor force have been highlighted as the main causes of the economic success, most research has shared the assumption that social development is a consequence automatically generated from economic growth, and not the outcome of deliberate policies. And yet, it is clear that there are no automatic mechanisms for transforming economic growth into social welfare. The challenge then is to identify the implicit and explicit social policy measures behind what has been a virtuous circle of economic growth and human development (Ranis and Stewart 2001). This task has been occulted by the rather 'Eurocentric' view of what constitutes social policy, which often fails to address the question of how 'surrogate social policies' or 'social protection by other means' have played functionally equivalent roles in income transfers and services.<sup>3</sup> Here, we include surrogate policies such as extensive regulatory measures for land reform, the expansion of educational opportunities, labor market and wage policies, housing schemes, food subsidies or employment policies that have been combined to protect and enhance the well-being and capabilities of citizens. Considering surrogate social policies highlights the importance of other policy instruments and measures compared to those deployed

in the literature on comparative social policy in the Organisation for Economic Co-operation and Development (OECD) countries. When a broader conception of social policy is adopted, it becomes clear that social policy is more significant than is suggested by such indicators as the share of social expenditure to gross domestic product (GDP) or government expenditure.

In addition, conventional analysis of developmental states has exaggerated the degree of insulation from social pressures. The social transformation and the structural changes engendered by rapid economic growth brought to the forefront newly empowered social actors who insisted on a broader social and political agenda. It could be that social policy was introduced to pre-empt the more radical demands of these groups. Regardless of the authoritarianism, the state was not completely blind to the social demands of society and to the imperatives of legitimacy and 'infrastructural power'. The quest for full employment was as much for labor mobilization as for poverty alleviation and social inclusion.

Finally, economic theories on growth, such as endogenous growth theories and new institutionalism, have contributed to an understanding of how various institutions affect the process of translating resources into products and services. Social policy, in particular education and health, plays a significant role in facilitating the translation of resources into human welfare. Empirical evidence based on cross-country statistics shows that lopsided development, either economic growth or human development, seldom persists, and is more likely to lapse into a vicious circle (Ramirez et al. 1997). The evidence indicates that institutions and policies for human development do not automatically result in economic growth, and vice versa, and that there should be facilitating institutions and policies to translate the gains from development of each dimension into one or the other.

In light of all these factors pointing to the social policy side of the developmental state, studies on social policy, welfare states or welfare regimes in East Asia, including South Korea, have increased rapidly and have made a valuable contribution to deepening the understanding of the developmental trajectory of South Korea.<sup>4</sup> In particular, these studies complement the economic policy-focused understanding of the development of South Korea through analysis of the nature, content and role of social policy and the welfare regimes that were associated with it. It is through these studies that we are now able to understand the transformative role of social policy in Korean development experiences.

## Issues and questions

The chapters in this volume bring out the complex bidirectional relationship between economic and social policy, in which it can be difficult to determine which was instrumental. Both social policy and economic growth were often justified in the language of alleviation of underdevelopment and poverty, nation building and equity. Proponents of development often saw both as an instrument to higher purposes of social well-being and national cohesion. The social policy of South Korea provides a good example of the transformative nature of social policy. Mkandawire interrogates South Korean development by paying special attention to the Schumpeterian, productivist and developmental characteristics of South Korean social policy through the lens of its transformative role in which multiple concerns and functions of social policy, namely production, distribution, protection and reproduction, are highlighted. M.-K. Chung as well as Yi, Cocoman, Y. Chung and Rhee identify functional equivalents to social policy that appeared in various forms and explain their roles in and impact on development. Several functional equivalents that have significantly impacted the transformation of Korean society, such as land reform in the 1940s and 1950s, have been analyzed in terms of their impact on social and economic development. However, the impacts on the processes, institutions and actors in addition to developmental outcomes have yet to be fully explained and thoroughly investigated. Douglass analyzes rural development and illustrates how agricultural policies have affected economic and social development. Although he does not use the terminologies of social policy, his historical analysis of the policies that have had a significant impact on rural development, such as land reform, provision of new varieties of rice and agricultural subsidies, shows how redistribution took place in rural areas under EOI in the 1960s and 1970s.

Jooha Lee, M.-K. Chung, and Yi pay particular attention to institutions and policies that have contributed to successfully translating human capital into productivity increase. Performance in terms of capability enhancement and translation of capability into productivity has been mainly determined, as Evans suggests, by the characteristics of state–society relationships, both with a broad cross-section of civil society groups and with capital. E. M. Kim enriches the discussion on state–society relationships with a concept of developmental alliance. Her argument for development goes beyond national boundaries, which closely relates to the emphasis in the following chapters on the

international dimension. South Korea's degree of openness and connection to the world, in particular its position in international production and trade chains, have significant implications for the country's choice of a development pattern. Authors pay particular attention to the key institutions and policies mediating the impact of international production and trade systems on domestic social and economic development.

External aid to South Korea played a positive role in producing economic and social development outcomes in the periods both before and after industrialization, i.e. during the government of President Rhee Syngman of the First Republic (1948–60) and during the government of President Park Chung-hee of the Third and Fourth Republics (1961–79).<sup>5</sup> Yi, Cocoman, Y Chung and Rhee as well as T. Kim address questions about the content of aid and the role of donors to both governments in both periods. They explain how aid resources and aid donors affected the developmental process, and how the governments responded differently to them. T. Kim focuses specifically on the transfer of knowledge through various channels of aid and non-aid relationships, with particular attention to domestic institutions and policies to facilitate the transfer of knowledge from abroad. Yang, Jinock Lee, and Pawar and Huh address the deficits and downsides of Korean development, namely democracy, environment and gender policies. As Mkandawire argues, social policy is not designed in a solipsistic manner, but reflects the reading by state actors of the balance of forces in society and the congruence of those policies with other processes in society.

Therefore, the question that needs to be answered is not which political regime has an affinity with a certain type of policy, but rather what policies were employed and why so under a certain regime. Yang discusses the different responses of authoritarian and democratic regimes to economic crisis, and explains how they differ in terms of development. Pawar and Huh as well as Jinock Lee have successfully taken up an interrogation of the content and nature of policies and institutions in the environment and gender policy fields. Rather than taking a normative view, they focus on the nature of the institutions and policies of environment and gender and their impact on development. The authors attempt to extract lessons from South Korea to assist developing countries in the twenty-first century. Acknowledging that there is no 'one-size-fits-all' prescription, they focus on what worked for South Korean development, rather than what might work for development in general. In particular, Amsden and Evans discuss what worked for South Korean development and for other developing countries based on empirical evidence across countries and time, and which institutions

and policies have become more critical for development in the twenty-first century within different socio-economic and international contexts. Industrial policy, nationally owned enterprises (Amsden), and a capability-enhancing developmental state based on state–society relationships with both a broad cross-section of civil society groups and with capital (Evans), have been suggested as critical to development in the twenty-first century.

## **Structure of the book**

The book is composed of four parts. Part I explains the overarching explanatory framework (Mkandawire), and places the South Korean development experience within comparative context to identify which institutions and policies worked for the development of South Korea and other developing countries (Evans; Amsden). Part II explores the linkage between social and economic aspects in terms of institutions, policies and development in both urban and rural areas (Jooha Lee; M.-K. Chung; Douglass; Yi). Part III explains the international dimensions of South Korean development, in particular aid and technology transfer (Yi, Cocoman, Y Chung and Rhee; T. Kim). E. M. Kim expands the role of developmental alliance from the domestic development to international development with a focus on the development of South Korea and its role in international development cooperation. Part IV (Yang; Jinook Lee; Pawar and Huh) deals with the nature and degree of deficits or the downside of South Korean development in the fields of democratic institutions, environment and gender, focusing on what impacts these deficits or downsides have had on South Korean social development rather than how much deficit was in the South Korean development process.

## **Notes**

1. For an excellent summary of this strand of analysis, see Woo-Cumings (1999a: Introduction).
2. Holliday (2000); Gough (2001); Kwon (2005, 2007).
3. Chang H.-J. (2004); Mishra (2004); Estevez-Abe (2008); Kim P.H. (2010).
4. For an excellent summary of this strand of research, see Ku and Finer (2007).
5. Krueger (1982); Krueger et al. (1989); Cassen and Associates (1994); Fritz and Menocal (2007).

# Part I

# 2

## Lessons from the Social Policy and Development of South Korea: An Interrogation

*Thandika Mkandawire*

### **Introduction**

This chapter is not about the social policies of South Korea. Rather, it is an attempt at interrogating the South Korean experience with social policy with the view of distilling some lessons for developing countries. The perspective is obviously developmentalist in the sense that it is concerned with the role of social policy in development trajectories such as that traversed by South Korea during the last half-century or so. The chapter does, of course, touch upon other issues of social policy in developing countries, hopefully in a way that does not suggest a subordinate status for those concerns. It is concerned not only with the state's policies pursued consciously, but also with those pursued unconsciously albeit with consequential social and developmental outcomes. It thus looks at the effects of both omissions and commissions in policy. All this may account for the tentative and speculative nature of the analysis.

Learning from the past is, of course, not easy. One has to deal not only with the scientific processes of acquiring, disseminating and accumulating knowledge, but also with the current economic conditions and political exigencies and subjectivities that impinge on such an endeavor. But beyond politics and subjectivities we must recognize that there are other problems inherent in the learning process. First is the willingness of the latecomers to learn. Here, we face the fraught issues of intellectual openness, cultural bias and hegemonic pressures that direct eyes in one direction. In the case of Africa, our learning antennae have been directed toward the western experience and even within that it has been limited to that of our erstwhile colonial masters and the new hegemon. The second constraint is the capacity to learn. The



issue here simply may be that of having no institutions of learning to critically learn and adapt the lessons with a view to leapfrogging over some of the phases traversed by whomsoever one is learning from. The third constraint is the ability and willingness of the leading countries to share their experiences and knowledge with others. The lead countries may have no mechanisms for transmitting knowledge or repackaging it for developmental purposes or may have been afflicted by a collective amnesia that completely distorts their history, forgetting failures and, in the opposite direction, vividly recollecting and idealizing their successes. This mystification of the past may have gone so far as to make the lessons irretrievable for contemporary use. In some cases, the pioneers simply may not be willing to share their knowledge for commercial or geopolitical reasons. This is what Ha-Joon Chang (2002) has eloquently discussed as 'kicking away the ladder'. All this said, there are a number of things that while perhaps not recognized *ex ante*, can be extracted as useful lessons, *ex post*, from South Korea's development.

### **The case of social policy in development**

Although social policy has played an important role in the development and catch-up process, its developmental role has largely remained untheorized and the analytical work on social policy in developing countries is nowhere near as detailed as that of the work on advanced industrial countries. Only now are we beginning to have systematic accounts of what was the role of social policy in developmental states and, quite interestingly,<sup>1</sup> East Asian scholars are playing an important role in this endeavor.<sup>2</sup> However, these new efforts have yet to bridge the yawning gap between development theories and welfare regime theories (Mkandawire 2011a).

Like all cases of success, the Asian miracle has attracted many claimants to paternity. And each claimant has tendentiously identified features of the success that confirm his or her claims. The dominant neoliberal view reduced countries like South Korea into a social policy-free zone (Chang 2002). The combination of high growth and low inequality with low social expenditure within economies that were deemed to be pursuing market-friendly policies was the ultimate evidence against the welfare state or, for that matter, any interventionism. Indeed, this combination was given a causal twist to suggest that it was precisely because of the low expenditure, interpreted as evidence of low state interventionism, that East Asian economies did well. The South Korean model was paraded as a vindication of 'social investment welfare

states' (Giddens 2000) because it had been able to avoid the negative distributive and protective aspects of the welfare state. However, the excitement over the discovery of such a state can be attributed partly to the failure to recognize that successful late industrializers were always, by design or default, social investment regimes<sup>3</sup> and partly to the fact that in the conventional modelling business of welfare regimes the dynamic Schumpeterian foundations of the western welfare state were not fully recognized and, when eventually recognized, they have been confined exclusively to the 'workfare' aspects of it (Jessop 1993). Just as it has been misleading to view developmental welfare regimes as purely 'productivist', it is also misleading to suggest that the welfare states in the developed countries have been 'welfarist' only and were exclusively preoccupied with protection and some redistribution (Mkandawire 2011a). No welfare regime is exclusively productivist, or exclusively protectivist or exclusively distributivist. As we have argued elsewhere, production and reproduction have always been central concerns of the welfare state in capitalist economies just as developmental states have had to worry about protection and distribution.

## **A heuristic framework**

One way of organizing the lessons to be drawn from the South Korean development experience is to start with the consideration of how key elements of any capital accumulation process are stylized and to see how social policy bidirectionally relates to them. The economic logic of social policy has a lot to do with how one stylizes the spontaneous working of the market. Such stylization often makes explicit or implicit assumptions about how the following items are related to social policy:<sup>4</sup>

- initial conditions
- ideological conditions
- distribution or wage bargain conditions
- economic structure
- financial conditions
- investment conditions
- labor market conditions
- technological conditions
- international conditions.

In the following section, I consider these elements sometimes separately, but mostly in combination with others. The coverage is not exhaustive

nor is the discussion of the determinants balanced. As indicated, the framework is essentially posited for heuristic purposes.

### **Initial conditions**

The literature on development has rediscovered the importance of history in the guise of path dependence, which quite naturally underscores the significance of initial conditions in the study of social policy (Pierson 2000). The problem with success is that virtually any initial condition can be retrofitted as a prerequisite for the subsequent success or as foreordained to lead to particular outcomes. In reality, initial conditions are conditioning factors for any trajectory of development and are not determinants. The implication is that we need a sophisticated reading of the South Korean history to distinguish between the essential and contingent elements of subsequent success. One important aspect of initial conditions is related to notions of catch-up, which has been theorized into an advantage of backwardness (Gerschenkron 1962). In this view, latecomers have the advantage of experience and a technology acquired or developed by the pioneers. Their task is the easier one of adaptation rather than innovation. But as Abramovitz (1986: 388) argued, the exploitation of such backwardness was conditional on what he terms social capability: 'One should say... that a country's potential for rapid growth is strong not when it is backward without qualification, but rather when it is technologically backward but socially advanced'. Social policy is one of the instruments employed for making a society socially advanced and equipped to learn, adjust and innovate in line with its own social and political objectives.

Much has been said about how the point of departure of many African countries compared favorably to Asian countries, especially in terms of natural resources. However, such comparisons build on a narrow base often confined to gross domestic product (GDP) per capita. Furthermore, many initial conditions and their logical relationship with subsequent events have been discovered retroactively to fit current positions. The ideal is a set of conditions not tainted by current ideological needs. One useful set of data that cannot be accused of retrofitting was collected during the initial conditions period from the study by Adelman and Morris (1965) who researched data on social, political and economic indicators with which they constructed an index that would be used to measure the interaction between economic growth and political and social arrangements (Table 2.1). The index clearly showed then that, overall, the point of departure of African countries was worse than that of any other region. The often-cited comparison between Ghana

and South Korea is noteworthy given that the score for Ghana is  $-0.01$  (among the best in sub-Saharan Africa), while that for South Korea is  $0.85$ . Such differences can have enormous implications on the eventual path of economic growth. Indeed, the index had considerable predictive power in terms of growth in later years (Temple and Johnson 1998). The point here is that simply lining up levels of indicators without establishing their interrelationships and direction of change does not tell us much about the appropriateness of these initial conditions in the current circumstances.

In the case of South Korea, the following initial conditions have been evoked as important determinants of the development path of South Korea:

- Confucian legacy
- Japanese colonization
- war and division of the country and the nationalism it induced
- land reform
- ethnic homogeneity
- poor natural resource base
- high aid dependence.

In much of the literature, it is generally argued that the high level of initial primary school education enrollment and land reform have ensured for South Korea favorable initial conditions in terms of equity and human capital. Higher education was a reflection of both the country's colonial past and culture, while land reform was the agenda of the new occupying power. The poor natural resource base is said to have spared the country the "Dutch Disease" that has been the bane of development in other developing countries. Ethnic homogeneity has been credited for the political stability the country has enjoyed, while aid dependence

*Table 2.1* Adelman–Morris Index, 1957–62

Country/region	Adelman–Morris Index
Asia	$-0.05$
East Asia	$0.82$
North Africa and Middle East	$0.19$
Latin America and Caribbean	$0.84$
Sub-Saharan Africa	$-0.98$

*Source:* Adelman and Morris (1965).

on the United States of America (USA) has been cited as providing the impulse for subsequent penetration of the American market. The constellation of these felicitous conditions is then said to have facilitated South Korea's success. However, it should be recalled that this is not what all observers of the South Korean condition said about it at that time. In earlier writings, virtually each of these initial conditions was posited by someone as one of the constraints on the future prospects of the country. South Korea was a problem child: divided, querulous, unstable. As Steinberg (1985: 21) observed:

The literature on Korean economic development and foreign assistance produced during and following the first decade after the outbreak of the Korean War seems a dirge at an economic wake. It reflected extreme disillusionment by both Koreans and Americans over their own and each other's performances. Americans referred to South Korea as having a 'mendicant mentality', as the latter wanted aid but seemed less interested in development, and as a 'bottomless pit' into which aid flowed without result.

Obviously, there are some initial conditions that are not inherently portable as 'lessons' or that should not be portable on moral grounds. It has been said that, for example, with respect to South Korea, Japanese colonial rule was more developmentalist (Kohli 1999) and that war stimulated nationalism and self-sacrifice. One cannot choose to be colonized or to wage war to create the appropriate conditions – although, in the African contexts, both solutions have been suggested (Herbst 1990). Generally, if you are not on a path with those initial conditions, there are high transition costs in moving on to the desired path, and simply seeking to create these conditions may be suboptimal because of such costs.

All this said, there are a number of things that, while perhaps not recognized *ex ante* by the predecessors, can be extracted as useful lessons *ex post* from the initial conditions of South Korea's experience, notably, the high levels of initial primary school enrollment that have been attributed to Japanese rule and the land reform imposed by the occupying power. Both of these conditions have ensured South Korea the favorable initial conditions in terms of equity and human capital.

### **Political conditions**

One feature taken for granted in the Organisation for Economic Co-operation and Development (OECD)-focused welfare regime literature

was that one was dealing with democracies. The inclusion of developmental welfare states and the varieties of developmental authoritarianisms has required that the political regimes and their interaction with the welfare regime be explicitly brought out in the construction of much more inclusive taxonomies. What has been the impact of political regimes on social policies not only in terms of the institutional framework within which they are determined, but also in terms of content? One general conclusion about the politics of the welfare state in South Korea was that it was top-down, reflecting the authoritarian nature of the developmental state that shaped it. This presumably led to low levels of social expenditure (Jones 1993; Goodman et al. 1998).

Here, perhaps more than in other areas, Asia provides negative lessons for Africa. The Asian experience with authoritarian rule has been used to argue against the premature democratization taking place in Africa and as a vindication of the modernization school view that democracy should enter the development agenda only after a threshold of material progress had been crossed. Given this historical experience, Africa was said to have the sequence all wrong as it was embarking on democracy without having acquired the prerequisites for democracy. Until the 1980s, much of the regression analysis of the relationship between development and democracy tended to suggest a significant trade-off between the two. There are several points to note here. Two of the most cited cases of democratic developmental states are in Africa, as are some of the more egregiously predatory authoritarian regimes. Furthermore, if in some of the regression analysis democracy enters the growth equation with a negative coefficient for Asia and Latin America, the coefficients are positive for Africa (Krieckhaus 2002). This could be accounted for by the wretched performance of African authoritarian regimes, but it also suggests that even when we set aside the normative case for democracy in Africa, the instrumental case for democracy is strong in Africa. It also confirms the view that there is no law-like relationship between democracy and economic performance.

### **Democratic transitions**

In the 1980s, South Korea began its transition from an authoritarian developmental state to a democratic one. This trajectory differs from that of African countries that were moving from the lost decades of structural adjustment and retrenchment of the state toward democracy. So, perhaps there is little to learn here. The Korean experience, however, does teach us about how democratization can dramatically impinge on social policy and its normative basis. Democratization

seems to have contributed to the erosion of the segmentation of the welfare that was intrinsic to its Bismarckian features by extending rights on the basis of citizenship rather than through insertion in the market. The shifts toward a more welfarist state in South Korea differs from the trends in Africa and Latin America, where new democracies initially tended toward more neoliberal welfare policies focused on targeting the deserving poor, while dismantling the incipient welfare state on the grounds that it was wasteful, unaffordable or simply an aspect of rent seeking.

### **Ideas, ideology and the politics of legitimation**

Ideology plays an important role in shaping social policy. Ideas of the 'good society' and conceptions of the relationships between the individual, family, market and the state differentiate social policy regimes. More significantly, they help to identify what is perceived as the 'social problem' deserving public collective attention. It has been observed, for instance, that while in the United Kingdom (UK) the social problems in the post-Second World War era were seen as related to poverty, in France they focused on the family and nation, while in Sweden the issues were around equality. In many developing countries, the problem was often seen as that of nation building and development. The story about East Asia is that their states or ruling classes were somehow nationalistic and that they were able to rally their societies under the banner of nationalism and this made them so successful. By implication, those leaders who have not done well can be said to lack nationalism and national pride. Mohammad Mahathir often made these observations about the failure of Africa. I am personally skeptical about the claim that East Asian nationalism was inherently more intense or even more developmentalist than African nationalism. Most of the early African nationalists were as engaged with nation building and pursued developmentalist strategies as fervently. Africa had its own miracles in the 1960s and 1970s, driven by nationalist projects (Mkandawire 1999, 2009). The issue is not, therefore, the intensity of nationalism, but rather the social and economic policies that were pursued, the compositions of the bearers of that nationalism and the attitudes of the major powers to a particular brand of nationalism. In general, the western powers were more tolerant of East Asian nationalism, which they perceived as the bulwark against communism, than they were of African nationalism, which they often interpreted as socialist-leaning, a point lent credence by the penchant of African leaders to attach socialism to whatever idiosyncratic projects they pursued.

## State interventionism and social welfare

In some of the literature, the lean and mean welfare regime in East Asia was contrasted with the bloated and inefficient welfare states of Europe and the highly fragmented ones in developing countries. That was the image that the international financial institutions sought to spread to African and Latin American countries during the adjustment debacle. For some, the trends in the development of the welfare state in East Asia conform to the proposition of Harold Wilensky and Charles Lebeaux (1958) of a linear relationship between the level of economic development and social expenditure on which economic development came before social development. However, this story does not tally with the high levels of social outcomes that were attained at much lower levels of economic development than in some of today's industrial countries. Something else must have been going on other than growth of GDP and structural change.

The problem is one of capturing 'surrogate social policy' (Chang H.-J. 2004: 252; Kim P. H. 2010) or social protection by other means (Mishra 2004). Several researchers have pointed out that the standard indicators of social policy discriminate against other initiatives that have played considerable roles in the redistribution of wealth, protecting citizens against the vagaries of the market or bringing excluded groups into the larger social sphere. The Eurocentric view of social policy has led to a privileging set of social policies prevalent in developed countries, while obscuring the many other social policy initiatives in developing countries. For example, the provision of health services can take many forms: in some countries the state is a 'provider', delivering social services and benefits that are then paid for through its expenditure; in other cases, the state may confine itself to a regulatory role, while in still others the delivery may be entirely private, although not voluntary (Kwon 1997). Looking through Eurocentric eyes makes it difficult to see these other initiatives (Midgley and Tang 2001; Walker and Wong 2004).

Because these developmental states were authoritarian, and often brutally so, most emphasis has been on force and repression, which has led to the view that the developmental states do not permit the pursuit by the state of other social policies than the purely productivist ones. This focus on the repressive authority of East Asian developmental states has tended to understate what Mann (1987) referred to as infrastructural authority of the state that makes the developmental state effective. In recognition of this, researchers of the developmental states such as Evans (1995) have emphasized the embeddedness of the state in society. However, in much of the literature, this embeddedness has tended to be



confined to the capitalist–business relationship, with the state having, Janus-like, a face smiling toward the capitalists and grimacing toward other social classes. However, this narrowing of embeddedness builds on an underestimation of the importance of social policy in the form of full employment and enterprise welfare enforced by the state and investment in education. It is easy to attribute these items to a purely productivist orientation, but they also can be seen as central components of a policy to eliminate poverty. This view has been challenged by revisionist writers on South Korea who have insisted on a broader notion of embeddedness (Ringen et al. 2011).

Interestingly, while the measures to ensure the state's embeddedness within the capitalist class are recognized almost approvingly, those directed toward enhancing the legitimacy to or the infrastructural power of the state over society at large have received short shrift. Indeed, one of the negative aspects of social policies that has been identified in the literature is that East Asian states instrumentalized social policies and used them primarily to enhance the legitimacy of the government and to pacify the working-class workforce or as 'pre-emptory means to address existing or expected distributional conflicts or to facilitate the industrialization process, rather than to reduce social inequalities' (Chung 1992: 3). Concerns with legitimacy are not the exclusive preoccupation of developing countries or of authoritarian regimes (O'Connor 1973). However, these imperatives—of accumulation and legitimation—are most acute in the context of catching up and render a social policy-free developmental state a virtual impossibility, at least not over the long stretch of time during which accumulation must be sustained.

### **Social policy, income distribution and thriftiness conditions**

The relationship between social policy and savings is through income distribution established in the market and social transfers (through taxation and subsidies) and various forms of forced savings such as pension funds. In the classical theories of distribution and investment, it was assumed that there was a trade-off between growth and equity because high growth required a shift of income toward capitalists, with their higher propensities to save. The focus was, therefore, on functional income distribution rather than personal income distribution. The literature on East Asian economies stresses that they have had low levels of inequality and high savings and investment rates. However, this is only a partial view of inequality in these countries. It relates only to personal income distribution. Much of the positive relationship between equity and growth is based on the focus on personal income, which

has an entirely different political implication. The true picture of the Korean experience is that there is inequality in the functional distribution of income in favor of profits and that there is a high level of equity in terms of personal income distribution. You (1998) provided evidence that the share of wages in all the high-performance East Asian economies except Hong Kong falls below the average of the relevant income group and argued that low inequality and high profit shares coexisted primarily due to the unusually even distribution of wages. What then was the role of social policy, especially labor market policies in all this?

### **'Patient labor, patient capital'**

In the well-known Arthur Lewis (1955) model of growth, there is the classical assumption about saving propensities with capitalists reinvesting the entire surplus accruing to them and workers consuming all the wages given to them. The development problem was then that of inducing patience on both capital and labor. However, the problem in developing countries that was highlighted by Baran (1957) was that the capitalist and other recipients of the economic surplus in the form of rents or interest would either wastefully and conspicuously consume the surplus or simply expatriate it abroad. And so within this framework, the big questions are: How does one transfer the surplus to capitalists and how do we ensure labor's acquiescence to this shift? How do we ensure that corporate savings are reinvested in developmental activities? In other words, how do we ensure patient capital?

East Asian countries have high savings. What accounted for such an increase in savings and did social policy have anything to do with it? Some have attributed it to a culture of frugality as opposed to that of profligacy and ostentatiousness in other parts of the world. This culturalist explanation may have been true for other parts of East Asia, but does not hold for South Korea. Figure 2.1 shows that initially the Korean savings rate was much lower than those of Africa, Asia and Latin America and that there was, therefore, a huge resource gap that was covered by foreign savings. It is only after the oil crises of the 1970s that South Korea begins to dramatically outperform other developing countries. What differentiates the East Asian newly industrializing economies (NIEs), including the second-tier ones, is not household but corporate savings.<sup>5</sup> The model of unconditional transfers of surplus to capitalists that is enforced by neoliberalism often has not led to increased investment or productive use of such surplus. This was in contrast to the East Asian policy regime. The literature on developmental states is replete with accounts of how the state used 'carrots and sticks'

to ensure that capitalists reinvested the surplus in a socially desirable way and with notions of reciprocity with respect to rents created by the state. The state also ensured that the financial system encouraged long-term investment perspectives rather than the short-termism associated with stock markets. Furthermore, in many of these countries, the state directly controlled the surplus by controlling the financial sector or by directly entering into entrepreneurial activities.

*Patient labor*

One explanation is that it was the absence of social protection that compelled households to save. However, the state did not leave decisions to save entirely to the precautionary whims of the household nor did it believe that South Koreans would be culturally inclined toward prudence and so it actively restrained consumption. One common feature in the East Asian model has been forced savings that often took two forms: restraining consumption by restraining liquidity and different withholdings of income through schemes such as pension schemes and other arrangements.

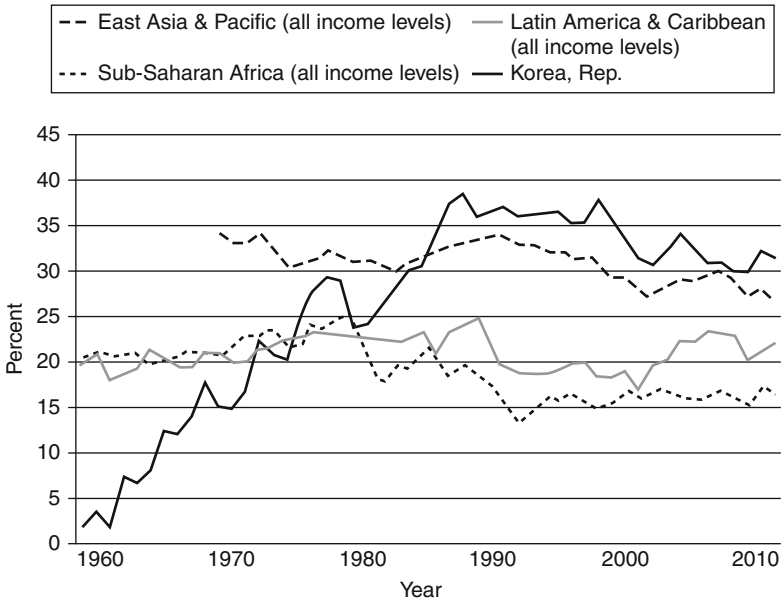


Figure 2.1 Gross domestic savings, 1960–2010

Source: World Bank Data Bank (1960–2010).

In the second category of constraining consumption by labor, the most prominent of these was a mandatory pension scheme, the iconic one being Singapore's Providence Fund. In addition, personal savings and corporate profits in East Asia were linked through the bonus system, first adopted in Japan and then in the East Asian NIEs. This tied a significant part of workers' pay to company profits. In South Korea, such payments constituted between 14 and 33 percent of the total wage bill in the 1970s. A similar system was used in Germany where the pension contributions collected by enterprises were used by the companies themselves to shore up their cash reserves and for investment.

### *Labor repression*

In the authoritarian developmental states, two measures of labor repression – socialization and nationalization – have been deployed. The first measure was a feature of the Stalinist model and was repeated in the Maoist model where exhortation and moral incentives delivered labor to industry, albeit state industry. In authoritarian capitalist developmental models, the state delivers cheap labor to capital industrial economy. Direct repression of labor had been an all too frequent feature of many catch-up strategies. The characterization may or may not be true, but there can be little doubt that state repression played a central role in keeping wages growing at a rate substantially lower than productivity and profits.<sup>6</sup> However, this authoritarian model must be modified by considering other measures that softened the edge of the iron heel of the development strategy. Peng (2009) argued that 'growth with equity' was no accident. It was, in many ways, the design of the post-war development states, politically and economically motivated on the part of the government state in Japan, South Korea and Taiwan by the US. It consists of four key elements: (i) a high savings–high accumulation element; (ii) a high employment-generating growth model; (iii) a high initial level of equity ensured by land reform; and (iv) wage compression. The first element gave a central role to the accumulation process, while the employment reduced poverty and favored the accumulation of human capital (Akyüz 1996; Bloom 1998). The initial land redistribution created the favorable conditions for a more equal personal income distribution that could generate high levels of human development indicators without the usual levels of social expenditure (You 1998; Kwon 1999).

Wage compression is a more complicated story. The need for it can arise for a whole range of reasons, including equity, exploitation, efficiency and social inclusion, and has been used under various political

regimes for different political reasons. In social democracies, it has been used as a tool for equity (equal pay for equal work), but also as an instrument for promoting efficacy and for restructuring the economy toward more profitable sectors or industries as wage compression pushes out less efficient producers and favors high-productivity firms. Experience elsewhere would suggest that wage compression must have played a role in the Asian economies. In the more neoclassical models, South Korea among other Asian countries has relied more on market wage determination. This apparently is in contrast with other countries where state interventions created labor market distortions that led to high labor costs (Fields and Wan 1989). The openness of the economy has created conditions where no protected labor aristocracy was allowed to flourish. This explanation is not reconcilable with the fact that high levels of equality were achieved before the export orientation through land reform (Haggard 1990) and the extensive evidence suggested that in other parts of the world openness has actually led to greater wage dispersion and inequality (Behrman et al. 2000). Inequality increased in South Korea during the phase when the economy was opened and, as the literature on developmental states, and increasingly that on welfare regimes in the developing countries suggest, it is the much more interventionist role of the state that slowed growing inequality.

### *Social pacts*

One approach has been the corporatist view that has been employed in both democratic and authoritarian regimes and involves striking a wage bargain in which labor gave up some of the gains in productivity in exchange for greater employment and security. Such wage bargains took into account not only the direct earnings of workers, but also the social wage that included benefits from social transfers and other publicly provided or mandated social benefits. The bargains were sealed in social pacts that emerged as the standard solution in the post-Second World War model until the 1980s when, in many developed countries, labor was weakened. In a fundamental sense, the welfare states in the more coordinated capitalist economies have some such bargain or class compromise. Were such pacts established in South Korea and, if so, when? A number of researchers have argued that in the Korean case labor was left out of the developmental coalition that involved the state and big business. An important lesson here is that any decision to restrict wages in favor of profits must be accompanied by measures that ensure that the resulting profits will be invested productively. Indeed, this is

probably one of the more politically difficult challenges of social policy and is at the core of any normative justification for favoring profit in the functional distribution of income. In the absence of such controls, wage compression under financial liberalization can only lead to massive capital flight and unrestrained consumerism that is ultimately unsustainable and unjust.

### **Financial conditions**

Financial conditions here refer to how financial institutions and markets are structured – for example, the private–public ownership divide, the nature of competitions, universal banking versus arms-length Anglo-Saxon banking, and the role of stock markets. Earlier understanding of the institutional requirements for financing development among late industrializers was captured in the work of Gerschenkron (1962), who argued that such economies would require specialized institutions. First, in these countries firms were unlikely to have sufficient internal funds to finance the relatively larger and more capital-intensive catch-up industrializers. Furthermore, such economies were unlikely to rely on individual investors who were more inclined to invest in more familiar activities and safer assets such as government bonds. The general understanding was that development required some form of credit rationing to direct funds toward what were considered as strategic sectors or industries in the process of economic development.

We have already noted the importance of forced savings in the form of pensions and other taxes on wages. As in Japan, a substantial portion of the pension funds in South Korea was provided by the Ministry of Finance, which in turn used these funds to invest in various public projects (Iglesias and Palacios 2000). The pension system was used mainly to finance heavy and chemical industries (Jung and Walker 2009). But beyond and above these accumulation functions of pensions, these pension schemes have had considerable impact on the financial system as a whole, especially by strengthening patient capital. This use of social security funds as part of developmental finance or to strengthen developmental finance institutions has been under severe attack by neoliberalism and in many countries the vast pension funds have been used to kick-start or stimulate financial institutions such as stock markets. This apparently has also been the case in South Korea (Jung and Walker 2009). With no developmental prioritization these pension funds have gravitated toward speculative real estate and, in Southern Africa, toward the funding of the shopping malls.

### **The case of agriculture**

One feature of the modern welfare state is the preponderance of formal wage employment. Consequently, much of the literature on the welfare states is concerned with economies with such structures. African economies are the least industrialized in the world, with large sections of the population still in the rural areas. It has been rightly pointed out, therefore, that social policy must include measures toward the rural and the informal sectors of the economy. It is with respect to agriculture that many aspects of social by other means (or surrogate social policy) are most manifest. Agricultural policies and agrarian corporatism that have included land reform, a high level of protectionism for farmers and price supports for rice and producer subsidies constituted a de facto income maintenance program for the rural population in South Korea. One aspect of economic policy that has led to attacks of African governments has been their exploitation of peasants through direct and indirect taxation of agriculture. In contrast, countries such as South Korea are presented as having been pro-rural as evidenced by land reform and pro-agriculture policies in general. A close look suggests a more complex situation where 'state extraction was heavy and state penetration intrusive' (Vu 2007: 39). The real question is not whether or not government taxed the rural sector, but what social policies were introduced to transfer resources to the sector (for example, education, health services, subsidies, new technologies, marketing, and storage and transportation facilities).

### **Social policy and technology conditions<sup>7</sup>**

Social policy plays a crucial role in the mobilization of technology for development, with at least three aspects of technology that social policy must address: social acceptance; redressing dualism; creating human capital.

#### *Social acceptance*

The first aspect has to do with social acceptance of new technologies. The triumphalism of industrialism has tended to obscure the extent of social resistance it faced in its birthplace, including most memorably in the form of Luddites, and the various forms of resistance today, including in the advanced developed countries. Modernizing elites have had to drum up the case for technology in the name of modernization, catching up and national glory, for example. In addition, the ease with which societies have accepted new technologies has also depended on the social protection that exists. Social policy has facilitated Schumpeterian

creative destruction that drives capitalist innovation by providing a protective welfare shield.

### *Redressing dualism*

Social policy must also address the problem of dualism in production that technological innovation and structural transformation cause and the spiral of inequality that this entails. One of the great debates of development economics in the 1960s and 1970s was about the choice of techniques in the production process, with one group of economists arguing for labor-intensive techniques to maximize employment, with another arguing for capital-intensive techniques that would maximize surplus and thus rates of investment. Implicit in these debates are issues of inter-generational and intra-generational distribution and the problems of reconciling the various discountings of the future. However, one lesson from the late industrializers is that the debate as to whether the economy as a whole should choose labor-intensive or capital-intensive techniques was misleading. The solution in the successful cases has been 'walking on two legs', which has involved the simultaneous pursuit of the two objectives using different sectors or industries with industry-maximizing surplus, while services and agriculture maximized employment. Such a policy has, in many countries, led to sharp inequality and the emergence of a labor aristocracy as the organizational strength of labor and the ability of oligopolistic, high-productivity firms to pay have conspired to generate a wage-tech spiral. The social problem, then, is how, in light of the big differences in productivity among workers in different sectors of the economy, to reduce wage dispersion. In social democracies, the solution has been the solidary wage policy<sup>8</sup> that has reduced wage differences. However, dictators can also compress wages by forcibly holding down wages to be paid to skilled labor and increasing minimum wages as South Korea did in the 1980s. The outcome of such policies in South Korea was significant, prompting Freeman (1993: 406) to observe that 'a union-dominated social democratic state would be hard pressed to produce distributional outcomes more favorable to the less-skilled'.

### *Creating human capital*

A major task of social policy is that of creating the human skills and institutions for generating, absorbing and adapting new technologies. A remarkable feature of the Korean system has been its focus on education and in much of the literature it is this investment in human capital that accounts for the superior performance of East Asian economies when compared to other developing regions (Morris 1996). Elites in the



region ensured that governments could deliver the appropriate skills to the workplace; they had to establish strong controls over the institutions responsible for education and training. Governments constantly had to steer the system by adjusting the outputs from the education and training systems to meet the existing and future demands (Ashton et al. 1991). Although the private sector played an important role in providing education, the approach of these countries was not a *laissez-faire* one. The state, through direct provision of education facilities or regulation, played a central role. There have been suggestions that one lesson from the East Asian experience is that it is necessary to focus first on primary education and then on tertiary education. It has been further suggested that the low levels of poor-quality post-primary education might reflect the fear felt by authoritarian regimes of volatile student bodies (Gough 2004). In addition, African countries together, along with their Latin American counterparts that prioritized secondary education and finally tertiary education, invested too much in these sectors. This argument was then used to dismantle the university system in Africa. However, looking back at South Korea this prioritization of primary school was brief and the country clearly exhibited high levels of achievements in higher education. While a redistributive focus of social policy may favor primary education, the Korean experience suggests that a transformation of social policy should take a more systemic and integrated view of the educational system.

### **International conditions**

The international context plays a considerable role in the formation of social policy in individual countries. As already indicated, this is in the notion of catch-up. Also added here should be contagion and international conventions that have, in some cases, compelled developing countries to adopt a whole battery of legislation at much lower levels of economic and social development than their predecessors. In other literature, it is suggested that attempts by countries to shield citizens from external conjuncture have played an important role as highlighted by the evidence that the more open the economy is in terms of the share of trade to GDP, the more extensive the social protection or public expenditure.<sup>9</sup> Earlier literature on world systems and dependence argued that since social programs such as minimum wage or mandatory pension schemes impinged on profit, periphery nations would tend to have severe restrictions placed on the incipient welfare regimes. This theme has been picked up in the context of globalization and in the critique of the neoliberal agenda that has called for the retrenchment

of the state. How much does this analysis apply to South Korea? South Korea has moved in a completely opposite direction by adjusting to the 1997 financial crisis through an extension of the welfare state. This is a response that needs to be better understood in terms of its politics, timing, efficacy and sustainability. After all, there are many examples of counter-cyclical macroeconomic populist responses to economic crisis that extended the role of the state only to run into serious financial difficulties (Dornbusch and Edwards 1992). And many developed and developing countries have been quite timid in extending welfare spending during the current recession.

## **Conclusion**

The purpose of this chapter is not to recount the role of social policy in the development process of South Korea and even less is it intended to draw immediate policy lessons. Rather, it suggests keeping in mind what can be learned from the South Korean elements and experiences. As suggested, the success included many unpalatable features, for example, labor repression and gender discrimination. Several aspects achieved by the South Korean social policy regime were achieved elsewhere with much better political arrangements. Thus, we have the adoption by democracies of functionally equivalent instruments to those adopted by authoritarian regimes (such as wage compression), but which were politically and normatively acceptable to the democratic order. The point here is to highlight how contingent some of the synergies among the pieces in the model were and that learning should involve deconstruction and rearranging, adding and discarding the pieces in a normatively and politically acceptable manner.

The developmental welfare state may be productivist by definition, but this does not mean that this is its exclusive or dominant preoccupation. It may well be that it values equity and protection but believes that, in the circumstances, increased production is vital for the attainment of these goals. It may also be aware that the means it chooses are constrained by these fundamental goals of society and of the synergies among the various pursuits. This at least seems to be the case in some of the democratic latecomers, such as Costa Rica, Finland or Mauritius. Contemporary understanding of development might have insisted on trade-offs, and policy makers might have been persuaded by such trade-offs and made the hard choices that subsumed other social goals under the one they chose to pursue. But often the belief led to the incurring of unnecessary costs because the trade-offs were false.

Finally, if the lessons from the Korean experience are to be useful, they must indicate the context within which they were applied and the learners must absorb those lessons in light of their own history and circumstances. This will call for greater interaction between Korean and African researchers and policy makers.

## Notes

1. Work conducted under the aegis of UNRISD has focused attention on these issues; see Mkandawire (2004), Kangas and Palme (2005), Kwon (2005), Karshenas and Moghadam (2006), Adésinà (2007) and Riesco (2007).
2. For the increase of studies of East Asian Welfare regimes, see Ku and Finer (2007).
3. A much-cited article on the East Asian development states characterized the social policies of these countries as 'productivist' in the sense that 'social policy (was) strictly subordinated(d) to the overriding objective of economic growth' (Holliday 2000: 706–23).
4. This list partially draws from Joan Robinson's work on accumulation, which is a closed model and did not say much about the ideological and political conditions. Today, we would definitely also add international conditions. See also an earlier borrowing from her work in Mkandawire (1996).
5. Akyüz (1996); Bloom (1998); Singh (1998); You (1998).
6. Deyo (1989); Castells (1992); Leftwitch (1995); You (1998).
7. This section draws on Mkandawire (2007).
8. This has been elegantly formulated by Moene and Wallerstein (2006) in a model of 'social democracy as a developmental strategy'.
9. Cameron (1978); Katzenstein (1985); Rodrik (1998).

# 3

## The Korean Experience and the Twenty-first-Century Transition to a Capability-Enhancing Developmental State

*Peter Evans*

In the old centers of nineteenth- and twentieth-century development, policy debates have taken on a disturbingly anachronistic thrust. In Washington, ideological tropes from early triumphalist neoliberalism are repeated in an exaggerated form. The most fervent political clarion calls invoke the return to a caricature of eighteenth-century America. In London, faith that shrinking the size of the state will generate renewed economic dynamism is again in fashion. It is tempting to see this discourse as simply a signal of the fading relevance of Anglo-American political thinking, but effective dismissal of regressive rhetoric requires a credible and coherent alternative analysis.

If a credible and coherent alternative paradigm is to emerge, it almost certainly must come from what is broadly defined as the Global South – the countries of Africa, Asia and Latin America that suffered from colonialism and underdevelopment for most of the twentieth century. In the emerging economies of the Global South, political debate on the contributions of public institutions to social and economic progress no longer mimics Northern debates. While advocates of the virtues of the market abound in the Global South, policy makers and politicians there also assume that the state has an important role to play. In South Korea, as in Brazil and Taiwan,<sup>1</sup> democratic pressures have nudged state action toward policies constructing a version of social protection that echoes the policies of the Golden Age of capitalism in northwestern Europe, rather than mimicking Anglo-American neoliberalism.

While policy in the Global South diverges from neoliberal theory and ideology, the divergence presents itself as pragmatic and situational rather than as grounded in a coherent analytical vision. Politicians and policy makers pull justifications from a grab bag filled with variegated

theoretical and ideological tools. Within this grab bag, invocations of the twentieth-century industrializing developmental state continue to find strong political resonance, but a coherent policy paradigm based on historical experience, and adapted to the conditions of the twenty-first century, has yet to emerge as a significant force in global development debates. This chapter argues that solid intellectual, empirical and analytical foundations for such a paradigm already exist and that more aggressive efforts to build on these foundations are essential to countering the disturbing revival of outmoded Anglo-American anti-statist ideologies.

Focusing on the idea of the developmental state is a good way to start building new empirical and analytical foundations for a more realistic and efficacious policy paradigm. Historically, some version of the developmental state has always played a central (if often unacknowledged) role in economic growth and social transformation. But it is not enough to reassert the importance of the developmental state. Indeed, it would be seriously misleading if this reassertion took the form of trying to resuscitate a vision based on industrial transformation strategies of the 1970s and 1980s.

Understanding of the role of the developmental state has changed, first of all, because development theory has changed. In addition, the historical context of development has changed. Viewing shifts in the historical character of economic growth through the lens of modern development theory suggests that state capacity will have an even greater role to play in societal success in the coming century than it did in the last century. It also suggests that the specific kind of embeddedness or state–society synergy that was crucial to twentieth-century industrial transformation – dense networks of ties connecting the state to industrial elites – will have to be replaced by a much broader, much more bottom-up set of state–society ties to secure developmental success in the current century.

This chapter builds on earlier work aimed at conceptualizing the ‘twenty-first-century developmental state’ (Evans 2008, 2010a,b). It is divided into two sections. The first section sets out some of the conceptual issues involved in rethinking the developmental state. I begin by outlining some of the conceptual issues involved in reconceptualizing development as capability expansion and the challenges of empirical measurement that result from such a reconceptualization. I then consider some of the conceptual issues involved in thinking about the role of the state once development has been reconceptualized as capability expansion. The second section turns to a comparative-historical

discussion of developmental performance in the neoliberal era, focusing on three pairs of states. First, I look at two major developing countries that have experienced contrasting trajectories in terms of their ability to deliver capability expansion over the course of the last two decades: Brazil and South Africa. I then examine two global hegemony: rising China and the declining United States (US). Thirdly, I consider two original archetypes of the developmental state, which have, for reasons that are still not fully understood, managed to shift in the direction of capability expansion: South Korea and Taiwan. I close by laying out some priorities for future analysis and empirical research that will need to be tackled in order to build a more sophisticated and compelling theory of trajectories toward the twenty-first-century development state.

## Conceptual challenges

Ever since the term 'development' began to be systematically applied to the comparative evolution of national societies in the mid-twentieth century, an 'accumulationist' paradigm of the process of economic and social change has dominated global thinking. This vision privileged the role of capital in generating change and was symbiotically tied to the discipline of economics at the time. At roughly the same time, Kuhn (1962) showed how difficult it is to change paradigms, even those less thoroughly connected to dominant interests. While empirical anomalies are crucial to changing paradigms, empirical anomalies have no traction unless alternative conceptual frameworks are available. In the case of the old accumulationist paradigm of development, alternative conceptualizations are still multiple and contested. Among them, the capability perspective seems the most promising.

## Reconceptualizing development

The theoretical underpinnings for reconstructing our visions of the developmental state are grounded in the convergence of Amartya Sen's capability approach to development with modern reconstructions of traditional economic models of growth. Sen (1999: 18) argued that 'well-being' involves more than increasing contentment or reducing suffering; it involves increasing the capacity of human beings to do the things that they want to do. Thinking in terms of 'capabilities' rather than just 'well-being' draws our attention to the fact that human capabilities are both ends in themselves and the key means to intermediate goals, such as economic growth and the construction of democratic institutions that help us to 'lead the kind of lives we value'.

Sen's focus on well-being as the active exercise of capabilities dovetails perfectly with the insights of modern growth economics, which make it clear how fundamentally a society's ability to produce the goods and services it needs and wants depends on the exercise of the 'human capabilities' of its people.<sup>2</sup> The theoretical argument and empirical evidence put forward by new growth theorists made the case that creating and utilizing new ideas was more important to twentieth-century growth than the accumulation of plants, equipment and other tangible capital. If this was true in the twentieth century, then ideas and 'human capital' are even more central to twenty-first-century growth. Twenty-first-century value creation is becoming increasingly 'bit-driven' in the sense that value added comes from new ways of arranging bits of information in formulas, software code and images, and less from the physical manipulation of materials to make tangible goods.

In the twenty-first century, job growth has moved to the service sector. The total number of manufacturing jobs is not growing in either the North or the South. Even in China, the new 'workshop of the world', the official tally of manufacturing jobs showed declining dynamism at the end of the twentieth century (Evans and Staveteig 2009). The new centrality of services forces any state that wants to be 'developmental' to focus more intensely on people and their skills, instead of machines and their owners. The service sector is the site of capability expansion, but, paradoxically, jobs involved in nurturing and sustaining general human capabilities, in building the foundations necessary for capabilities of all kinds, are as badly underremunerated as they are numerous. If the expansion of human capabilities is both the key means and the central goal of development, then rewarding capability-expanding services and increasing their supply should be a developmental priority. Yet, in practice, capability-expanding services like health and education are both undersupplied and underrewarded.

Before focusing on the specific implications of using a capabilities approach to development for thinking about the state, it is necessary to acknowledge the weaknesses of existing crude empirical proxies for capability expansion, especially for countries that have achieved high levels of literacy and low levels of infant mortality. It is also worth briefly reviewing what the existing research tells us about the general interaction of 'growth' (defined in simple income terms) and 'human development' (used as a proxy for capability expansion).

In traditional, mid-twentieth-century economic thinking, empirical proxies for capabilities were treated as 'dependent variables' with the accumulation of capital being the driver of growth, and growth being

the cause of improvements in health, education and well-being. While this was not an unreasonable assumption, it ended up being seriously misleading. Obviously, increased income is associated, in general, with improved health and expanded capabilities, which is why the Human Development Index (HDI) contains income as one of its components. At the same time, simplistic 'wealthier is healthier' algorithms obscure more than they reveal (Pritchett and Summers 1996). If we take longevity as an empirical proxy, then the general correlation between income levels and capability expansion is undermined in two ways (Evans and Staveteig 2009). First, there is almost no relationship between increased income and improved longevity once purchasing power parity of domestic product (GDP) per capita passes \$4,000 per capita. Secondly, even if poor countries are included, other indicators predict longevity as well as income. For example, a combination of reductions in inequality and the provision of education predict longevity as well as income levels do (Evans and Staveteig 2009).

Current empirical research questions conceptualizing capabilities as dependent variables whose levels are determined by income. It suggests instead that it is equally valid to view improvements in human development indicators as causing growth in income. In a series of econometric papers, Ranis, Stewart and their collaborators looked at the interactions between growth and human development.<sup>3</sup> Their data analysis 'contradicts the conventional view that HD (human development) is purely a result of, as opposed to being a critical input into long run expansions in EG (economic growth)' (Boozer et al. 2003: 25). They concluded that 'HD (human development) improvements must precede growth-oriented policies if growth is to be sustained'. Research findings in support of a capability-oriented approach to development help shift our attention away from accumulationist models and toward a focus on processes of capability expansion. Shifting focus makes us immediately aware of how much additional research is necessary before we can claim to have an empirical command of capability-oriented development that is comparable to the sophisticated and compelling analytical discussion of this approach that has emerged over the course of the last 20 years.

To begin with, we still have not been able to move very far beyond the original longevity-literacy duo that was the empirical core of the HDI. Sen's favorite empirical case is the relative incidence of famine, an empirically plausible case, but one that now only differentiates among very poor countries. Once longevity passes 70 and basic education is close to universal, we lack empirically sensitive, intuitively plausible measures of capability expansion. International comparisons of



morbidity are notoriously unreliable and hard to interpret. As differences in the provision of education become more focused on tertiary education, the question of how they should be interpreted also becomes more difficult. The empirical challenges raised by the transition to capability-centered development should not be exaggerated. Comparisons using traditional indicators such as the HDI still reveal interesting differences, even among rich countries. Nor should empirical challenges be taken to undercut the legitimacy of moving to a capability-centered conceptualization of development. Nonetheless, finding ways to better match theoretical reconceptualization with empirical analysis must be a central element on the agenda of development research.

One promising addition to the empirical arsenal of capability-focused development theory is a return to the classic concern with the relationship between inequality and development. While an inequitably distributed increase in wealth may still count toward growth, it is much more problematic to count an inequitably distributed increase in capabilities as a contribution to development defined as capability expansion. There is a vast literature on the destructive consequences of inequality for individual and community well-being, even in the most affluent societies.<sup>4</sup> Cross-national data show a relationship between lower levels of inequality and increased longevity. The recent inclusion of the inequality-adjusted HDI in the United Nations Development Programme *Human Development Report* constitutes recognition that lower levels of inequality may be, in themselves, useful indicators of capability expansion.

Moving to a capabilities approach entails greater attention to the socio-political determinants of development, which may well not be the same as the determinants of income growth. Shifting from an accumulationist to a capability-oriented focus on development also shifts attention to new kinds of political dynamics. For example, while the relationship between democratic political forms and income growth remains a long-debated and still unresolved theoretical issue, existing research does come down in favor of a connection between accountability from below and capability expansion. The correlation at the most rudimentary level is illustrated by Sen's proposition that independent countries with even modestly democratic political institutions do not suffer from famine. A careful econometric study by Besley and Kudamatsu (2006: 1) concluded: 'The data show a strong (conditional) correlation between life expectancy and democracy. This relationship is robust to controlling for the initial level of human capital as well as political histories. The data also suggest that health policy interventions are superior in democracies'.<sup>5</sup>

Additional research connecting particular institutions of political accountability from below with improved performance with regard to capability expansion is badly needed. This task is made more difficult by the fact that the relationship between particular policies and capability-related results is not as straightforward as one might hope, even where the simplest definitions of capability expansion are employed. Unfortunately, numbers of hospital beds per capita and numbers of doctors per capita do not translate neatly into reductions in mortality or morbidity. Nor do amounts spent on 'education' necessarily translate into improved capabilities with respect to access to information.

Whatever the challenges of building a program of empirical research that reflects a capability approach to development, they should not distract us from the conceptual bottom line. 'Growth policy' cannot be analytically separated from the kinds of capability-enhancing efforts that have been traditionally called 'social policy' or 'welfare policy.' Such a division is untenable given contemporary research on the way in which income growth is inextricably linked to human development. Policies that expand capabilities may look like 'social policy' or 'welfare policy', but they are essential to income growth. This recognition requires a different conceptualization of growth policies. It also requires a different conceptualization of social or welfare policies. Mkandawire (2007) captured this in his idea of 'transformative social policy'. Arrighi et al. (2010: 435) made the case nicely with regard to South Africa, arguing that without 'structural reforms that re-invent the welfare state on foundations that can be generalized to the vast majority of the population, the economic and social performance of the South African state will continue to deteriorate'.

All of this suggests that a bold program of research and theoretical refinement is necessary to build a theory of the developmental state that responds to the challenges created by reconceptualizing development as capability expansion. The only thing that is irrefutably clear is that development as capability expansion makes the state's role even more central than its role in development as accumulation.

### **Reconceptualizing the 'developmental state'**

Once development is conceptualized as capability expansion and it is acknowledged that the old separation between growth policies and social or welfare policies must end, the agenda for reconceptualizing the developmental state follows. Guidelines for thinking about the characteristics of a twenty-first-century developmental state that follow from reconceptualizing development can be usefully summarized in four points:

- Capable public bureaucracies are even more important than previously thought. Without competent, coherent public bureaucracies, capability-expanding public services will not be delivered.
- The ability of the state to pursue collective goals coherently, rather than responding to the subjectively defined immediate demands of individual members of the elite, or particular elite organizations, is even more essential than earlier work on the developmental state suggested.
- Embeddedness – the dense sets of interactive ties that connect the apparatus of the state, administrative and political to civil society – not only becomes more important, but also must focus on a broad cross-section of civil society rather than focusing simply on industrial elites.
- The problem of state effectiveness is even more clearly a political problem, and state–society relationships are at the heart of the politics involved.

While state bureaucratic capacity remains crucial, questions of embeddedness and state–society relationships move to the fore in the twenty-first-century developmental state. The internal organizational challenges that must be addressed in order to accomplish a twenty-first-century agenda are formidable, but building a more encompassing embeddedness is the biggest hurdle. Since more efficient administrative structures ultimately depend on new forms of embeddedness, state–society ties are the crux of the problem of constructing a twenty-first-century developmental state.

For a developmental state focused on capability expansion, the need for information and engagement from societal partners is even greater than it was for a state focused on industrial transformation, but the interlocutors and the character of the networks are more complicated. Information must be gathered from constituencies that are more numerous and less organized. The value of a project cannot be assessed on the basis of a simple technocratic measure. Whether or not a project is worthwhile depends on how well its results correspond to the collective preferences of the communities being served. Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources. The centrality of accurate information makes deliberative institutions key contributors to development as well as building blocks for democratic politics. While organizational and institutional forms will vary depending on the cultural and historical context, effective mechanisms

of deliberation that include a broad cross-section of society will be the foundation of effective public policy (Evans 2004).

Effective state–society linkages depend on the organization of civil society as well as on the capacity of the state, but the state can help facilitate the organization of civil society. The twentieth-century developmental state's interaction with industrial elites gave these elites a reason to become a more collectively coherent class. The twenty-first-century developmental state needs to undertake a similar, but more difficult task: constructing shared coherent goals whose concrete implementation can then be co-produced by public agencies and the communities themselves (Ostrom 1996). Education is co-produced by students (and their families). Health is co-produced by patients, their families and their communities. The active engagement of families and communities in the delivery of those services is necessary if the investments are to produce the desired effects.

Articulating shared interests in capability expansion is a politically demanding task. Civil society is a complicated beast, full of conflicting particular interests and rife with individuals and organizations claiming to represent the general interest. Nonetheless, without the effective engagement of a broad spectrum of civil society, state-initiated efforts to promote development as capability expansion are unlikely to succeed. The importance of building engagement with a broad cross-section of civil society is increased by the contradictions between the increasingly globalized agenda of capital and a project of development as capability expansion. The old model of a shared national project of transformation uniting capital and the state looks increasingly anachronistic. Even if the profit-maximizing strategies of capital were still nationally focused, the logic of private profit is harder to harness to capability expansion projects. Since social returns to the expansion of human capabilities are substantially higher than private returns, private markets underinvest in human capabilities. Instead, markets channel investment to areas where total returns are lower, but private returns appear higher. The large 'collective goods' element in capability expansion makes it harder to construct productive alliances with private capital.

Given the disjunction between private and social returns, capital may actually be hostile to devoting state resources to capability expansion, especially if projects are designed in response to community preferences rather than narrowly focused on job skills. In this case, dense, robust ties to private elites may become channels for the pursuit of private agendas that undercut the state's ability to expand capabilities. Old forms of embeddedness may impede rather than facilitate effective state

action. Once capability expansion becomes the core of the development agenda, private capital is no longer a dependable ally.

If the lesson of the twentieth-century state is that capacity depends on a complementary combination of a competent, coherent public bureaucracy and dense sets of systematic ties to relevant civil society actors, then building state capacity has become a more challenging task in the twenty-first century. Diminished complementarity between developmental goals and the interests of private capital raise the level of state capacity required. Worse still, while the intersection between the twenty-first-century development project and the interests of private capital shrinks, the ties between the state and capital do not become less tight. Indeed, the growth of the influence of capital on politics and state policy is a generic feature of neoliberalism. At the same time, embarking on a twenty-first-century project of development forces the construction of new, more active forms of embeddedness that encompass a broad spectrum of civil society actors.

### **Comparing national trajectories in the neoliberal era**

Analytical conceptualizations are the first step toward imagining what a twenty-first-century developmental state might look like. Comparative historical analysis is a way of examining state performance in relation to capability expansion and connecting variations in performance to characterizations of the state's role. Here, I use a strategy of comparing three pairs of countries: (i) Brazil and South Africa: two major middle-income developing countries with political economies that are similar in important respects, but that have experienced contrasting trajectories in terms of their ability to deliver capability expansion over the course of the last two decades; (ii) China and the US: two global hegemon, one rising and the other declining, both of which appear to be faltering in their ability to deliver development as capability expansion; and (iii) South Korea and Taiwan: two archetypes of the twentieth-century developmental state, which have, for reasons still not fully understood, managed to deliver exceptional performance with regard to capability expansion in the neoliberal era.

#### **South Africa and Brazil: cases of divergent capability performance**

Brazil and South Africa are sometimes paired as major actors in the Global South. They are both middle-income countries with substantial industrial capacity, but neither country had exceptional growth performance in the period during the neoliberal era (though South Africa

grew slightly faster than Brazil from 1995 to 2008). Both have democratized over the course of the last 20–30 years, despite historical legacies of extremely inegalitarian social structures and exceptionally high levels of economic inequality. Starting in the 1990s, newly elected democratic political leadership in both countries shared the goal of remedying the injustices of historical inequality and expanding capabilities.

Yet, despite their similarities, Brazil and South Africa have diverged in terms of delivering well-being during recent decades of democratic rule. Instead of growth bringing greater social disparities in Brazil, as it had under the military in the 1970s, it was ‘accompanied by rising average earnings, more formal employment, greater social protection for the population as a whole, greater equality in household income and wages, and a reduction in poverty’ (Kerstenetzky 2009: 15). *Bolsa Familia*, Brazil’s conditional transfer program, was small in terms of overall expenditures, but transformed the lives of tens of millions of poor Brazilians, almost one-quarter of the entire population. Access to health care and education expanded as well.

In South Africa, massive investments in health and education have not delivered the same kind of returns. In Brazil, the rate of infant mortality was cut almost in half between 1996 and 2006. In South Africa, it increased in the same period. In Brazil, the proportion of girls in primary school rose from 83 percent to 95 percent between 1991 and 2004. In South Africa, it dropped from 92 to 88 percent in the same period (WHO 1990–2006). The divergence was even more dramatic in terms of levels of inequality. While the two countries started their democratic transitions with similar levels of inequality, by the turn of the millennium, Brazil relinquished its 400-year-old claim to being a world champion of inequality. As Figure 3.1 demonstrates, Brazil’s efforts at reducing its historic levels of inequality have begun to show up in the Gini Index. In South Africa, in contrast, the turn of the millennium saw a disturbing shift from historically high levels of inequality to levels that were even higher.

What accounts for the ability of the Brazilian state to gain traction as a twenty-first-century developmental state and the inability of the South African state to do likewise? It is probably not the result of differences in traditional bureaucratic capacity. The South African state began the period with the relatively high administrative capacity of the traditional developmental state, which was not clearly inferior to Brazil’s. A variety of explanations might be put forward.<sup>6</sup> Patrick Heller (2011) offered one very consistent with my emphasis on state–society relationships. Based on extensive research in both South Africa and

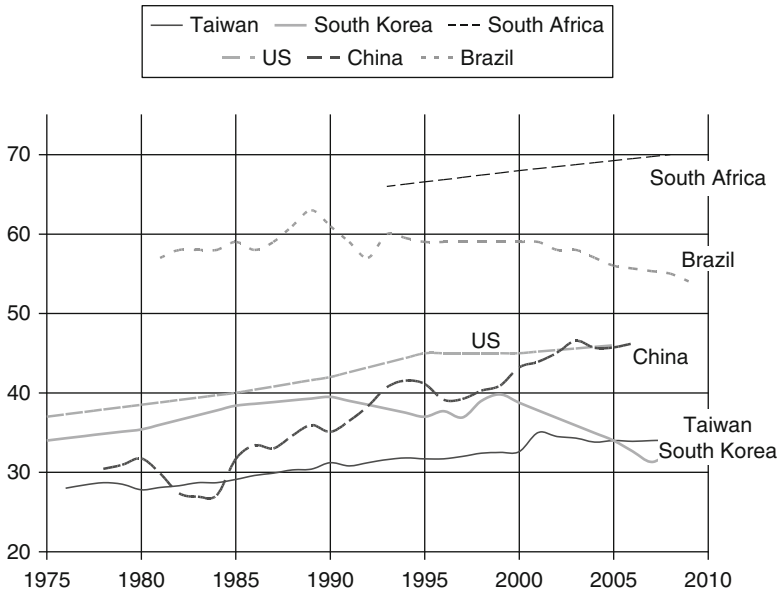


Figure 3.1 Divergent trends in national inequality: Evolution of Gini coefficients, 1975–2010

Sources: World Bank (2004b, 2008); OECD (2008b); Chen et al. (2010); Leibbrandt et al. (2010); National Statistics of the Republic of Taiwan (2013).

Brazil, Heller argued that even though both countries are consolidated electoral democracies, they are characterized by a very different set of democratic institutions and practices. He focuses particularly on the relationship between political society (roughly the state as a political entity and political parties) on the one hand, and civil society (associational forms and movements with autonomous organizational capacity organized around a politics of citizenship and capable of engaging the state and holding it accountable) on the other.

Despite both countries having vibrant civil societies in which subordinate groups have organized and engaged in aggressive efforts to make claims on the state, the relationship between political society and civil society is quite different. In South Africa, according to Heller (2011: 15), civil society organizations representing ordinary citizens have ‘become estranged from political society’ and ‘decentralized despotism’ (see also Mamdani 1996) has been reinforced in rural constituencies and even in urban areas. Consequently, ‘subaltern civil society, and especially the

urban poor, has more or less been sidelined from the political process' (Heller 2011: 25). Whereas in Brazil a 'relatively autonomous civil society that can effectively engage the state' has emerged, generating 'clear instances of civil society projecting itself into the state to shape policy' as well as 'the institutionalization of a wide range of participatory structures and the strengthening of local democratic government' (Heller 2011: 27).

In an important analysis from a different perspective, Arrighi et al. (2010) complemented Heller's analysis by looking at the relationship between the South African state and capital. They started by pointing out that the current global boom in demand for natural resources has the potential to 'provide natural-resource-rich South Africa with significant opportunities to generate jobs, incomes and taxable surpluses, as well as preferential market arrangements'. If captured by the state rather than left in the hands of capital, these revenues could 'be used to promote and generate activities capable of re-inventing the welfare state on foundations that can be generalized to the vast majority of the population'. But Arrighi et al. (2010: 434) warned:

These opportunities may not be taken advantage of and, even if they are, they may not result in the creation of new developmental opportunities in fields other than natural-resource-based production. They may, for example, be appropriated by foreign capital and never made available for use within the South African economy; or they may be squandered in expanding activities of little social or economic value; or they may be used to consolidate the exclusive welfare state inherited from apartheid for the benefit of a multiracial minority.

Unfortunately, in their view, the South African state ended up betting on capital, focusing its demands on Black Economic Empowerment, which meant making the capitalist elite more multiracial, rather than claiming a larger share of the windfall profits from the resource boom. Thereby, the state 'forfeited the kind of investments in the welfare of the population (housing, public transport, health and, above all, mass lower and higher education) that would have been key developmental objectives in themselves and may well be the most essential, though by no means sufficient, condition of renewed economic expansion' (Arrighi et al. 2010: 435).

These two complementary analyses, of Heller and Arrighi et al., focus the explanation of the South African state's failure to play a more effective role in capability expansion clearly on state-society relationships. On the one hand, the state has not enabled civil society to engage in the co-production of capability expansion. On the other hand, there is



a failure to challenge the prerogatives of capital and gain an increased share of the resource revenues for investment in capability expansion.

**The US and China: Two hegemons with faltering performance in capability expansion**

Over 40 years ago, the US and China looked like polar opposites: the richest and most powerful capitalist country on the globe on the one hand, and a poor socialist giant on the other. Over the course of four decades, China has become the epitome of economic dynamism as the US has suffered increasingly from bubbles followed by ever more severe economic contractions. Yet, curiously, both states have shared a relative decline in their ability to support capability expansion (masked, in China’s case, by rising individual incomes).

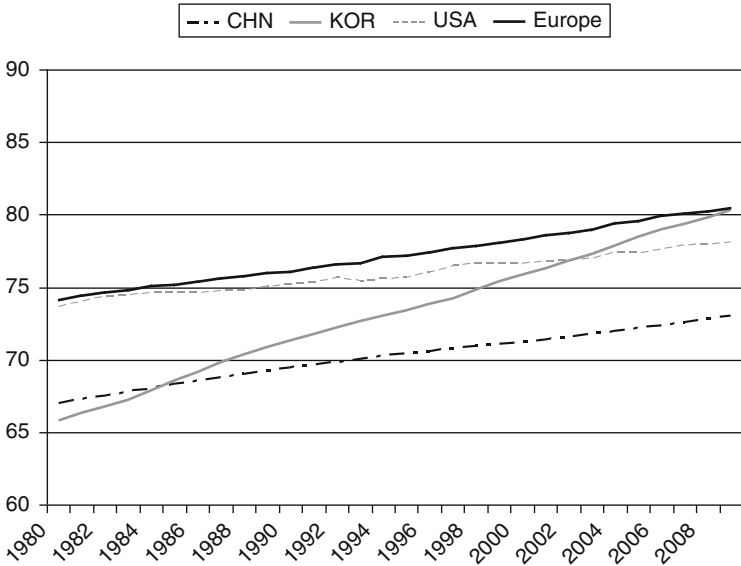


Figure 3.2 Comparative national trends in life expectancy during the neoliberal era: Evolution of life expectancy at birth, 1980–2010

Notes: <sup>a</sup> Indicates the average life expectancies for 12 European countries: Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom.

CHN = China

KOR = South Korea

Sources: Centers for Disease Control and Prevention (2013); WHO (2013); World Bank (2013a).

The data in Figure 3.1 show China and the US both experiencing increasing levels of inequality. The data in Figure 3.2 show the US, which had levels of life expectancy comparable to average European levels 30 years ago, gradually falling behind its European counterparts on this indicator over the course of the neoliberal era. Likewise, China, which enjoyed levels of life expectancy comparable to those in South Korea 30 years ago, despite its much lower levels of income, has fallen further behind South Korea over the course of the last three decades, despite its more rapid economic growth.

Table 3.1 shows a divergence in the performance of China and South Korea in terms of basic health indicators during the neoliberal era that is as dramatic as the divergence between Brazil and South Africa. Infant mortality trends provide one illustration. From 1960 to 1981, when China's performance in terms of income growth was significantly inferior to South Korea's, China outperformed South Korea in terms of reductions in infant mortality. The differences between South Korea and China from 1990 to 1999 offer a sharp contrast from 1960 to 1981. China fails to deliver further improvements in infant mortality in the latter period, despite spectacular rates of income growth. South Korea's performance in reducing infant mortality improves dramatically, despite lower rates of GDP growth.

*Table 3.1* Evolution of health indicators for China and South Korea, 1960–99

<b>Infant mortality rate (per 1,000 live births)</b>								
	1960	1981	1991 <sup>a</sup>	1999	<i>Annual rate of decline (% per year)</i>			
					1960–81	1981–91	1991–99	
China	150	37	31	30	6.7	2.0	0	
South Korea	85	33	23	8	4.5	3.6	13.2	
<b>Life expectancy at birth (years)</b>								
	1960	1981	1991 <sup>a</sup>	1999	<i>Pace of improvement (years per period)</i>			
					1960–81	1981–91	1991–99	
China	47.1	67.7	69.3	70	9.8	1.8	0.8	
South Korea	53.9	66	70	73	5.8	4.0	3.8	

Note: <sup>a</sup> 1990 for China.

Source: Drèze and Sen (2002: table 4.3).

China entered the neoliberal era with a level of performance on standard capability expansion variables that far exceeded its levels of individual income. Consistent with Boozier et al. (2003), China's early investments in capabilities provided a propitious foundation for world historical increases in income from the late 1970s to the present. Exceptional income growth during the neoliberal era, however, has not had a commensurate effect on capability expansion. While China's performance in terms of standard measures of capability expansion remains enviable, as Drèze and Sen (2002) pointed out, the rhythm of improvement in provision of key collective goods has slowed down with the transition to a more market-oriented approach. In areas like health care, where a poor China delivered a level of health performance that was extraordinary for a country at its level of income, current performance has become a source of concern (for example, Wang 2004).

Chinese society has also suffered from sharply rising income inequality and a withdrawal of prior social protections (Davis and Wang 2009). As Figure 3.1 shows, 'communist capitalism' has erased the exceptionally low levels of inequality and contributed relatively little to the high levels of social protection that had characterized China in the socialist period. China's trajectory in this respect stands in contrast to the Brazilian case. It is tempting to suggest a variation on the Heller (2011) thesis. In this case, it is hard to argue that civil society had the capacity for projecting itself into the state to shape policy during the socialist period. What has changed is not so much the overall political efficacy of civil society as a shift in the pattern of access to the state. During the communist capitalism period, a combination of foreign corporations and local private capitalist elite groups, which either did not exist or were considered political pariahs in the socialist period, became increasingly important to China's political economy. They gained increasing access to the party and the state at the national level and, equally important, at the local level, in the most economically dynamic regions of the country. It would be difficult to prove that this political shift accounts for the state's diminished priority on capability expansion, but it is certainly a hypothesis worth exploring.

Curiously, the declining hegemon – the US – has experienced a similar evolution during the neoliberal period. During its rise to hegemony in the first half of the twentieth century, the US amassed an admirable record in the provision of collective goods (Skocpol 1992), especially in the provision of mass education. Over the course of the neoliberal era, the US remained one of the world's wealthiest nations and retained its status as an unquestioned military superpower, but began to lag in its

ability to provide capability-enhancing collective goods. The inability of the most powerful country on earth to provide a universal system of public health care coverage became an embarrassment. In the 1970s, the rapid expansion of public education ground to a halt, leaving non-elite Americans unable to satisfy their educational aspirations!

The trajectory of the US in terms of inequality is even more striking. The now classic 2003 analysis by Piketty and Saez (2003) nicely captured the dramatic change in US inequality during the neoliberal era. The contrast between the evolution of income inequality during the Golden Age of embedded liberalism and the neoliberal era could hardly be more striking. The Golden Age continued the 'great compression' of US wage inequality that began prior to the Second World War (Goldin and Margo 1992). The neoliberal era reversed it, taking inequality back to levels not seen since the First World War.<sup>7</sup> Thus, Figure 3.1 shows that over the course of the neoliberal era, the US moved from being a relatively egalitarian country to being a relatively *inegalitarian* one, matching China's new inegalitarian social structure. If the trend toward increased inequality in the US were to continue into the future, it would raise the prospect of the US becoming more unequal than Brazil, a possibility that would have seemed like a science fiction story 40 years ago.

The negative social effects of rising inequality in the US are broad, variegated and well documented. The rising incidence of risk among the middle and working classes (Hacker 2006), and the erosion of social protection, may well be more profound and socially corrosive than the shifts of income inequality per se. Levine et al. (2010: 17) provided a nice quantitative analysis of the secondary effects of inequality. Comparing high and low inequality jurisdictions in the US, they found that high-inequality situations are associated with a tendency to live beyond one's means and, therefore, experience financial distress as measured by levels of bankruptcy. Their data also confirm the less obvious argument that 'financial distress may increase the level of stress in personal relationships thus increasing the likelihood of marriages ending in divorce'.

How do we explain the odd convergence of rising and declining hegemony in terms of their apparently diminished capacity to support capability expansion? Straightforward economic explanations do not help very much. Diminished US capacity to deliver capability-enhancing collective goods might be attributed to declining economic dynamism, but if income growth is the key to the performance of capability-enhancing policies, then China's trajectory makes no sense. Conversely, absolute levels of wealth are clearly not the issue. Both

countries did a relatively better job delivering collective goods when they were poorer—dramatically poorer in the case of China.

The almost complete contrast between political institutions in the two hegemons would seem to make Heller's (2011) thesis a bad candidate for explaining convergence as well. Nonetheless, an explanation centering on the shifting character of politics in the two countries may still make sense. A combination of Heller (2011) and Arrighi et al. (2010), similar to that used in the case of South Africa in explaining the relative downgrading of the priority of capability expansion in China, offers a provocative candidate for explaining convergence.

In the case of China, I have argued that the most obvious political shift over the course of the last 40 years has been the increased access of capital to the party-state. The evidence for a parallel shift during the same period in the US is even more compelling. An ideologically diverse set of analysts, ranging from Marxists like Harvey (2005) to dissenting economists like Simon Johnson (2009) to political scientists like Hacker and Pierson (2010) and Pierson and Hacker (2010) agrees that the increasing political power of corporate capital, especially finance capital, has constituted a fundamental shift in the structure of US politics—with profound consequences for policy and, hence, for American society. Simon Johnson (2009) put it most starkly, asserting that 'the finance industry has effectively captured our government'. The shift from the immediate post-Second World War period, during which labor and other non-elite civil society groups could hope to compete with capital's ability to project itself into the state to shape policy is clear-cut. The connection between this shift and state policy, especially in the case of the policies that have generated increasing inequality, but also in the case of diminished capacity to deliver collective goods, is not hard to draw.

While the rising and declining hegemons may have converged in terms of diminished emphasis on capability expansion, continued convergence seems less likely as a prospect for the future. Current US politics make low growth (or worse) seem almost inevitable as a future economic trajectory, and the same politics make reversal of the negative effects of the neoliberal era seem very unlikely. China, on the other hand, has proved itself resilient in the face of the crisis that is rocking the US and Europe, and its continued economic dynamism will give it more policy flexibility. In addition, there appears to be increased awareness of the negative consequences of not paying attention to social protection on the part of political elites. Whether this portends a real political shift is unclear, but if China were to decide to modify its approach to social protection and try to reverse current inequality

trends, it might find that it could learn a great deal from the recent evolution of its small but dynamic northeast Asian neighbors.

### **South Korea and Taiwan as capability-enhancing states**

Studies of the archetypal twentieth-century developmental states, South Korea and Taiwan, agreed overwhelmingly that the state was one of the institutional keystones of their remarkable success. The capacities exhibited in these successful cases of industrial transformation have been well specified, with the coherence and quality of the bureaucratic apparatus taking pride of place along with the ability to create dense ties to industrial elites.

The centrality of capability expansion to the success of the East Asian Tigers has taken a back seat in the literature on the East Asian developmental state, and deserves more attention. In fact, even during their initial drives for industrial transformation, these states were pioneers in capability expansion, renowned for their levels of investment in human capital. They began their periods of accelerated economic growth with education levels that made them outliers for countries at their income levels and continued to invest massively in the expansion of education throughout the period of their rapid expansion.

If we refocus on these states in the final decades of the twentieth century and the first decade of the twenty-first century, the centrality of capability expansion to their development strategies becomes more explicit. As both South Korea and Taiwan moved toward democratization in the 1980s, these states began a notable expansion of social protection.<sup>8</sup> In South Korea and Taiwan, the last quarter-century has been a period of sociopolitical transformation that looks like an effort to construct a twenty-first-century Asian version of the post-Second World War Golden Age. Siddiqi and Hertzman (2001: 331) summed up the lessons of the Asian Tigers as: 'The Tiger economies of Southeast Asia seem to be an example of economic growth and increasing parity in income distribution occurring together over time, concurrent with a dramatic improvement in population health'. Between 1985 and 1995, state expenditures as a percentage of GDP increased by 25 percent in South Korea and over 30 percent in Taiwan, largely because of increased welfare programs.

The performance of these states in terms of capability expansion is nicely summed up in Figures 3.1 and 3.2. In Figure 3.1, South Korea and Taiwan stand out in terms of their ability to preserve low levels of inequality.<sup>9</sup> South Korea is particularly impressive in that, in contrast to China, it has managed to combine growth with falling inequality. Figure 3.2 does not include Taiwan, but South Korea's capability

expansion performance is even more striking. Starting in the 1980s with levels of life expectancy comparable to China's, South Korea ends up at the close of the first decade of the new millennium with levels comparable to the European Union and higher than the US.

Does the exceptional performance in terms of capability expansion in South Korea and Taiwan lend itself to the kind of explanation that has been offered in the prior sets of cases? At first glance, an explanation that focuses on effective engagement of civil society might seem implausible. While both countries have consolidated democracies with power being transferred via electoral contestation, most characterizations of the political systems of these countries would not feature the kind of 'relatively autonomous civil society that can effectively engage the state' or 'clear instances of civil society projecting itself into the state to shape policy' that Heller (2011) invoked in the case of Brazil.<sup>10</sup>

While arguments for the importance of state–society ties in the capability performance of South Korea and Taiwan must be considered unproven, they should not be dismissed out of hand. Wong (2004) chronicled the shift toward greater public expenditures on health and argued for a strong connection between extension of welfare spending and democratization. Three-fourths of Wong's elite respondents in the two countries endorsed the statement: 'In Taiwan/Korea, there would be no improvement in social welfare without transition to democracy'. McGuire (2010: 300) noted that a network of 'progressive doctors, academics and former democracy advocates lobbied successfully for the introduction of single-payer national health insurance' in South Korea in the early 1990s. Dostal (2010: 165) highlighted 'democratization and political mobilization' as the most significant factors in expanding social provision in both South Korea and Taiwan.

The cases of South Korea and Taiwan are an intriguing addition to the comparative analysis of capability expansion. They may well be consistent with the state–society hypothesis that has been put forward in the analysis of the other cases but, in so far as they are, it underlines how little we really know about how state–society relationships work in these countries, and how far we have to go before we can claim to understand the society-specific dynamics of the relationship between capability expansion and state–society relationships.

## **Conclusion**

This chapter offers two kinds of argumentation: conceptual and comparative historical. The conceptual analysis presented in the first section

builds on my earlier work on the twenty-first-century developmental state (Evans 2008, 2010a,b) and focuses on the central importance of transforming state–society relationships if the state is to play an effective role in promoting development as capability expansion. At the same time, the conceptual discussion underlines the primitive state of our empirical indicators of capability expansion. The comparative-historical analysis presented in the second section complements the conceptual argument. It uses crude indicators of capability expansion to make some provocative arguments about the role of state–society relationships in creating effective state action.

The comparative analysis started with Heller (2011) in order to make the argument that Brazil's greater success at capability expansion relative to South Africa was rooted in more effective engagement with civil society in Brazil. This argument was complemented by the critique of the South African state's failure to gain control of more of the new resource rents and invest them in capability expansion made by Arrighi et al. (2010). The argument that the effectiveness of the state in promoting capability expansion depends on a combination of the states' ties to civil society in general and its ties to capital in particular was then used to explain the apparently declining ability of the two hegemons – China and the US – to promote capability expansion.

The comparative analysis then turned to the intriguing cases of South Korea and Taiwan. The exceptional performance of these states in terms of capability expansion appears incontrovertible, but the explanation for this performance is anything but clear. A number of analysts argue that state–society relationships play a crucial role, but exactly what distinguishes these countries from other, less successful, countries in terms of the configuration of state–society relationships is not clear. While there is a substantial body of empirical research available on both South Korea and Taiwan, analyses of the role of these states in capability expansion still lack the kind of detailed vision of institutional forms and political process that were amassed over three decades of investigation of the role of the East Asian developmental state in promoting industrial transformation. This lack is frustrating, but it is also a challenge and an opportunity.

What do we need to know in order to build a compelling theory of the capability-expanding state? First, we need to know more about the mechanisms and consequences of effective delivery of capability-expanding services. In the case of industrial transformation, gross measures of output and GDP growth were complemented by detailed institutional analysis of state policies and business responses. To analyze



the role of the state in capability expansion, a similar combination of general measures and detailed institutional analysis is necessary.

How can we best assess the ability of numerous constituencies, many of them relatively unorganized, to (to paraphrase Heller) 'project civil society into the state to shape policy'? For the state to play an effective role in capability expansion, civil society constituencies must have the capacity to ensure that state actions respond to collective preferences. Conventional electoral processes may play some role, but securing responsiveness from the state is also likely to involve a combination of networks within civil society as well as networks connecting civil society to state actors. The predispositions and receptiveness of state managers, policy makers and even lower-level employees within state agencies are also likely to be crucial.

A full-blown example of the twenty-first-century capability-enhancing developmental state has yet to be realized in practice and we are far from understanding promising examples of partial realization, like South Korea. The one thing that is incontrovertible in these results is that South Korea (and Taiwan), which were arguably the most interesting sites for research on the developmental state as an instrument of industrial transformation 40 years ago, are equally interesting cases for the analysis of the developmental state as an instrument of capability expansion today. The expansion of research on the politics of capability expansion in potential sites for the emergence of capability-enhancing developmental states, such as South Korea, must become a research priority.

## Notes

1. In UN parlance, this is 'Taiwan Province of China', but I have used the shorter, indigenous nomenclature here.
2. The 'new growth theory' as put forward by theorists such as Lucas (1988) and Romer (1986) built on early work by Solow (1956) and has been subsequently developed by a range of economists such as Aghion and Howitt (1998) and Helpman (2004).
3. See Ranis and Stewart (2000), Boozer et al. (2003) and Ranis and Stewart (2006).
4. See Wilkinson (2005), Hacker (2006) and Zuberi (2006).
5. Another recent paper by Kudamatsu (2007: 34) found that even in sub-Saharan Africa, where most assume that the implantation of electoral democracy has had little developmental payoff, 'democratization has reduced infant mortality'.
6. It is tempting to point to the devastating effects of AIDS in South Africa as a simple explanation for the divergence; however, the divergent trajectory

of AIDS in the two countries is endogenous to differences in political institutions. Brazil's greater effectiveness at dealing with AIDS is in itself a result of very different relationships between civil society groups affected by AIDS and the state and, consequently, sharp differences in policy responses (for example, Gauri and Lieberman 2006).

7. It should be underlined that the contrast between the two periods involves no 'growth-inequality trade-off'. US citizens were not compensated for getting a smaller share of the pie by being able to enjoy a faster growing pie. To the contrary, the pie grew more slowly, while the rich took a bigger share.
8. Wong (2004); Peng and Wong (2008); Dostal (2010); McGuire (2010).
9. There are, of course, countries that have consistency achieved even lower levels of inequality, with the Nordic countries being the prime examples, but in the set of countries considered here South Korea and Taiwan stand out.
10. See, for example, Liu (2008) on the difficulties of the labor and environmental movements in dealing with the state in Taiwan and South Korea.

# 4

## Securing the Home Market: A New Approach to Korean Development

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### **Introduction**

Since the eclipse of neoliberalism in the late 1990s, the developing world's industrial policies have begun to be rediscovered as something 'new'. There is, in fact, always something new about an industrial policy because it has no deductive theory to fix it analytically. Unlike a free trade policy, for example, an industrial policy cannot be defined abstractly with predetermined assumptions; its mix alters with new users, applications, constraints and policy tools, whereas the free trade model stays stationary through time and space. To capture the essence of an industrial policy (in both the short and long run), it must be examined empirically, as in the decolonized world, through the eyes of the great role models that have used it intensively, one for manufacturing – the East Asian role model – and one for natural resources – the Organization of the Petroleum Exporting Countries (OPEC) developmental role model. From the vantage point of market theory, industrial policies correct market failures. From the viewpoint of the decolonized generation's role models, they secure the home market on the road toward overseas expansion; they are fundamentally nationalistic and vary by country, starting with the overhaul of foreign property rights – for example, the nationalization of foreign oil concessions in the Middle East, seizure of Japanese overseas investments in the Far East, velvet privatization in Brazil and appropriation of German properties in post-colonial Europe. The developmental state that an industrial policy serves may be authoritarian, discounting individualism – after decolonization, electoral politics were absent in every developing country except Costa Rica and India – but inherently nationalistic; practically, democracy must be assessed by the degree to which a population is satisfied to

be living under a specific national state, not the degree to which specific leaders of that state are popularly elected.

The otherness of the economies operating under great inductive role models was noted at the elitist Bilderberg Conference held in 1996 in Toronto. 'If the present is any guide to the future, East Asia may contribute over 50 percent of the growth in the world economy without having become fully part of the institutions that undergird the current international economic order... This order was crafted over the past half-century of Euro-American global dominance. It is now increasingly unsettled by the rise of China and other East Asian economies' (Freeman 1993: 403–8) and, I would add, by Middle Eastern and some Latin American countries.

Nationalism is a concept altogether absent in market theory that neglects place and history and the spiritual principle of a particular view toward a shared history, taken as an essential quality of nationalism (Renan 1990). While market theorists claim that industrial policies have mellowed over time, becoming more market friendly, the developing world's role models, and the demi-monde in which they maneuver to escape the effects of World Trade Organization (WTO) law, suggest that their nationalism has simply evolved. Continuity also characterizes the developmental state, which is now oriented toward laying the groundwork for a technology-based economy and buffing up the performance of small and especially medium-sized firms, rather than building heavy industries. In the first stages of industrialization, securing the home market is the crux of a nationalist industrial policy – resource nationalism in the Middle East, statism in the Far East, and in Latin America, especially Brazil. One aspect of nationalism, the ownership of corporate assets, has been an issue of industrial policy since the decolonized generation's independence movements. For at least seven reasons, economic development now depends more than ever on national ownership of productive assets, private or public, which has kept industrial policy alive. Ownership is defined by equity share and corporate control. Without private or public nationally owned enterprises to secure the home market, then: (i) outward foreign direct investment (OFDI) is unfeasible (a foreign firm cannot undertake a foreign investment on behalf of another country) (Sauvant 2011); (ii) supplying outsourcing services to developed countries is dysfunctional (outsourcers, by definition, look overseas for a national firm to undertake their production); (iii) establishing brand names is impossible (a brand name is company-specific, and a company originates in a given country, making a brand name also specific to a country); (iv) dislodging a foreign

*Table 4.1* R&D expenditure as a percentage of GDP

Country	1990	1995	2000	2004
Brazil	n.a.	0.87	1.01	0.91
Chile	n.a.	n.a.	n.a.	0.67
China <sup>a</sup>	n.a.	0.57	0.9	1.13
India	0.70	0.63	0.77	0.71
South Korea	n.a.	2.37	2.39	2.85
Mexico	n.a.	0.31	0.37	0.47
Taiwan	n.a.	1.81	1.97	2.38
Turkey	0.32	0.38	0.64	0.67
France	2.32	2.29	3.34	2.15
Russian Federation	2.03	0.85	1.05	1.28
United Kingdom	2.15	1.95	1.86	1.73
US	2.65	2.51	2.74	2.59
Japan	2.81	2.71	3.04	3.17

Notes: <sup>a</sup> Before 2000, only large and medium-sized enterprises were included.  
n.a. indicates data not available.

Source: OECD (2008c).

legacy position in a natural resource industry is undoable (to supplant a foreign concession, a domestic firm is required); (v) reversing the brain drain of top national talent is more difficult (a glass ceiling may obstruct nationals from reaching the position of chief executive officer [CEO] if a company is foreign owned, hence the yellow glass ceiling for Asians, the black glass ceiling for Africans and the coffee glass ceiling for Brazilians); (vi) the illegality of local content rules under WTO law is binding (while foreign-owned enterprises [FOEs] cannot be subjected to local content regulations, state-owned enterprises [SOEs] can, and private national enterprises have more incentive to build their own local supply chains); and (vii) foreign firms conduct almost no research and development (R&D) in the decolonized world, except in large markets such as China, where new products are developed and produced so competing in high-tech industries will be more difficult – for different rates across countries in R&D as a share of income (see Table 4.1); Mexico, with one of the highest rates of foreign direct investment (FDI), has one of the lowest rates of R&D.

According to a Korean study of China's industrial policy:

There is a widespread consensus that in order for China's industrial structure to advance from its focus on assembly and manufacturing to a more technology-oriented industry, it is important to acquire

independently developed technologies and brands. The leaders in such technology innovation must be Chinese companies (Lee 2006).

The emergence of Chinese companies, moreover, was influenced by extensive experimentation in policymaking. 'China's experience attests to the potency of experimentation in bringing about transformative change (in contradistinction to abstract market models), even in a rigid authoritarian, bureaucratic environment. Large-scale experimentation stimulated policy learning and economic expansion' (Heilman 2008: 1–30). In India, too, policy changes are needed 'to encourage fabless semiconductor companies, which also would result in intellectual property creation and ownership, both of which are a must for a stronger India' (Subramaniam 2012).

The benefits of attracting FDI in the oligopolistic industries of emerging economies must be carefully compared with the real alternative of actively abetting nationally owned substitutes by encouraging diversification of existing companies or establishing greenfield start-ups. In the past, the benefits of FDI were supposed to become evident simply by comparing the alternative of no FDI, but today this comparison is inadequate (Moran et al. 2005). The national/international comparison is all the more important since FDI in the 1990s boomed under favorable neoliberal policies. Foreign-owned enterprises (FOEs) should always be warmly welcomed in competitive industries because with no entry barriers they cannot crowd out national enterprises – whether privately owned enterprises (POEs) or SOEs (Amsden 2009). But in oligopolistic industries, where markets are imperfect and experienced international firms can crowd out aspiring national firms before they have accumulated enough experience to compete, a policy choice must be made between the two. In India, the state continues to put limits on foreign investment even as it liberalizes Indian industries. Non-tariff barriers are still common in several areas such as cars, fruit, meat, vegetable oils and other agricultural products.<sup>2</sup> There are still FDI caps on strategic sectors (The Economist 2005). Though the state implemented measures meant to make the environment more attractive to investors, such as establishing a securities and exchange commission (Khanna and Palepu 2004), limits on sectors signal India's continuing ambivalence toward FDI (Bajpai and Sachs 2000). The same is true of members of the Far East manufacturing role model and the resource nationalism of the Middle East role model.

Given substitution between FOEs and POEs, the methodologies to measure productivity spillovers from FDI must also be re-examined. In

China, using new data and methodologies, the productivity spillovers of its foreign investment have been found to be nil, although this discovery is not necessarily generalizable (Hale and Long 2011). At the same time as the importance of national ownership has increased, inflows into select emerging economies of FDI have risen sharply. China and India rank first and second in attracting global FDI (although China has expressed increasing doubts about international joint ventures on the grounds that little in the way of foreign technology is acquired in exchange for access to China's vast domestic market) (Nam 2010). As much as 60 to 70 percent of China's FDI comes from Chinese-owned firms. In Brazil, between 1980 and 1995, foreign companies increased their share of total output phenomenally, from 33 to 72 percent in the computer industry, from 30 to 57 percent in the electrical machinery industry, and from 41 to 64 percent in the chemical industry. The banking sector was sharply internationalized. The rivalry between FOEs and POEs poses a major challenge to the 'new' industrial policy in R&D-intensive businesses. In poorer countries, no conflict exists: there are insufficient FOEs *and* POEs; both should be sought and supported. Different policies from those in emerging economies are utilized to industrialize, mainly tariff protection, in the range of 20–50 percent. New industrial policy is challenged because FOEs scarcely undertake local R&D, whether operating in South Korea or Taiwan (where foreign R&D is around 1 percent of total R&D) (National Bureau of Statistics of China 2010), Brazil or Turkey (in Brazil, Mecca of the multinational, the government undertakes more R&D than the private sector, and an estimated 70 percent of business R&D is performed by public enterprises).<sup>3</sup> Multinational companies (MNCs) tend to keep their new product development close to corporate headquarters, as Vernon's (1966) product cycle theory predicts, and even if subparts of product development are out-sourced to lower-wage countries, their depth and breadth are nowhere near what occurs at corporate headquarters, as measured by R&D expenditures (Amsden and Chu 2003). Yet, industrial policies in emerging economies aim to increase output and employment in industries with high international competitiveness and R&D content such as electronics, chemicals, pharmaceuticals, machinery and automobiles (Amsden 2001). If R&D-intensive industries are dominated by FDI, and FDI does no R&D, then the challenge of industrial policy is greater than ever.

Making the journey to the world frontier even more vexatious in high-tech industries, the private sector in the developing world remains weak. After colonies won their struggle for national independence,

they began the even harder struggle to win their 'economic' independence, or what we call 'securing the home market'. The colonial system discouraged manufacturing activity. Its color bar discriminated against hiring local professionals, and comparable conditions existed in Latin America – Brazil's earliest computer companies, IBM and Burroughs, relegated local talent to low-skilled jobs (Langer 1989). The result was a perception of riskiness on the part of POEs in competing against FOEs; it was easier to collaborate with them as junior partners than to compete against them as equals. If big business preceded big government in the United States of America (USA), the reverse sequence has characterized the developing world (Chandler 1980). Industrial policies are distinct between the North and South if only because of this sequencing difference, which lies at the root of a different property rights regime. This may be illustrated with what was once a new technology: photonics. At the same time that American government laboratories were doing advanced research on photonics, the USA had:

thousands of companies using photonics as their main technology. California, Massachusetts, New York, New Jersey, Colorado and Florida are home to hundreds of organizations and companies that can deliver complete R&D, engineering and manufacturing capabilities using photonics. These companies consist of a diverse array of large and small companies that serve the aerospace, telecommunications, health care, homeland security and defense, testing and measuring, storage, and semiconductor industries. ... All these are part of a national system of innovation that was contemplated with investments in education, and partnerships with government and companies that has resulted in a virtuous circle of economic and technological development. (Pereira and Plonski 2009: 456)

In a country such as Brazil or South Korea, if it were trying to commercialize phototonics, nothing remotely resembling these thousands of companies would exist. In Turkey, which qualified for Marshall Plan aid, when the European Cooperation Agency (ECA) 'set out to modernize the Turkish economy, it aimed at making state agencies into regulatory bodies that would ensure harmony among social classes'. But 'given the lack of autonomous interest groups (entrepreneurs and a working class), it first had to foster private capital accumulation and labor unions' (Keskin Kozat 2006: 2). In the US, by contrast, the government stepped in with investment and enterprise to fill needs



for infrastructure, mainly in transport and banking; but when development enhanced the resources of the private sector, so that private entrepreneurial sources of investment were available as needed, a 'state out' policy was substituted and opportunities were left to the private investors and firms (Scheiber 1987).

In the decolonized world, securing the home market has aimed in the 2000s to strengthen complex national systems of production, as FOEs enter high-tech industries but undertake little R&D. Where successful, import substitution in oligopolistic industries has parented export-led growth; in large numbers, POEs have moved from serving the home market to exporting overseas (Amsden 2009). Simultaneously, OFDI by nationally owned enterprises, a novel frontier for industrial policy, has become a new form of expansion, diversification and technology acquisition. The China Investment Corporation, for example, bought a 14.5 percent stake in a trading firm. China 'sees an opportunity to improve China Inc.'s understanding of how global commodity markets work. There is lots of pent-up demand for such experience in China, and that's enough of a reason to invest in an Asia-based commodities broker' (Kaufman 2009). Local suppliers to Trinidad's oil and gas sector lack scale, so local content policies now include public support to help suppliers expand overseas (Mottley 2008). Saudi Arabia's state-owned petrochemical arm bought General Electric's Plastic Division in 2007 and acquired a China-based chemical plant overnight, with an R&D department attached. Malaysia's ethnic Bumpitura majority, no longer subsidized to form its own small companies at home, is being offered equity shares in foreign multinationals acquired by the Malaysian government (Shari 2009). In the Russian Federation, OFDI often surprises outside observers by its landmark deals. One of them was the purchase in September 2009 of a 55 percent stake in General Motors' German affiliate Opel by a consortium of the Canadian carmaker Magna and the Russian state-owned bank Sberbank. With this deal, the Russian Federation has bought into the industrial heartland of the world economy and could potentially access more advanced technology (Panibratov and Kalotay 2009). The outward expansion of Brazil's companies has received government financial support, including targeted credit lines, to strengthen technological capabilities (UNCTADSTAT 2010). The form of nationalism exhibited by industrial policies today is different from that exhibited in the past, so industrial policies themselves are different.

Externally, industrial policy is operating under conditions of more intense global competition and, simultaneously, a more competitive

supply of investment capital. As Table 4.2 shows, in a broad range of industries emerging economies now compete with each other neck-and-neck; Brazil, the Russian Federation, India and China (BRICs) are engaged in full-set competition, covering virtually all modern industrial sectors. Each of the BRICs accounts for a significant share of almost every industry, measured at the three-digit level. Because of the success of each country (including South Korea), it can be said that monopolistic practices to secure the home market in the early stages of industrialization have given rise to intense competition. A new regime of competitors has created more economic opportunities for still less developed countries, suggesting a dynamic process at play – if Angola’s national oil company (NOC) needs to expand, it no longer has to accept the conditions imposed by the Seven Sisters; it has recently formed a collaboration with the NOCs of Iran and Malaysia. Competition to develop Mongolia’s coalfields involves bids from Brazil’s mining giant Vale, India’s ArcelorMittal, a joint venture between Chinese and Japanese companies, and a consortium between Japan, South Korea and the Russian Federation. More competitors have also signified more customers. Brazil’s former chair of Vale made the storied comment that he prays daily for China’s health because China has doubled its demand for Vale’s iron ore (Kosich 2010). China’s impact on world markets is conveyed by the headline ‘Copper falls as China cools’ (Desai 2011). More intense competition and a greater supply of investment capital have driven industrial policy to look further afield for investment opportunities than established high-tech industries, where competition is brutal from the East Asian manufacturing corridor. There is a search for new opportunities based on geographical advantages and local capabilities – Brazil’s environmentally friendly Amazon projects are exemplary (BNDES 2010). There is a recombination of elements to reach innovative solutions. In the Korean telecommunications sector, core features of the Korean model have been recombined in creative and unanticipated ways to meet the twin challenges of economic openness and knowledge-based industrialization. The chosen industries to invest in depend on the ‘knowledge of a business’ embodied in the investor (an established national company or an individual returning from overseas), not in the perceived factor proportions of the investment itself. The know-how of an existing company is what determines the choice of a new business opportunity, not the comparative advantage inherent in the industry in which that opportunity falls. The large-scale project may succeed or fail (as Pakistan’s multi-billion dollar free port of Gwador has failed) depending on the broad knowledge of a business of a country’s elite, involving both industrialists and government officials.

Table 4.2 BRICs' share of total world output (percent), rank in developing country output by industry, 2007

Industry	Brazil		Russian Federation <sup>a</sup>		India		China	
	%	Rank	%	Rank	%	Rank	%	Rank
	<i>world</i> <sup>b</sup>	<i>devl.</i> <sup>c</sup>	<i>world</i>	<i>devl.</i>	<i>world</i>	<i>devl.</i>	<i>world</i>	<i>devl.</i>
Textiles	2.1	5	<	-	4.2	2	36.7	1
Apparel	2.0	4	<	-	<	-	28.7	1
Leather and footwear	2.2	6	<	-	2.0	7	39.1	1
Wood	3.7	2	<	-	<	-	12.5	1
Paper and products	2.1	2	1.5	-	<	5	12.9	1
Petroleum products	6.0	2	<	-	1.8	6	15.7	1
Chemicals	1.9	3	<	-	3.5	2	12.5	1
Rubber and plastic	2.2	2	<	-	1.4	5	18.3	1
Non-metallic mineral products	2.5	2	2.2	-	2.1	4	16.1	1
Basic metals	1.3	4	2.3	-	2.9	2	36.3	1
Fabricating metal products	2.4	2	<	-	<	6	9.4	1
Machinery	1.6	2	1.5	-	1.4	3	15.9	1

Computing machinery	1.1	3	<	-	0.3	8	3.2	2
Electrical machinery	2.0	3	0.8	-	3.1	2	30.8	1
Communication machinery	1.9	4	<	-	0.7	9	7.2	1
Medical and precision	2.4	2	4.4	-	<	4	5.1	2
Motor vehicles	1.5	4	<	-	1.6	3	-	11
Other transport	6.7	2	1.0	-	2.4	3	35.9	1

*Notes:*

<sup>a</sup> Not in the developing world.

<sup>b</sup> Share (%) of total world output (100%).

<sup>c</sup> Rank of share in developing (devl.) country output.

< indicates lower output than the top 15 or so countries.

- indicates data not applicable in the case of the Russian Federation; data not available in the other columns.

Example: In the case of textiles, Brazil's share in total world output = 2.1%. Brazil ranks fifth among the output of textiles produced by developing countries.

Source: UNIDO (2009).

Competition among the BRICs (Table 4.2), reveals the enormous lead of China vis-à-vis the rest, Brazil, India and the Russian Federation included (as well as South Korea, the BRICKs). China's world market share is huge in most industries, and its rank among developing countries is almost always first. China is both a competitor to developing country manufacturers and a buyer of their output and supplier of their capital needs. Brazil and India may rank second in market share in the developing world, but it is a second that is far behind China's first. Although market economists regard the import substitution history of both Brazil and India as failures, both countries are close to the top in the developing world in a wide range of industries. Therefore, we can see the BRICs less as a role model unto themselves, even though all have large public sectors and share other characteristics and, instead, regard them as regional leaders, with China strengthening the East Asian role model, Brazil building an original role model in Latin America, and India and the Russian Federation leading manufacturing in a wide swath of land running north-south from South Asia to northern Europe.

Ironically, intense global competition has converged on a new level playing field, one that operates underground; there is less rather than more transparency in the new industrial policy compared to that of the 1990s, when the WTO and the North American Free Trade Agreement (NAFTA) were first founded. The subterranean level playing field that now exists is paved with subterfuges that *all* countries, emerged and emerging, employ to evade the liberal intent of WTO law. The new nationalism has a great advantage over the old one. Before, new firms and industries were supported by protective tariffs, a race to the bottom. Now, with the banishment of protection by the WTO (except in the poorest countries), new firms and industries are subsidized using science and technology, the high road. To secure the home market under WTO domination, then, what are the actual policies that the world's role models are mastering?

## **Nationalism**

The industrial policies of the decolonized generation are drenched in nationalism, aiming to secure the home market by engaging the state, POEs, SOEs, resource nationalism and the right to formulate national measures to enhance technological capabilities and economic growth (policy rights).<sup>4</sup> The importance of policy rights over human rights half

a century after decolonization is hinted at in a popular survey in North Africa conducted by the news service Magharabia.com in 2011:

Poll question: Is sovereignty more important than human rights?

Yes	4,027	(49.1 percent)
No	3,819	(46.5 percent)
I don't know	360	(4.4 percent)
Total responses:	8,207	

Although responses would probably differ by region, the issue of sovereignty in the decolonized world remains supreme. After waging national movements for political independence, securing the home market became industrial policy's overriding objective. But by the mid-twentieth century, the word 'nationalism' carried a harshly negative connotation maligned by the carnage it had created in Germany, Italy and Japan. Still, the nationalism of the Axis powers is fundamentally different from that of the decolonized generation, notwithstanding Japan's formation among its neighbors of the Greater East Asia Co-Prosperity Sphere. German, Italian and Japanese nationalism was based on ruthless unification at home and aggressive expansionism abroad. That of the decolonized generation is based on political disunity at home, the reality and vulnerability to economic interference *from* abroad. National disunity was inherited from colonial rule, which left open the door to post-independence foreign intervention, if not military then financial and political, not least of all foreign constraints on the freedom of the decolonized generation to formulate its own industrial policies. Because the rich write history, the twentieth century's negativism toward nationalism has strengthened the universalist idea of a level playing field and identical economic policies for the North and the South, rich country and poor country alike. Although nationalism differs between rich and poor, this makes no difference for policy universalism in the minds of developed countries. By assumption, in Enlightenment thinking, one policy fits all: market policies themselves are supposed to be neutral with respect to the level of a country's wealth. The philosophical defense of nationalism among colonized people, their right to a nation-state, was provided by Edmund Burke with India in mind; and Mahatma Gandhi supplied the definition of civilization that made colonial nationalism defensible. While British liberals defined civilization in terms of a stage in development, a definition that justified colonialism by rationalizing the need for a more developed economy to cradle civilization in a less developed one (this was even true of the great economist

John Stuart Mill), Gandhi defined civilization in terms of moral behavior: according to this definition, the simplest economy is as capable of being civilized as the most complex one (Gandhi 1997). Morally, poorer countries should be allowed to choose the policies that suit them best, and to be considered intelligent enough to decide what is suitable; this morality is as valid as that of equality among nations competing in markets, the justification for universalism and internationalism.

For Burke, 'the British were insistent on denying the fact that India had a history of its own', one with society and social order. By contrast, orientalism (the depiction of eastern cultures by western commentators) held that India was all state and no society, despotic and doomed to decay (Mehta 1999: 184). Today, orientalism takes the form of demonizing the Middle East's Muslims. In the Far East, it takes the form of 'China bashing' and before that 'Japan bashing'. In the 1990s, while experts acknowledged East Asia's high-performing growth, it was attributed to 'market-friendly policies' rather than to a nationalist role model (World Bank 1993). In the 2000s, despite highly positive outcomes of industrial policies in the BRICs, South Korea, Singapore and Taiwan, internationalists ceaselessly criticized government economic intervention and attributed positive economic outcomes to non-intervention (Pack and Saggi 2006). Privatization is a strident battle cry. Given India's own place and shared history, Burke argued that it deserved the freedom of self-government to choose its own economic policies, or what could be called 'policy rights', analogous to an individual's human rights. But Burke's argument for political freedoms, last espoused in 1795, was not to be realized for more than 150 years. The argument that a nation should enjoy the liberty to choose its own economic policies has still not been accepted by the market mavens of the Enlightenment. Only the individual enjoys inalienable economic rights. The nation remains conceptually outside the market framework and natural law, never attaining par with the single economic agent. The decolonized generation's nationalism exists in reality, not in theory. Nor is there a compelling motive among nationalists to formalize such a theory. The incentive is strong to avoid reprisal and avert the Enlightenment's eye. 'Hide brilliance, cherish obscurity', as China's leader Deng Xiaoping is reputed as having said.

In India, the public sector remains an important policy instrument despite liberalization and the fact that it is no longer seen as an engine of growth. India's public sector is expanding well beyond those industries that provide public goods to non-traditional areas. Privatization has been limited mainly to loss-making enterprises even though India's

ten biggest companies remain state owned (The Economist 2004). In December 2006, the government signalled its continuing lack of interest in privatizing key SOEs although, uncomprehendingly, it sold its share in Maruti, a highly profitable automobile joint venture with Suzuki Motors. Similarly, in Brazil, the state-owned development bank (BNDES) not only preserved, but also actually expanded its position in the domestic credit market from 1990 to 2006, despite the financial-liberalization policy that was implemented in that period (Hermann 2010).

Given defeat in the marketplace of ideas, the conventional wisdom is that of a liberal economic order whereas reality is otherwise: How has the South's economic nationalism managed to survive given the omnivore of the Enlightenment? From the 1950s through the 1970s, the economic development of the South was of no threat to the North, and thus its unorthodox policies were tolerated, if only barely. Indifference from the North was comparable to what Japan enjoyed after its opening by American gunboats in 1868. Japan avoided being colonized by the US as post-Civil War Reconstruction diverted speculators' attention to business opportunities in Dixie away from plundering Japan (Norman 1940). Following the Second World War, American investors had their eye on Canada (their best trading partner and locus for FDI) and Europe (soon to become a wealthy free trade zone). Negotiations in Washington were focused on reducing trade barriers in the Global North, not the impoverished South (which took only one-quarter of US exports). As former US President Richard Nixon said regarding Latin America, 'nobody gave a damn'.

By the mid-1980s, as Japan became an economic threat to the US, as OPEC jeopardized America's oil supply and Latin America's debt crisis endangered economic stability, Washington promulgated a new international economic order. In the mid-1990s, it ushered in global organizations (for example, WTO and NAFTA) and liberal rules to universalize market policies. Still, a fundamental contradiction in the North's liberalism helped the South's nationalism survive. As a point of principle since the Truman Administration, the US does not lend on subsidized terms to any foreign *private* investor (nor allow any multilateral bank of which the US is a member to lend on such terms), on the chance that such a loan might undermine the profitability of an American private investor, or deny a private US lender the chance to handle such a business transaction (although the North's private lenders typically also only lent to the South's governments, which could promise a sovereign repayment guarantee; there was no credit market for private Southern borrowers until the 1990s). The principle of governments lending only



to other governments, strictly implemented to this day, strengthens nationalism. The South's governments are conduits for foreign aid and loans, which they then on-lend to hand-picked private and public borrowers on stipulated terms.

It is a fact that foreign loans to the South typically have stringent policy conditions attached, and on-lending by the South's governments to its private sector also carries conditional performance standards, which help make credit allocation efficient (Amsden 2001). Yet the WTO prohibits nations to attach conditions to FDI. Empirically, it is claimed that 'developing countries can serve their interests best through vigorous trade and investment liberalization and by turning away from the suggestion by some of their members that performance requirements (such as mandatory joint ventures, technology sharing obligations and domestic-content targets) should regain legitimacy in the World Trade Organization' (Birdsall et al. 2005: 136–52). But there is plenty of counter-evidence, and it is supported by theory (local content regulations, by their very nature, tend to raise quality and productivity), as discussed in the next section. The developing world defeated a drastic multilateral initiative that would have spared FDI from virtually any national controls (Becker and Henderson 1999; Third World Network 2009). Nationalism won the day. The resource nationalism of the world's oil and mining industries is premised on strict controls on FDI.

By the mid-2000s, with the rise of the BRICs, Washington was in a less privileged position to push liberalism to the extremes envisioned a decade earlier. In 1998, the US Trade Representative under US President Bill Clinton brazenly boasted:

It is vital to the long-term prosperity and prestige of the United States...to take full advantage of our strong global position and continue to push our trading partners for even more open markets and economic liberalization. If we abdicate our strength, we risk missing a prime opportunity to advance those policies and values that have been so instrumental in making our economy the strongest and most efficient in the world. (USTR 1998: 11)

Only seven years later, as raw material prices began to soar, there was less reference to 'push' and 'strength'. Brazil had become a thorn in Washington's flesh inside the WTO by interpreting every rule to the letter, the Russian Federation was still not a WTO member, foreign investment in India had prematurely slowed and China was flagrantly undervaluing its exchange rate and criticizing the joint venture. Like

Brazil, India uses WTO anti-dumping rules as a protectionist device to limit imports. It is one of the major users of anti-dumping duties and in 2001 it was the largest initiator of anti-dumping cases. The BRICs and other emerging economies are enjoying stronger policy rights.

Above all, Europe and the US were themselves undermining their own liberal values, making it easier for the decolonized generation to do so. NAFTA is at the heart of American foreign economic policy – Washington, unlike the WTO, injected politics into trade. Yet, NAFTA is the antithesis of free trade since it provides preferential treatment to members only (Third World Network 2009). The attempt to limit subsidies inside a country's borders was weakened in Europe and the US by a military–industrial complex and a science and technology infrastructure that provided a wide range of subsidies to private actors, the surface pavement of the underground level playing field (Block 2011). The new industrial policy has thus remained fixed on securing the home market and focused on state economic intervention, the national ownership of firms and resource nationalism. India's laws on intellectual property are now strong, but enforcement is still weak due to corruption and a lack of resources for enforcement, about which the Indian government is doing little. The new industrial policy differs from the old less in substance than in context and form.

### **A weak private sector**

The business historian Alfred Chandler (1962) referred to securement as the 'functional and strategic competition' for market share, suggesting that the struggle over the home market is competitive, driven by both market forces and the visible hand of professional management. A firm's share in gross national product (GNP) is a good measure of its success or failure in securement. Yet the market in which Chandler's competition occurs, late nineteenth-century America, engaged mostly American firms; the foreign challenge was minimal, making comparisons with decolonized countries misleading (Chang 2002). Because of the private sector's weakness in developing countries compared to foreign firms, the job of securing the home market and influencing market share fell to newly politically independent states.

Securing the home market began with decolonization and is still in full swing over half a century later. As the Korean Academy for the Motor Industry acknowledged, 'it is difficult for the automakers to globalize without building a solid market base at home' (Wu 2009). China's TCL Company was formed in 1981 with a \$5,000 loan from a local government in Guangdong province, and became a Chinese brand name in

televisions, personal computers, air conditioners and cell phones. TCL aims to become a global household name, 'but first it has to succeed at home, where it faces local competitors battling for turf on the basis of low wages, and multinationals leveraging their reputations and know-how' (McGregor 2001: 23). Taiwan's electronics firms now produce roughly 90 percent of their output in China, but their headquarters and R&D remain in Taiwan. Brazil's Vale, a global leader in iron ore, operates on six continents and has acquired such giants as Arizona-based Phelps Dodge (copper), which was once a quintessential imperialist in Latin America, London-based Anglo-American (gold) and Canada's Inco (nickel). But 'for all its newly spread wings, Vale's strong base is firmly in Brazil' (Stier 2008). In the case of Saudi Arabia, its power is based solely on its possession of oil reserves.

The Saudis are haunted by the prospect that one day there will be no more oil below the sands. ... When that day comes, the oil companies will leave, the migrant workers will probably follow and Saudi companies staffed by Saudi workers will have to take their place. This is a prospect that has instilled an acute sense of pragmatism in the Saudis and their developmental policies. (Al-Farhan 2003: 25)

### **Why the homing instincts?**

Despite globalization, the home market is a relatively profitable and comfortable market in which a firm can reach scale economies, build a supplier network and learn to raise productivity because it is naturally protected by tastes, transport costs, import duties, local supplier loyalties and government procurement practices (in the early phase of the cotton gin, even an innovator as great as Eli Whitney depended on US military contracts for his material existence) (Green 1956). Securing the home market is also necessary for an economy or empire to expand spatially; an imperialist of any sort needs the home base to supply its rear.

But the home market is not cheap if it exacts penalties in the form of low skills and poor infrastructure. It is prohibitively expensive if it crowds out national firms altogether, due to the entrenchment of foreign monopolies that enjoy legacy concessions in minerals and a headstart in acquiring tacit knowledge and brand names in manufacturing (Amsden 2009). If costs outweigh benefits, the local business elite has an incentive to cooperate with foreign firms rather than compete against them. This calculation, however, has a social and political dimension because a firm itself is a social and political construction. The top talent of any country may succeed in reaching the highest

positions of pay and responsibility only in businesses that are nationally owned, for example: (i) Morris Chang, CEO of Taiwan's premier semiconductor company, left a high executive position at Texas Instruments because he claimed he had hit the 'yellow glass ceiling'; he would never make it to CEO at Texas Instruments; (ii) Korean electrical engineers working in American companies in the US 'became acutely aware of the glass ceiling in the company, and of their disadvantages due to cultural and language barriers – it is very, very rare to make it to the level of vice-president' (Pyun 2012: 31); (iii) West African executives complain of similar experiences in hitting a 'black glass ceiling' at Unilever; and (iv) Brazilian computer experts hit a 'coffee glass ceiling' at IBM and Burroughs in the 1960s.<sup>5</sup> Therefore, the business community may support industrial policies that discriminate in favor of national firms, and national firms may then attract top talent. If a firm does enjoy the natural protection and social benefits of the domestic market, it may be obliged politically to contribute to it in return with a snowballing effect – the greater reciprocity, the easier to impose performance standards in exchange for subsidies (Amsden 2001). But if national entrepreneurs are simply risk averse as a matter of history or culture, then the whole society suffers unless the government intervenes.

The weakness of the developing world's private sector was evident in the 1920s, when Turkish merchants 'already enjoyed greater opportunity than they could cope with, and were content to remain on the receiving end of a division of labor organized by and favoring foreign capital' (Keyder 1987). The Great Depression, however, wiped them out and with them, Turkey's export model. By 1929, 'the bureaucratic faction in power had emerged victorious' (Keyder 1987 as cited in Akgöz 2012: 49). China, the inventor of silk, accounted for 51 percent of silk exports in 1859–1961, but only 11 percent in 1936–1938, due partly to feeble government efforts to control pebrine egg disease (Federico 1994). The nature of ownership and control also contributed to low quality and poor management. Cantonese silk weavers rented capacity from the clans, gentry and landlords who had built 'wild chicken' filatures as a form of real estate speculation. The separation of ownership and management discouraged technical innovation and the expansion of plant size (Eng 1984).

In the 1930s, Korean businessmen cheered when Japan invaded China because it meant a new market for them (and a chance to observe Japan's forced industrialization of Manchuria first hand) (Eckert 1996). Their involvement with Japanese firms endured in the 1960s, and South Korea's business community vociferously *favoured* South Korea's renewal of diplomatic and commercial ties with Japan, broken at the time of military

surrender, although opening exposed them to Japanese takeover and export competition. South Korea recognized Japan in 1965 under US political pressure, but the beginnings of a new industrial policy curtailed Japanese foreign investment and provided protection and subsidies to South Korea's textile mills, which operated with higher costs than Japan's and could not compete on the basis of market-determined prices (Amsden 1989). More than 80 years after the Manchurian incident, the Korean government was still complaining about the private sector's passivity toward economic development, even in a country where the private sector is more capable than in almost any other developing country. According to a government study of the medical services business, 'the general failure to export medical services (or attract them to South Korea) includes the passive approach adopted by domestic medical institutions toward foreign markets (especially China's, whose supply of medical services has fallen behind demand)' (KIET 2009).

In the 1940s, the Quit India movement was wildly popular with the poor but was perceived as a real threat by Indian industrialists. Some 'met repeatedly with British officials, trying their best to allay its suspicions as to their role in the independence movement' (Chibber 2003: 86–7). The Bombay Plan in 1945 for economic development met with an 'icy' reception from capital as a whole, despite the fact that its most prominent and progressive business representatives had written the document. 'The critical factor that blocked the building of a successful developmental state in India was the widespread and organized resistance of the business class' (Chibber 2003: 86–7).

After the First World War, Egypt's embryonic national bourgeoisie 'was so weak that it had to rely for political support on more powerful groups such as the large landowners and foreign business community with often quite different economic interests' (Owen 1981: 293). In the 1950s, Egypt's military leaders, most notably Gamal Abdel Nasser, staged a bloodless coup to accelerate economic development. They favored the private sector as the agent of change. But soon 'the regime shaped its ideology in a growing disillusionment at the performance of the private sector', the Middle East's largest and best firms organized into industrial associations (Tignor 1984). Instead of taking the lead, private Egyptian enterprise limited its horizons to gaining greater legal freedoms to fire workers and evade foreign competition (Tignor 1984). It speculated in land instead of investing in productive assets. It identified itself so closely with foreign capital that it was horrified when, in 1956, Egypt nationalized the Suez Canal and 'localized' top management positions (the Anglo-French Suez Canal Company's archives revealed that not a

single Egyptian had been hired as a manager since 1858, when construction under Ferdinand de Lesseps first began).

Argentine companies in the 1950s were on average small in scale, family owned and unprofessionally managed. Argentina's premier private national company, the SIAM group 'was held together by the owner in person. ... He would walk through the factory at least two or three times a week, talking with the chiefs and foremen and settling problems on the spot. ... This highly personalized control was more suited to a small *taller* than a big factory' (Cochran and Reina 1962: 186–7). The owner, Siam Di Tella, was persuaded by a Westinghouse executive to hire an industrial engineer to design a more efficient organization. An engineer arrived from Westinghouse and designed a hierarchical organization. After months, he admitted that 'results have only in part been obtained' (Cochran and Reina 1962: 186–7). As late as the 1990s, when Argentina was undergoing draconian liberalization driven by a business elite that embraced FDI, of 271 large Argentine enterprises, 117 had no organizational chart that was technically acceptable. And barely 79 had a manual containing organizational procedures (Schvarzer 1995). R&D expenditures were almost nil; Argentina's NOC, dating to 1922, was privatized in 1991 and became committed to a technology policy of 'buy' rather than 'make' until it was merged with Spain's oil and gas MNC Repsol.

In Brazil, the nationalist economic developmentalism of the regime of President Getulio Vargas (1930–45) was excused on account of the private sector's failure to meet Brazil's wartime needs. High on the list was the steel industry, which the state ultimately established (Treat 1983). 'This image of a feeble private sector has lingered to this day' (Capstone 1988: 12). Despite a description of Nigeria's private business sector in 1945 as a formidable presence (Tignor 1999), Lewis (1967: 29) noted that 'Nigerian governments have given thought to the development of small industrial enterprise and have spent some money for this purpose. They have experienced much frustration... what Nigerian entrepreneurs lack most is managerial competence'. Along with money, 'they need the right product for the market, adequate supervision of labour, better plant layout, proper inventory control, improved accounting, and so on'. Nigeria's attempts at indigenization in the 1970s and 1980s were well designed but hard to implement because 'the vast majority of indigenous businessmen did not share its interests or objectives' (Biersteker 1987: 297).

By 2000, the decolonized generation had come a long way in its ranking among the world's largest enterprises, measured by sales in the top 500 international firms rated by *Fortune Magazine*. The total went

from four in 1962 to 33 in 1992 and then down to 25 in 1999 (Amsden 2001). After stagnating under neoliberalism, the number jumped to 80 in 2008, as Chinese enterprises came on board. Still, the weakness of the private sector is suggested by the fact that over 50 percent of emerging economies' 80 ranking firms in 2008 were state owned, mostly in oil and banking. Although the press routinely called China a juggernaut, only 37 Chinese companies (30 of them state owned) were on the 2008 top 500 list of *Fortune Magazine* (Table 4.3). The private sector still had a long way to go in joining the world's largest companies, noted not only for their scale economies, but also increasingly for their knowledge acquisition (Chandler et al. 1997). Consequently, industrial policy also had a long way to go in beefing up the private sector.

Securement of the home market through large, national firm-formation has not ceased altogether in new industrial policies, but attention has shifted to promoting public enterprises (after the 1980s wave of privatizations) and strengthening small and medium-sized enterprises (SMEs). Instead of a mellowing out of industrial policy according to the World Bank, restricted to export promotion, industrial policy remains highly interventionist in the case of public enterprises and private SMEs, which in practice tend to be exempt from WTO restrictions on subsidies. To compete against Europe's small specialty firms such as Prado in shoes, Moët in champagne, Dansk in design, MAN in diesel engines and Benz in cars, they have to invest heavily in brand names and flexible specialization (Piore and Sabel 1984). Securing the home market for specialized SMEs in high-end niche markets is likely to be harder for industrial policy to achieve than for large firms competing on the basis of economies of scale. Although the weaknesses of SMEs cannot be circumvented by the establishment of public enterprises, the way such weaknesses were circumvented in the large-scale private sector was seen with great clarity in all of the BRICs. Nor does FDI typically enter the small and medium firm size range in the developing world.

## Expropriation

Industrial policy in the developing world began with attempts to use government policies to acquire FOEs and then either privatize them or manage them under state ownership. Securement at the firm level went furthest in East Asia due initially to war, and in the Middle East due to political aggressiveness. Securing the home market in both cases took radical forms – forceful appropriation of foreign property, which enlarged a business sector necessary for further development. Only India achieved the same end through the use of market forces. As noted

*Table 4.3* Companies from emerging economies of the *Fortune* 500 international firms, 2008 (revenues)

Country (number of entries)	Ranking	Industry (sector)
China (G=30)	9, 13, 15, 92, 99, 125, 133, 145, 155, 170, 185, 218, 220, 242, 252, 263, 281, 318, 327, 331, 335, 341, 359, 372, 375, 380, 385, 411, 415, 419, 425, 426, 428, 444, 494	Oil, finance, telecommunications, electricity, steel, railway, trade (two Hong Kong-based), shipping, metals, construction, automobiles
South Korea (G=1)	40, 69, 72, 87, 199, 213, 305, 355, 362, 438, 441, 471, 475	Electronics, holding, automobiles, steel, electricity, heavy industry, finance, explosives, oil and gas, beverages, construction
India (G=5)	105, 258, 264, 289, 318, 402	Oil and gas, steel, chemicals, finance
Taiwan (G=1)	109, 291, 306, 323, 342, 436	Electronics, oil, petrochemicals
Brazil (G=2)	34, 148, 174, 205, 400	Oil, finance, steel, minerals
Mexico (G=2)	31, 273, 370, 421	Oil, telecommunications, electricity, cement
Singapore (2)	275, 300	Manufacturing services, agro-industry
Malaysia (G=1)	80	Oil
Saudi Arabia (G=1)	186	Petrochemicals
Thailand (G=1)	118	Telecommunications
Turkey (1)	172	Holding
Venezuela (G=1)	27	Oil
Total entries=76		
Total G=45		
<i>Comparison/size</i>		
Google (US)	423	Electronics
Amazon (US)	485	Electronics
Hon Hai (Taiwan)	109	Electronics
Quanta Computer (Taiwan)	342	Electronics
Samsung (South Korea)	40	Electronics

*Notes:* G indicates state-owned.

Differences in accounting methods may influence results.

*Source:* Fortune Magazine (2009).



earlier, Indian enterprises bought out British companies at rock bottom prices as political independence approached and foreign investors fled (Tomlinson 1981). Still, in the 1960s, state investment exceeded private investment in India, and soon after 1972 'the Indian government directly owned a greater share of the industrial economy than did private enterprise' (Tomlinson 1981: 455–86). Government holdings in the private sector became large enough to rival the value of government holdings of state enterprises (Encarnation 1989). Subsequent nationalizations of banks and insurance companies, the largest of which were British owned, dating to the Raj, increased the state's holdings further. Still, 'despite their control over financial resources... state financiers intervened little in corporate planning and even less in daily management' (Encarnation 1989: 44). The state-owned NOCs of OPEC members emerged from the outright nationalization of foreign concessions beginning with Mexico's pioneering success in 1938 and Iran's initial failure in 1953, when its popularly elected Socialist prime minister, a champion of oil nationalization, was deposed in a Central Intelligence Agency (CIA)-backed political coup (Penrose 1971).

In East Asia, including China, the germs of new firms came from the seizure of Japanese properties in the aftermath of war. When the Soviet army marched into what was to become North Korea, it confiscated Japanese properties and redistributed them to North Koreans (also detaining Japanese managers to train them) (Park S.-W. 1999). Likewise, when the Supreme Commander of the Allied Forces in the Pacific occupied what was to become South Korea, it transferred Japanese properties to a fledgling Korean government. The Dutch returned to Indonesia in 1945 to reclaim their properties confiscated by the Japanese army in 1942, but the Indonesian army (partly trained by Japan) seized all Dutch properties in 1958 – banks, factories, trading houses and plantations (Lindblad 2008). No longer were national firms being crowded out by colonial relics. Japanese companies were gone, in Malaysia and Thailand as well, although the invaluable manufacturing experience gained under Japanese colonialism remained. Thus, whatever the overlap in industrial policy over time between the Global North and South, the history of property rights of both systems differs fundamentally.

The reason behind the OPEC nationalizations was to secure the home market. Whereas the OPEC *cartel* was concerned with influencing price, the OPEC *developmental role model* resorted to nationalization to acquire control over domestic supply (Adelman 1986).

Failure of the initial oil concession holder to develop the concession more intensively lies at the heart of the demands on the part of the host governments for the initial concession holders to relinquish undeveloped portions of the concession and to invite new firms to exploit these areas (the prelude to nationalization). The private integrated companies, on the other hand, seek to limit output and the rate of development in line with the growth of their markets. (Wells 1971)

In Nigeria, a 1976 commission complained not of too little supply, but of no supply at all:

The oil companies and other multinational corporations and their home governments are generally reluctant to establish oil related enterprises in the developing countries because they do not, understandably, want to create new rivals to their established undertakings in the industrialized countries. (Nwokeji 2007: 112–13)

The supply of domestic oil determined the magnitude of government tax revenues, which in turn determined the finance available for major human and physical infrastructure projects (Adelman 1986; Al-Moneef 1998). By using industrial policies to establish NOCs, the home market was secured and diversification began up and down the energy value chain, first into petrochemicals and fertilizers – for diversification in the Persian Gulf, see Fasano and Iqbal (2003).

Securement in the developing world's extractive industries 50 years later was repeating itself, whether in sub-Saharan Africa – Angola's oil sector accounted for 40 percent of its gross domestic product (GDP) and from 80 to 90 percent of its government revenues in 2010 – or former communist transition economies. With the same motive as OPEC members, the Mongolian government ceased issuing mining licenses in 2010 to gain control over domestic supply. The foreign concession of a rich copper and gold deposit was allegedly being held 'as a money-making tool and not an investment in active exploration' (Rocha 2010). The US State Department responded by accusing Mongolia of creeping expropriation (United States Department of State 2005). Despite 'Dutch Disease', 'from the Caspian Sea to South America, Western oil companies are being squeezed out of resource-rich provinces. ... They are being forced to renegotiate contracts on less-favorable terms and are fighting losing battles with assertive state-owned oil companies' (Mouawad 2004: 1).

Nevertheless, securement has shifted in the oil business from controlling domestic supply to controlling domestic production of parts, components and services (local content). Under WTO rules, foreign-owned oil companies can resist national demands for greater local content, which makes the national ownership of oilfields critical for creating more entrepreneurial opportunities and paid jobs through 'hollowing-in'.

Latin America was late because it missed the discontinuity of political decolonization after the Second World War; its political independence had occurred much earlier in the beginning of the nineteenth century, and the cathartic upheaval in post-war foreign property rights experienced in ex-colonies, therefore, did not occur. Latin America's industrial policies had a harder time of securing the home market, for the seven reasons noted earlier, given the entrenchment of FOEs. Its technology transfer before the Second World War came not from colonial companies, which were later dispossessed, but from *émigrés*, who may have settled permanently in Latin America but who may still have regarded themselves as 'foreign', with favorable views toward FDI. With this past, Latin America's future lay in still more foreign investment. In the 1960s, 1970s and 1980s, Argentina, Brazil and Mexico always ranked among the top ten destinations in the developing world for FDI. In those decades, their estimated share of world total FDI (bound for developing countries) was 31 percent, 22 percent and 21 percent, respectively. The decline was due to China's rise as a destination, but China's definition of 'foreign investment' is for political purposes unusually inclusive and broad – China appears to have more FDI than it actually has by most developing countries' standards, certainly India's, enabling it to give the appearance of economic openness.

The second-stage industrial policies of Brazil and Mexico have gone furthest in the energy and metals sector because national ownership is greatest in these sectors, exemplified by two NOCs – Petrobras and Pemex. By the 2000s, local content was near 100 percent in PEMEX, but it was the only company from an emerging economy to appear on the 2008 *Fortune Magazine* international list of the top 50 money losers, having depleted one of its major oil fields (UNCTAD 2007).

### **When the 'wrong' property rights are 'right'**

The origins of industrial policy in Asia and the Middle East are thus associated with 'getting the property rights *wrong*'. Through intimidation, acquisition, appropriation, expropriation or nationalization (overlapping terms, with or without due compensation), foreign property fell into national hands and the home market was secured. Under what conditions are the wrong property rights right? Securement succeeds

when governments have tangible skills at hand to manage newly nationalized properties – the exceptions ‘prove’ the rule – Argentina in manufacturing and Nigeria in petroleum, for example. Industrial policy implementation depends on ‘appropriate skills’, and where no role model exists to enrich such skills, as in Africa and Latin America, implementation suffers.

After the Second World War, Argentina acquired 35 Axis properties, including the manufacturing subsidiaries of stellar German companies such as Mannesmann, Beyer and Bosch. Instead of failing from Peronist overkill, these properties failed to be restructured into ‘growth poles’ due to a lack of interest on the private sector’s part and inexperience (or the wrong experience) on the public sector’s part.

Policy implementation was difficult because there were no clear indications of the methods to use to reach the goals articulated in the First Five-Year Plan. Thus, for example, although the production of cotton yarn was among the industries to receive government attention, the bureaucracy failed to design a sectoral policy. Instead, it concentrated its attention on price controls, and the economy stagnated. (Belini 2009: 199)

Argentina could boast one of the leading theorists of import substitution industrialization (ISI), Raul Prebisch, but his writings did not provide a roadmap for making new manufacturing properties work. Compare Argentina’s experience with that of South Korea or Indonesia, both of which, starting with the Greater East Asia Co-Prosperty Sphere, learned sectoral policy directly from Japan. When Japan’s properties fell into Korean hands, South Korea appeared poised to squander them much as Argentina had done with German assets. The sale of Japanese properties, like the disbursement of American foreign aid, was corrupt. But both South Korea and Taiwan ‘were knowledgeable about the ways in which the Japanese bureaucracy established production targets, financial and labor inputs, price-control machinery, and rules to enforce law and contracts’, which raised profitability and reduced corruption (Kobayashi 1996: 327–8). In Indonesia, ‘immediately after the takeovers at the end of 1957, many army officers were attached to agricultural estates as supervisors’, until the most senior Indonesian employees of the former Dutch enterprises could be promoted to key jobs as managers or inspectors (Mackie 1961–2: 344). After the Suharto military takeover in 1965, nationalized properties became the basis for Indonesian enterprises (Kano 2009).

The roots of the Middle East's oil expertise go deep in history because of a long tradition of legal studies, which enabled countries to negotiate nationalization and compensation contracts with the majors (Reid 1981). Some top managers of new NOCs got their hands dirty working for one of the Seven Sisters. OPEC's first president, Fouad Rouhani, worked for British Petroleum in Iran – and then helped Tehran nationalize British Petroleum. Dr Edmund Daukoru, a former OPEC Secretary-General and Nigerian Energy Minister, worked for Shell. Dr El Badri, elected as OPEC's Secretary-General in 2007, worked for Esso in Libya. This apprenticing symbolizes the decline of the colonial era, based on a color bar, when foreign concessionaires hired only foreign managers and engineers. The earliest phase of industrial policy, nationalization and localization was well under way. FDI supposedly works the best when governance is good and human capital is abundant. But nationalization may not work well under these conditions unless a particular set of skills is available that allows expropriated properties to be well managed.

#### *From home to foreign markets*

The Korean government reported at the weekly economic coordination meeting on 6 April 2011 that it planned to invest \$49.8 million to help local companies maintain their lead in the global smart television market. With this funding the government would focus on developing new smart television platforms and network technologies such as user interfaces and a 'giga-level' Internet foundation for providing smart television services such as video-on-demand, online games and other applications. In addition, the government realized that the lack of local content for smart televisions posed a major barrier to further growth. To solve this problem, the government and smaller enterprises would join hands and develop content such as digital books and games and would also cooperate to create educational content (KoreaNet 2011).

The biggest challenge to industrial policy came *after* nationalization, when aggressive measures were introduced to save foreign exchange and move beyond the manufacture of labor-intensive products. Import substitution was the chosen method, or manufacturing domestically those products whose demand was suggested by imports. Ultimately, the consensus became that import substitution was doomed without exporting; instead of measuring the success of securement by market share alone, therefore, as Chandler suggested, it should also be measured by export share. As the connection between import substitution and export activity tightened, observers of trade and industry pointed

out that import substitution progressed into export activity not necessarily when prices become 'right' but when skills and scale economies expanded sufficiently under protectionism.

Import substitution in Asia's manufacturing belt was learned from Japan, product by product. Sequencing was critical. First came securing the home market and then came leveraging know-how and scale and moving into foreign markets. This sequence was noticeable in Japan by the 1980s, if not earlier: 'unit costs were reduced by increased domestic demand and mass production before the export-production ratio in growing industries began to be boosted' (Shinohara 1964, 1982: 144; Krugman 1984). Japan's Supreme Export Council was closely imitated in South Korea (Rhee et al. 1984). Under its guidance, import substitution became the mother of export activity. In exchange for protection and other subsidies, import substitution firms had to export a government-negotiated share of their output (Amsden 1989). Import substitution was subject to performance standards.

In South Korea, 'the shift to an export-oriented policy in the mid-1960s did not mean the discarding of import substitution. Indeed, the latter went on along with the export-led strategy. ... Export expansion and import substitution were not contradictory activities but complemented each other' (Lim 1999: 146). In electronics,

the initial ISI [import substitution industrialization] phase of the 1960s was critical to the development of the manufacturing skills that enabled (the *chaebol*) to become the efficient consumer electronics and components assemblers of the 1970s. ... Indeed, ISI in consumer electronics parts and components continued in the 1970s after domestic demand from export production justified it. (Sridharan 1996: 50)

By 1984, heavy industry had become South Korea's new leading export sector, exceeding light industry in value, and virtually all of its heavy industries had come out of import substitution, just as textiles had done in the 1950s and 1960s (Amsden 1989).

### **Counting market failures**

The weakness of the decolonized world's private sector has spanned the firm size spectrum, but perhaps weakest of all are firms in the small and medium-sized (SME) range. Especially missed in the developing world is the medium-sized enterprise, individually or in clusters, with anywhere from 100 to 300 workers. The small and medium-sized range tends to operate in fragmented markets, with tacit technology and frail

organizations, making it difficult to generalize about good performance and policy design. Artisanal traditions within this size bracket enriched Europe and sustained colonial America, but such emulation is difficult to achieve (McAllister 1989). In 1963, the anthropologist Clifford Geertz (1963: 28), in an interpretative study of entrepreneurship in Java, Indonesia, wrote: 'What the entrepreneurial group of Islamic small businessmen most lacks is not capital... or drive... or a sufficient market. ... It lacks the capacity to form efficient economic institutions; it is a group of entrepreneurs without enterprises.' The SMEs in the developing world tend to be at the opposite pole from those in Silicon Valley or Emilia Reggio, outstanding for their innovativeness. They may create jobs, but these tend to be low paid and unskilled.<sup>6</sup> The weakness of SMEs has led to a vast number of industrial policies to raise their capabilities. Most of these policies involve deviations from free market principles. We count the number of policies that involve state intervention in South Korea a tedious exercise, but one that allows us to dispel the false impression of market theorists that the new industrial policy is light and lean as a result of the accumulation of experience in the industrial sector.

The private sector falls short in the small and medium-sizes range, even in countries where early industrial policies excelled, such as South Korea. Although much is made about differences between South Korea and Taiwan in organizational structure, these differences exist mainly above the 299-employee firm size mark. South Korea's large firms are larger and more diversified than Taiwan's, although two of Taiwan's electronics firms rank higher in sales than Amazon or Google, which are American icons. While SMEs in Japan, South Korea and Taiwan are defined slightly differently, in the mid-2000s, all accounted for roughly the same share of total employment, which was around 75 percent (Table 4.4). In all three cases, SMEs have tended to advance fastest – in terms of quality, cost and technology – in concert with larger firms (in subcontracting relationships that are either formal or informal). Thus, when we talk about South Korea we are also thinking about one East Asian role model for SMEs, characterized by endless experimentation with scores of policies to improve the bottom 75 percent. What is different about industrial policies for small firms compared with large firms lies in embeddedness (Evans 1995); the closeness between autonomous governments and private companies is necessarily less when firms are small because there are so many of them.

While most economists see SMEs in a consistently positive light, their development tends to vary by stages, as does their industrial policies.<sup>7</sup> South Korea's industrial policies from 1962 to 1971 (first and second

Table 4.4 Comparison of SMEs in South Korea, Japan and Taiwan

Country	Number of enterprises		Number of employees (thousands)	
	SMEs	% of total	SMEs	% of total
South Korea (2007)	118,506	99.5	2,200	76.9
Japan (2006)	255,016	98.7	5,765	70.3
Taiwan (2006)	133,312	96.6	2,180	76.7

Note: Definition of SME: South Korea: 5–299 employees; Japan: 4–299 employees; Taiwan: paid in capital of less than 80 million NT \$ (Taiwanese dollar) (~\$2.44 million in 2006–07). Source: Yang (2009).

five-year plans) focused on promoting industries with scale economies by means of exports, so SMEs received only moderate support. Then, from 1972 to 1981 (third and fourth five-year plans), policies focused on promoting heavy and chemical industries. SMEs received strong support to supply parts and components to these industries; ironically, when the economy was becoming *more* capital-intensive and concentrated, SMEs bloomed due to local content initiatives. From 1982 to 1991 (fifth and sixth five-year plans), the government sought a balance between large and small firms, and to raise SMEs to the large firm capability level, and support became more intense. From 1992 to 1997, the period of the East Asian financial crash and the beginning of liberalization (seventh and New Economy five-year plans), policies sought to strengthen SME competitiveness amidst market opening. From 1997 to 2008, during the Government of the People period and the Participatory Government period, SME policies have sought to nurture competition, innovation and a social safety net, although beginning in the 2000s the growth rate of SMEs slowed.

Each stage has its distinctive set of policy measures to promote SMEs as follows. The measures for 1962–71 involved at least four infractions of market laws: state ownership; quotas to increase lending; targeting special firms; and special industry government supports. The measures for 1972–81 also involved at least four infractions of market laws: private contract regulations; quotas on lending; targeting special firms; and special industry government supports. For 1982–91, the measures involved even more infractions of market laws than previously, in so far as restrictions on industries reserved for SMEs were introduced and types of credit guarantees were expanded. Despite South Korea's market liberalization official policy for 1992–2010 (for example, the Kookmin Bank was privatized in 1995, but with the government retaining a 24 percent share),



these measures together involved almost the same number of infractions of market laws as past measures, with an end to reservation of special business sectors for SMEs but more central initiative and state ownership (of KOSDAQ and its parent, the Korea Stock Exchange). Whether old or new, there is little light, lean or temporary about these policies.

The performance of South Korea's SMEs (compared to its big businesses) has differed by time period. Performance is difficult to measure due to SMEs' heterogeneity, but many suffered acutely from International Monetary Fund (IMF) conditionality after South Korea's financial crash in 1997 and from the emergence of low-end Chinese competition. SMEs performed better the closer their relations were with big business. They also performed better or worse at different development stages – the most difficult stage has been the most recent, when many Korean companies have relocated their production to China to take advantage of lower wages (Yang 2009; Cho 2010). The challenge of industrial policy has become to hollow-in by transforming the competitive basis of SMEs from one of exploiting low wages to one of exploiting advanced technologies. This ongoing challenge suggests that in the near future industrial policies toward SMEs will be anything but light, lean and temporary. Securing the home market is a continuous process once an economy operates in global markets where new technologies and competitors continuously appear.

### **Conclusion: role models defined**

The defining qualities of the East Asian role model, with the largest manufacturing corridor in the decolonized world, are reflected in its industrial policies, one per country, piled on top of each other to support common elements, and in sum, a stereotype. The East Asian role model, above all, is nationalist, meaning it is anti-imperialist. Anti-imperialism began after Japan's military defeat with the seizure of its overseas properties. But radicalism did not go as far as the expropriation of national properties (as it did in the Soviet role model, or in Egypt in 1952 and India in 1974). The East Asian role model is anti-imperialist but not socialist. After the appropriation of foreign properties in its own backyard, anti-imperialism took the form of rejecting the Enlightenment's free market universalism as a matter of conviction. Instead, industrial policy became oriented toward securing the home market, meaning governments intervened in the economy to create national industries (import substitutes that graduated into exports), nationally owned firms, public and private (if impossible, then foreign

substitutes) and a sustaining environment favoring the accumulation of national production skills, managerial capabilities and technological expertise.

In the oil belt of the Middle East, the defining quality of the OPEC development role model is also anti-imperialist, which takes the form of resource nationalism. First and foremost, this meant expropriation (with compensation) of the giant international oil companies, supplanting them with giant NOCs, sometimes 100 percent state-owned, sometimes just nationally controlled, but agents of economic diversification. Foreign concessions, where they remained as 'legacy positions', became subject to 'creeping expropriation' as termed by the US State Department. A concession can be cancelled if a concessionaire does not utilize it sufficiently to pay high operating royalties and rents. Concessionaires are subject to new mining codes that can raise their tax rates, constrain their foreign participation and set higher targets for their local content (beneficiation).

Thus, a half-century after decolonization, long after explosions of popular movements for national independence, the decolonized world remains true to its past, engulfed in its own history of anti-imperialism, as seen from its nationalist industrial policies.<sup>8</sup> Two differences between industrial policy in developed and developing countries lie in firm formation and state power. In developing countries, creating a 'new' industry has been as much a matter of creating a new firm (or attracting a capable foreign investor) as of creating other institutions needed for an industry to function well. Over time, national firm formation has grown in importance, making it likely that industrial policy will become more muscular rather than more moderate. Without capable national enterprises (defined by majority stock ownership and directorships), a decolonized country is handicapped to: (i) serve as an 'outsourcer' for developed countries, a relatively recent practice that differs from FDI and has increased investment opportunities for South-owned firms in the huge electronics sector; (ii) undertake OFDI, a new way to diversify by decolonized countries with small domestic markets (28 percent of total OFDI in 2010 was from developing and transition economies) (UNCTAD 2011); (iii) establish a brand name, which only a country's own company can do; (iv) dislodge a foreign legacy concession in a natural resource industry to raise tax rates and royalties; (v) reverse the brain drain of professional talent by offering nationals top managerial positions that are beyond their reach in FOEs; (vi) circumvent WTO restrictions on local content, a major form of technology transfer; and (vii) raise expenditures on R&D in high-tech industries.

Emerging economies now face the formidable task of modernizing SMEs (especially medium-sized), whose sheer numbers will challenge the closeness of the business–government relationship. Embedded autonomy may be impossible in this firm size range, necessitating performance standards to make business–government relationships more efficient.<sup>9</sup> As for the role of the state, state power in decolonized countries is mostly exercised internally, over national industrial policy, whereas state power in former colonizers still functions globally, over other countries’ economies. As emphasized by OPEC Secretary-General, H. E. Ali M. Jaidah (1977: 3)

Prior to 1960 – and the formation of OPEC – the oil industry was concentrated in the hands of seven major international companies, generally known as the Seven Sisters. But this was only *prima facie* the situation; in actual fact, the real or ‘controlling’ power lay, not with the companies themselves, but with their countries of origin – namely Great Britain and the United States.

The power of the majors has declined in production and distribution, but their influence remains potent in the service and equipment ends of the oil business, the most profitable segments. The power of ex-colonial governments in specialized niches may also be expected to remain, even as it declines overall, sustaining nationalism in weaker oil-rich economies.

Given East Asia’s manufacturing prowess and formidable competitiveness, middle-income decolonized countries are searching for new business opportunities outside the manufacturing sphere by leveraging their geographical locale and raw materials. The new Brazilian role model, in the making, is taking the lead, using R&D as its weapon. These projects tend to be multi-sector, involving large capital outlays and logistical coordination, as in Pakistan’s Gawadar free trade zone. Again, the role of the government promises to be grander, not less assuming, which is to say that the decolonized world still has a long way to go before it catches up. In 2008, roughly 60 years after decolonization commenced, there were only 80 emerging economies among the 500 largest international firms listed in *Fortune Magazine* (45 in the public sector and 37 from China), suggesting that ambitious industrial policies will continue to be the norm (Table 4.3). These policies may be expected to operate underground, on a ‘level playing field’ that is paved with subterfuges to evade the intent of WTO liberal law. Both the Global North and South

are energetic, elusive players. Within the South, decolonized countries that have acquired experience as part of a role model tend to scrutinize new investments empirically, copying each other, through extremely detailed analysis at the firm level, as Taiwan's electronics firms analyzed the CD-ROM business before they entered it, anticipating Japan's graduation to the manufacture of DVDs, or as Brazil's state-owned oil company has done before establishing new small and medium-sized suppliers, to conform to national local content policies, or as South Korea's electric utility is doing before cautiously privatizing, with an eye toward social welfare. 'Knowledge of a business' implies knowledge of the economic model of a business, that is, its major costs, distribution channels, competitive landscape, financial leverage, and so on. The game plans of decolonized countries outside a role model, by contrast, appear to be based less on experience and observation and more on advice from foreign consultants and professors. The advice provided by outside technical experts generally rests on deductive concepts – for example, information externalities, product space and market failures – rather than on inductive characteristics such as who else is likely to enter a business, the direction that technology is apt to take and how demand will probably behave, which is the economic model of an industry. Given such differences in how an industry is studied, industrial policy in the future may be as multifaceted, murky and ill-defined, as in the past, and as superficially conceived by those countries that do not believe in it, as in the present. There is no better example of this than South Korea.

## Notes

1. This is a posthumous publication of the draft written by Alice Amsden (1944–2012). References have been included as fully as possible, but due to the circumstances of its publication, some references may be incomplete. An original manuscript is available at [www.unrisd.org/amsden](http://www.unrisd.org/amsden). This chapter is excerpted from Amsden (in progress).
2. See Economist Intelligence Unit (2005) ([www.eiu.com](http://www.eiu.com)).
3. See Amsden (2001), Amsden and Chu (2003) and Reddy (2011).
4. For more detail on the forms of resource nationalism, see Ernst & Young (2010).
5. Morris Chang, personal interview, Taipei, 2001.
6. For Taiwan, with a relatively well-performing SME sector in the developing world, see Amsden and Chu (2003).

7. This policy stage analysis rests heavily on the work of Yang (2009). For a cross-country analysis of SME policies, see Pacific Economic Cooperation Council (2007).
8. For the influence of colonial history on present behavior in the de-colonized world, without mention of change in property rights, see Acemoglu et al. (2003).
9. For embedded autonomy, see Evans (1995). For performance standards, see Amsden (2001).

## Part II

# 5

## Institutional Linkages between Social Protection Measures and Industrialization in South Korea

*Jooha Lee*

There has been a long-standing controversial debate as to whether the welfare state is compatible with a market-based economy. At the end of the twentieth century, the Left and the Right shared a broadly based consensus that the state provision of welfare was compatible with a developed capitalist economy (Pierson 1998). However, the New Right's onslaught to the Keynesian welfare state revitalized the incompatibility proposition. Globalization, specifically its predominant neoliberal version, can be said to make social policy explicitly subservient to the interest of the economy, which can be seen as another form of the trade-off between economic growth (or competitiveness) and social welfare. In contrast with the inexorable logic of globalization conjured up by neoliberalism, however, the impact of social policy on competitiveness can have positive or compatibility effects in many aspects: macroeconomic stabilization effects, human capital improvement via education and training, and enhanced flexibility via greater trust and reduced transaction costs, for example (Gough 1996). After reviewing several econometric studies, Atkinson (1999: 84) concluded that 'studies of the aggregate relationship between economic performance and the size of the welfare state do not yield conclusive evidence'. The crux of the matter for a feasible welfare state in the epoch of globalization is how to combine economic efficiency with equity and distributive justice (for example, Goodin et al. 1999: 259–62). Therefore, it is reasonable to argue that social policy and economic policy can be mutually reinforcing, and this leads us to inquire into and sustain the institutional linkage between them.

Moreover, increasing attention is now being paid to the mechanisms through which production, redistribution, protection and reproduction are closely interlinked. According to a flagship project by the United

Nations Research Institute for Social Development (UNRISD), social policy involves overarching concerns with redistribution, production, reproduction and protection, and works in tandem with economic policy in pursuit of national social and economic goals (Mkandawire 2004; UNRISD 2006, 2010). Nonetheless, the multiple roles of social policy and its relationship with economic policy during the development and industrialization process have been little highlighted in the international literature.

After a number of studies explaining the economic ascendance of East Asian countries, their welfare development began to attract academic and policy interest. According to a series of case studies,<sup>1</sup> the interventionist role played by the 'developmental state' is the root cause of the dramatic economic growth of East Asian countries, including South Korea. The developmental state coordinated socio-economic resources toward state-led export-oriented industrialization (EOI). The industrialization strategy yielded a basic premise of the overall direction of policy, that is, the subordination of social welfare to economic goals or what can be referred to as the 'subordination thesis'. For instance, Holliday and Wilding (2003: 13–14) argued that welfare in East Asia 'is subordinate to economic goals and is utilized as an aid to further economic development so that welfare seen as supportive to the economy develops, whereas welfare held to make no contribution to economic development languishes'.

More specifically, the developmental state's industrialization strategy engendered essential principles and features underlying the Korean welfare system, which can be captured by the notion of 'developmental welfare'.<sup>2</sup> Above all, the state in South Korea as a low social spender was less involved in providing social provision than its western counterparts, but it did play a significant welfare role as a regulator. The Korean developmental state shifted welfare responsibility onto companies and families, using their regulatory power to force the private sector to provide and finance certain types of social provision and care. Although these studies obviously clarify the evolution and characteristics of social policy in South Korea, the developmental welfare approach and, in particular, the subordination thesis tend to put too much emphasis on the productive dimension of welfare (for a more detailed discussion of the limitations of the subordination thesis, see Chapter 1).

At this point, a systematic and integrative analysis of social policy should give due attention to the multiple roles of social policy – based upon the four major functions or agendas of production, redistribution, protection and reproduction – and its interwoven relationship with economic policy. By shedding new light on the concept of 'institutional



linkages' between policies and socio-economic agendas, the central question addressed by this chapter is how and what kind of institutional mechanisms Korean society established to make production, redistribution, protection and reproduction interdependent. This discussion is greatly warranted so that lessons for developing countries pursuing economic and social development can be learned.

The aim of this chapter is to scrutinize the institutional linkage between social protection measures and industrialization with reference to the Korean case prior to the economic crisis of 1997.<sup>3</sup> But it should also be noted that it is not my intention to gloss over the ugliness and oppression of the authoritarian regimes under the military dictatorship. I first elucidate how the institutional linkage between economic and social policies operated at two dimensions – the regime level and the policy level – followed by a new conceptual understanding of the multiple policy agendas addressed by key areas of government policy in terms of the various types of the institutional linkage.

## **Institutional linkage between economic policy and social policy**

### **Institutional linkage at the regime level**

Two parallel developments in the systematic analysis of advanced capitalist economies have advanced our understanding of a regime together with its institutional configurations and linkages: research on different typologies of welfare regimes (Esping-Andersen 1990) on the one hand, and the varieties of capitalism approach associated with production regimes (Hall and Soskice 2001) on the other. Furthermore, many have endeavored to link the two streams of studies on welfare regimes and production regimes more systematically (for example, Huber and Stephens 2001). As Ebbinghaus and Manow (2001) summarized, liberal market economies are based on short-term financial markets, shareholder values, low-skill production, decentralized bargaining and general education, whereas coordinated market economies are based on long-term patient capital, stakeholder values, high-skill production, coordinated bargaining and vocational training. The coordinated market economies are then based on either 'industry-based coordination' exemplified by many northern European nations, or 'group-based coordination' found in Japan and South Korea. In industry-coordinated market economies, 'coordination depends on business associations and trade unions that are organized primarily along sectoral lines, giving rise to vocational training schemes that cultivate industry-specific skills, a system of wage

coordination that negotiates wages by sector and corporate collaboration that is often industry-specific' (Hall and Soskice 2001: 34).

In group-coordinated market economies, coordination between economies within the group of companies is more intense, while coordination between large companies in the same industry is more restrained. Group-coordinated market economies are characterized by 'company-based unions, technology diffusion and development within the group of companies, technical standard setting within the group and vocational training as a company-based and not an industry-based phenomenon' (Soskice 1999: 106). Unlike industry-coordinated ones, group-coordinated market economies have been accompanied by enterprise welfare – coupled with companies' commitment to lifetime employment and the automatic seniority system such as the case of South Korea before the economic crisis of 1997.

Product market, innovation and work-organization strategies in the group-coordinated market economies of South Korea do not rely upon collaboration with organized labor as much as in their industry-coordination counterparts. The political underpinnings of group-coordinated market economies have long been conservative parties with a limited role of organized labor, in contrast to industry-coordinated counterparts that have strong unions and significant social democratic influence. In a context of group-based coordination within large companies, the enterprise unions tend to pay more attention to firm-level issues, such as wages, working conditions and rights at work, than to social and economic issues at the national level (Yi 2007).

These distinctive features of the group-coordinated market economy of South Korea are complementary to particular social protection measures. The big business sector was willing to provide company welfare and employment stability in order to secure a stable supply of skilled workers in the heavy and chemical industrialization (HCI) (Chung 2006). Occupational benefits provided positive incentives for workers to invest in company-specific skills (Ebbinghaus and Manow 2001). The development of company-specific skills was also promoted by lifelong employment and seniority-based wages. Thus, the institutional complementarities (or elective affinities) between welfare regimes and production regimes were embedded in the Korean group-coordinated market economy.

### **Institutional linkage at the policy level**

Economic policy and social policy are actually two sides of the same coin (Gough 1996). Social policy in South Korea should be understood as its

relationship with economic policy. This is not only because increasing attention has been paid to the way in which production regimes and welfare regimes interact in terms of 'institutional complementarities' and 'comparative institutional advantages' (Ebbinghaus and Manow 2001; Huber and Stephens 2001), but also because the overall policy regime of economic and social policies is of particular significance in the Korean case.<sup>4</sup> With a focus on the notion of policy linkages, Shin (2003: 5) argued that 'the policy choice made in economic policy subsequently has an important effect on shaping the form and content of social policy'.

Under the industrialization strategy formulated by conservative political elites, social and economic goals were often compatible and closely linked, in so far as social welfare would not hinder economic development. The developmental strategy, concerned with EOI and labor-intensive industrialization, depended on the effective utilization of human resources through maintaining a disciplined and low-cost labor force. Under such circumstances, economic development was energized by social programs that strengthened labor productivity and promoted company training; 'to this extent, economic development and proactive social policy have been mutually supportive' (Deyo 1992: 305). In particular, there was the linkage between work and welfare in terms of employment, human capital investment, company welfare and the work-based, contributory insurance programs. First of all, employment is 'central to welfare not only in terms of the income it provides, but also in terms of the way status in the labor force affects access to state benefits' through social insurance schemes (Holliday and Wilding 2003: 164). The authoritarian developmental state claimed that social needs would be best met by rising real income in the labor market, led by high and stable economic growth together with low unemployment. In other words, 'the high economic growth rate, rising income levels and low unemployment mitigated the need for state expenditure on social welfare' (Ramesh 2004: 4). The developmental states in East Asia as ardent believers in the trickle-down theory whereby increasing national income through economic growth would have trickle down effects throughout the population – even to the poorest people.<sup>5</sup>

A lack of state income support and universal welfare provision was also compensated by occupational welfare in combination with family welfare. While the government suppressed the political mobilization of labor forces, it forced companies to give incentives to workers to encourage their participation in the industrialization process (Yi 2007). Therefore, firms offered lifelong employment patterns, occupational welfare benefits, guaranteed bonuses and other supplementary payments.

Given the state's prominent role as a low social spender, major social programs depended on the social insurance principle under which a person should contribute first before claiming any benefit (Ringen et al. 2011). This can be referred to as the 'mandatory but privately financed' social insurance principle in which the state's role as a provider is minimal. The Industrial Accident Insurance Program (1964), the National Health Insurance Service (NHIS) (1977), the National Pension Program (1988) and the Employment Insurance Program (1995) were financed from contributions paid by the insured and their employers, with no financial contribution by the state except the administration cost.

In a nutshell, economic and social policies are inextricably interlocked, while reciprocally influencing each other's evolution. At the policy level, social insurance programs are linked to employment at their inception in addition to the prevalent role of enterprise welfare. At the regime level, social protection as a combination of social insurance and company welfare was 'institutionally complementary' to other spheres of production regimes, including industrial relations, vocational training and corporate governance.

### **Classifications of the institutional linkage between economic and social policy agendas**

Institutional linkage between economic and social policies in the two dimensions (regime level and policy level) can be reorganized and enriched with a focus on the main policy agenda of production, redistribution, protection and reproduction, espoused by UNRISD (2006, 2010). It is partly due to the recognition that the direct application of the regime-level institutionalist approach, such as the varieties of capitalism model, to developing countries needs to be more cautious and sophisticated, taking into account appropriate and feasible institutional linkages fit for the conditions of these countries. Here, the institutional linkage can be understood as the multiple economic and social policy agendas simultaneously addressed by each set of policies. Following on from this, Figure 5.1 shows the four examples of the institutional linkage; namely, infrastructure, social investment, tax incentives and cash transfers, each of which can be a specific institution of production, redistribution, protection and reproduction. These four policy areas are chosen to represent the institutional linkage since they are closely related to the economic and social functions of policy agendas, such as social reproduction and its human capital function as well as redistribution and its demand-enhancing economic functions.

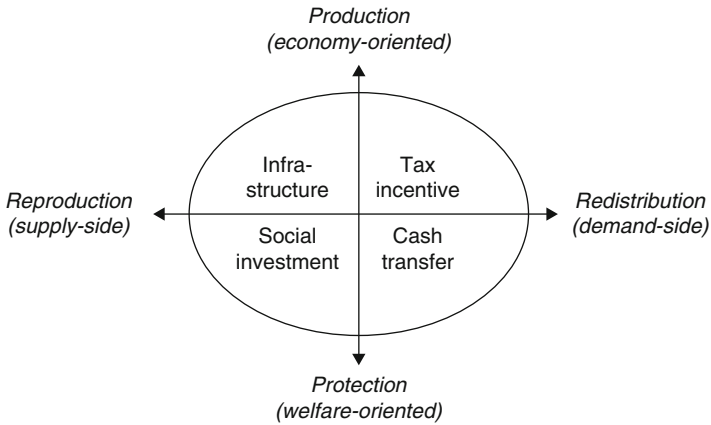


Figure 5.1 Classifications of the institutional linkage of four main policy agendas  
Source: Author's analysis.

It is true that these four areas are not mutually exclusive, but rather intertwined theoretically and practically. For instance, social investment is not simply confined to policy instruments for reproduction and protection, but also related to mechanisms for production and redistribution to some extent. As explained below, social investment strategies can be pursued in either a more protective way or a more productive way. In addition to demand-side redistributive functions, cash transfers and tax incentives exert a certain degree of influence on the sphere of reproduction of the labor force and the household. As Clasen (1999) argued, the payment of cash transfer benefits such as unemployment benefits not only provides income maintenance as replacement for lost earnings, but also has economic functions that include maintaining aggregate consumer demand and enabling job search activities. Accordingly, this two-by-two classification indicates a relative affinity between the four types of institutional linkage and the four major agendas of production, redistribution, protection and reproduction.

Infrastructure – for example, transport, energy, information and communication technology, drinking water, sanitation and irrigation – is essential for economic and social development. It is not an end in itself, but a means toward ensuring the delivery of goods and services that facilitate economic prosperity and growth and contribute to quality of life, including the social well-being, health and safety of citizens (OECD 2007). In particular, insufficient infrastructure is among the

most pressing obstacles to achieving pro-poor growth and the United Nations (UN) Millennium Developmental Goals. As an Organisation for Economic Co-operation and Development (OECD) (2006) report pointed out, infrastructure supports pro-poor growth by enhancing economic activity, and thus overall growth (for example, reducing production and transaction costs, increasing private investment and raising agricultural and industrial productivity), and by generating distributional effects on growth and poverty reduction through poor people's increased participation in the growth process (for example, increasing their access to product markets, reducing risk and vulnerability, enhancing asset mobilization and use and promoting their empowerment). Infrastructure also affects non-income aspects of poverty, contributing to improvements in health, nutrition, education and social cohesion. Nevertheless, around the world more than 1 billion people lack access to roads, 1.2 billion do not have safe drinking water, 2.3 billion have no reliable sources of energy, 2.4 billion lack sanitation facilities and 4 billion are without modern communication services (OECD 2006). At this point, infrastructure is a priority on the international development agenda.

Social investment strategies put an emphasis on education, training and lifelong learning, while offering a possibly positive-sum solution to the trade-off between jobs and equality (Esping-Andersen 1996). The social investment approach has been official dogma in Swedish 'active manpower policy' for decades, and is now also part and parcel of an American-style 'workfare' system (the system of working for welfare benefits) and the United Kingdom (UK) 'welfare-to-work', also called the 'New Deal' program (a program of counselling and work experience schemes with an element of compulsion). Overall, the current social investment strategies have less to do with Swedish-style active labor market policy, which includes benefits as part of the 'productivist', and more to do with the United States (US) workfare model and the UK welfare-to-work program. Compared to both of these, the Swedish active manpower policy involved 'much greater activism in terms of labor market interventions and much higher levels of benefit relative to wages' (King and Wickham-Jones 1999: 71). But the current social investment approach, especially the US workfare model, comes close to a so-called activation of benefit payments, that is, promoting programs such as training and work experience at the expense of passive forms of income support for the unemployed (Clasen 1999). According to Kildal (2001), while the positive incentives or 'carrots' characterize active manpower policy, it is the negative ones or 'sticks' that characterize the new social investment approach. But all these social investment strategies

can enhance the reproductive potential of members of society through increasing human capital and income earning capacity.

Tax incentives can be widely utilized for achieving various policy objectives, such as economic growth and income redistribution. Government may relieve tax burdens or give tax refunds to individuals or households who spend money on an approved social purpose such as saving for retirement or a house purchase. This, which is referred to as a 'tax expenditure', has the effect of encouraging people to do their own saving, but costs the government money in lost revenue (Glennerster 1997). In a similar way, tax credit means the provision of benefits through the tax system that does not simply offset tax liabilities, but may also involve payment to low-income people who are not required to pay any tax. This type of tax expenditures and credits can be regarded as what Titmuss (1958) called 'fiscal welfare' as one of major categories of welfare; his classic essay on the divisions of social welfare highlighted the significance of fiscal welfare, subsidized by the state but often not identified in social policy. Moreover, the government can employ tax incentives to induce the private sector to engage in economic activities that seem desirable for economic development. In other words, strategic industries are provided with a variety of instruments for tax incentives, including investment tax credits, tax exemptions, tax reductions, a tax holiday, a tax deferral and accelerated depreciation.

The following sections examine these three types of institutional linkage with a specific reference to the Korean experience during the industrialization period.<sup>6</sup> The reason for excluding the institutional linkage type of cash transfers from discussion is because South Korea's social provision during the period had low levels of income maintenance benefits and welfare budgets. This implies that cash transfers exhibited less significant social and economic functions of policy agendas than the other three institutional linkages. Cash benefits in South Korea are still among the lowest in OECD countries, accounting for 4 percent of household disposable income compared to over 30 percent in many other OECD countries (see OECD 2008a).

### **Infrastructure**

Infrastructure is indispensable to achieving the main development targets in developing countries, such as urbanization, industrialization, equitable income distribution and sustainable economic development. Effective infrastructure makes valuable contributions to enhancing economic activity by raising agricultural and industrial productivity, increasing private investment and lowering production and transaction costs

(OECD 2006, 2007). During the industrialization process, the Korean government concentrated its financial resources on economic sectors that were highly productive by expanding social overhead capital and nurturing strategic industries. As Ro (2002) pointed out, much of South Korea's unprecedented economic success since the 1960s can stem from its commitment to infrastructure development.

Infrastructure development in South Korea was undertaken in conjunction with its five-year economic development plans that mainly focused on labor-intensive light industry first, and heavy and chemical industry later (Table 5.1). For instance, transport infrastructure can promote access to economic and social services, augment the production and trade potential of local and national economies and reduce development gaps between developed and laggard regions. In the early 1960s, investment in the transport sector was mainly in railways; between 1962 and 1966, investments in railway projects accounted for 64.2 percent of the total investment in the transport sector. But the focus of investment in the transport sector shifted from railways to roads with the massive construction of expressways that began in the late 1960s. Many other expressways,

*Table 5.1* Economic development plan and infrastructure build-up

<b>Economic development plan</b>	<b>Major infrastructure build-up</b>
First Five-Year Plan 1962–66	Construction of mass transportation, especially railroads, to support import substitution industries and labor-intensive light industries (less than 1 percent of GDP for infrastructure development).
Second Five-Year Plan 1967–71	Construction of road transportation, especially expressways, to support export-driven industrialization and urbanization (4 percent of GDP for infrastructure development)
Third Five-Year Plan 1972–76	Further expansion of expressways and construction of major seaports to support heavy and chemical industries (2 percent of GDP for infrastructure development)
Fourth Five-Year Plan 1977–81	Further expansion of expressways, seaports and airports to support the ten-year comprehensive national physical development plan (over 5 percent of GDP infrastructure development)
Fifth Five-Year Plan 1982–86	Construction of inter- and intra-urban transportation networks (2.2 percent of GDP for infrastructure development)

*Source:* Kim J.-h. (2009).



urban railways and container ports were built throughout the 1970s. The trend of transport infrastructure development in the 1970s continued in the 1980s (Hahm 2003; Kim J.-h. 2009).

Here, it is worth noting that government investment in infrastructure – especially roads, electric power and communication sectors – is crucial for rapid economic growth in the early phase of development in developing countries (Kim 2006). Accordingly, key infrastructure systems such as transportation, electricity and telecommunications in South Korea were developed fast enough to meet their demand in the early stage of industrialization. The government actively established and used public enterprises for investment of social overhead capital starting from the early 1960s, and electricity, communication and steel were the main businesses of the public enterprises. The average growth rate of infrastructure (that is, transportation, electricity and communication) demand exceeded that of gross domestic product (GDP) per capita (Table 5.2).

Within a comprehensive infrastructure development plan, the Korean government invested a large share of expenditure for infrastructure development during the period of industrialization. More than one-third of the government annual budget was allocated for investment purposes, which was equivalent to more than 27.4 percent of gross domestic fixed capital formation for 1962–80, and the share of public sector investment in total investment averaged about 35.8 percent (Kim 2006). Given the lack of private investment in infrastructure, it was the public sector that played an important role in providing infrastructure facilities and services.<sup>7</sup> Finally, it can be concluded that reliable and efficient infrastructure leads not only to raising productivity and reducing costs in the productive activities of the economy, but also to improvements in health, nutrition and education, which are crucial to the reproduction of labor power.

*Table 5.2* Growth rate of GDP per capita, investment and infrastructure demand (percent)

Year	GDP per capita	Gross investment rate of GDP	Transportation	Electricity	Communication
1954–61	1.2	11.2	7.6	11.5	23.5
1962–71	6.0	19.9	14.5	22.4	17.9
1972–89	6.5	29.7	6.1	13.3	17.8
1990–2001	5.1	33.6	7.6	9.5	4.9
Total	5.2	22.9	8.8	15.5	19.0

*Source:* Adapted from Kim (2006).

*Social investment*

The key concerns of developmental welfare were the prominence of work in terms of an enterprise- and employment-centered welfare system and investment in human resources. However, such emphasis on the centrality of work and human capital development did not mean that the Korean government's spending effort was devoted to active labor market measures. For example, the public spending on active labor market programs was only 0.1 percent of GDP in 1996 (Martin 1998). During the economic buoyancy of the past decades, the governments before the 1997 crisis were content to ignore training needs and to rely exclusively on economic growth to meet employment needs. Instead of typical western social investment strategies such as active labor market policies, the Korean social investment approach was based on investment in education during the course of export-led and labor-intensive industrialization.<sup>8</sup>

Education can improve productivity through the promotion of skills, enhance innovative capability through the advance of scientific and technical knowledge and promote the swift adaptation of technology (World Bank 2004a). Given the cultural heritage that assigns great value to education and high status to educated people, investment in human resources was promoted mainly through education. Hence, South Korea spent a high proportion of general government expenditures on education (17.6 percent in 1972) compared to an extremely small proportion of social security expenditures (3.7 percent in the same year) (Jacobs 2000). As Table 5.3 indicates, a large proportion of government expenditure (general account) was devoted to the productive sectors of the economy, including education.<sup>9</sup>

Consequently, the average educational attainment of the Korean population and workforce increased outstandingly, contributing to the unprecedented economic success. Within 40 years, a modern education and training system has been created almost from scratch, with participation and completion rates at all levels of formal education that are now among the top handful of nations (OECD 2000, 2002). Table 5.4

*Table 5.3* Composition of government expenditure by function (percent)

<b>Expenditure by function</b>	<b>1983</b>	<b>1985</b>	<b>1987</b>	<b>1989</b>	<b>1991</b>	<b>1993</b>	<b>1995</b>	<b>1997</b>
National defense	33.0	30.6	30.4	28.5	25.4	24.6	22.1	21.3
Education	21.0	20.1	19.8	20.0	17.7	19.8	18.8	18.9
Social development	6.5	6.8	8.2	8.9	10.2	9.2	8.1	9.2
Economic development	17.2	16.1	19.5	14.9	16.4	20.7	22.3	25.4
General administration	10.8	10.1	9.9	10.3	11.2	11.9	10.6	10.7

*Sources:* KEPB (1994); Ministry of Planning and Budget (2000).

shows that South Korea had successfully achieved universal primary education and expanded secondary and higher education.

The educational strategy of expanding primary schooling first, then pushing secondary and only then tertiary broadened the educational pyramid and had an egalitarian effect; it contrasted with that of Brazil, for example, in which secondary education was limited to the elite and just sufficient to feed university enrollments (Adelman 1997). According to Kwon and Yi (2009), a rural population with higher levels of education constituted a huge reservoir of well-educated labor that would play a salient role in the industrialization process. The expansion of education, especially at secondary and tertiary levels, also endowed South Korea with a more productive labor force and enabled it to take advantage of export opportunities (World Bank 2004a). In short, the Korean developmental state highlighted the improvement of human capital, which could strengthen not merely the productive potential of individuals, but also their self-support capability.

### Tax incentive

The Korean government has had a long history of using tax incentives to spur economic and social development. Tax policy in South Korea during the industrialization process aimed to mobilize resources for capital formation in the public sector, while not discouraging investment in the private sector, and its most significant characteristic in connection with rapid industrialization was a tax incentive scheme

Table 5.4 Education indicators, 1961–93

Education indicator	1961	1966	1972	1981	1987	1993
<b>Primary</b>						
Total enrollment (1000s)	3,853	5,165	5,807	5,586	4,472	4,336
Enrollment ratio (%)	97	103	107	103	102	101
<b>Secondary</b>						
Total enrollment (1000s)	940	1,257	2,416	4,367	4,896	4,480
Enrollment ratio (%)	30	36	49	59	65	99
<b>Tertiary</b>						
Total enrollment (1000s)	109	197	239	546	1,010	1,109
Enrollment rate (per 10,000 total population, %)	44	68	65	187	243	252
Growth rate (annual %)	5.0	5.5	5.0	5.0	0.0	-0.1
Average years of school	n.a.	5.0	6.1	7.8	9.0	10.1

Note: n.a. indicates data not available.

Source: Adapted from Adelman (1997).

(Korea Institute of Public Finance 1997). In other words, a series of tax reforms during the 1960s and the 1970s was introduced to make the tax system more supportive of the five-year economic development plans. As Table 5.5 shows, tax policy increased tax revenue for public investment and induced private saving and investment.

In particular, the government widely utilized a variety of tax incentives for savings, capital formation and export promotion such as tax reductions, tax exemptions, investment tax credits, a preferential depreciation allowance, tax-free reserves and a tax holiday.<sup>10</sup> Table 5.6 gives a brief summary of tax incentives classified in terms of policy objectives. Tax incentives provided substantial support for investment in machinery and equipment in the early 1960s and rendered the highest benefits during the HCI of the 1970s. For example, the share of tax exemptions and reductions in the national tax revenue collected was about 30 percent in the early 1970s (Korea Institute of Public Finance 2004). Although tax incentives were actively and successfully employed in the course of industrial development, it is also necessary to streamline the various and complicated tax incentive schemes to eliminate the inefficient use of the incentives and enhance the tax base.

The revisions of tax laws after the 1970s reflected the government's intention to improve income redistribution. The basic directions of tax reforms included the reduction of the tax burden for low-income earners by increasing the level of income tax exemption and lowering the rate of income tax. Tax credits were enlarged in order to ease the tax burden on the low-income group without reducing the number of income tax payers in the 1980s (Korea Institute of Public Finance 1997; Ministry of Finance and Economy 2000). Value added tax (VAT) became a key resource of government revenue after its introduction in 1977, which could provide more leeway for expanding tax credits and income tax cuts for low-income earners. The VAT scheme was basically in line with the export-led industrialization strategy. At the same time, it introduced tax exemption for basic necessities and public goods – such as food, water, public transportation, medical and educational services – while also implementing a special consumption tax on luxury goods for enhancing redistribution (Korea Institute of Public Finance

*Table 5.5* Tax burden, investment and private savings, 1962–79 (percent)

Tax policy	1962	1964	1966	1968	1971	1973	1975	1977	1979
Tax burden ratio	10.6	7.1	10.8	13.9	15.0	12.5	15.8	17.4	18.4
Investment/GNP	12.8	14.0	21.6	25.9	16.2	22.2	18.3	27.5	28.8
Private savings/GNP	3.2	8.7	11.8	15.1	11.0	19.5	15.3	22.0	21.9

*Source:* An (2011).

Table 5.6 Summary of tax incentives

Tax incentive	Policy objective
Incentives for export promotion	Reserve for losses in export business and reserve for overseas market development
Incentives for key industries	Tax holidays (until 1981), investment tax credit, special depreciation
Incentives for SMEs	Reserve for investment, investment tax credit, reduction of corporate income tax, personal income tax and local taxes
Incentives for public corporations	Low corporate tax rate on cooperative associations
Incentives on financial income	Non-taxable interest income, low rate on interest and dividends
Incentives for development of technology and manpower	Reserve for technological development, incremental tax credit, income deduction, non-taxation on capital gains
Incentives for balanced development of urban and rural areas	Reserve for investment in farming and fishing villages, special tax treatment for hospitals in rural areas, tax reduction for farming companies
Incentives for encouragement of investment	Investment tax credit, income deduction for capital increase, tax credit for investment in housing, medical services, energy saving, and waste recycling

Source: Korea Institute of Public Finance (2004).

2004; Ministry of Strategy and Finance 2011). Despite some tax measures for redistribution, however, it should be noted that the Korean tax system could still be considered to be inequitable due to its heavy reliance on indirect taxation and the relatively low shares of income and property taxes.

To this end, the authoritarian developmental state in South Korea might be seen as a 'tax-cut' state that did not simply pursue the maximization of tax revenues, unlike the theoretical expectation of the 'predatory' state, that is, a model of a primitive state whose rulers extort taxes for their own ends (Kim M.-K. 2008). Tax policy not only served as a key part of South Korea's industrialization strategy by employing various incentives for both public and private investment, but also allowed a wide range of exemptions for social purposes.

## Conclusion

What lessons can be learned from the Korean experience for developing countries? Context matters, in the sense that policy regimes are more

than empty spaces across which borrowing and learning take place and, in turn, patterns and processes of policy transfer should be institutionally embedded, without abstracting policies, innovations, lessons or models from their institutional and social context (Peck 2011). Central to the analysis of policy contexts for South Korea's economic and social development is the institutional linkage between social policy and economic policy. Until recently, the existing studies (that is, the developmental state/welfare model, especially its subordination thesis) have tended to disregard the multifacet dimensions of the linkage between social and economic policy agendas, beyond its productive dimension.

This chapter thus investigates key institutional mechanisms and policy tools that made a synergistic linkage between social protection measures and industrialization in South Korea prior to the economic crisis of 1997. Given the lack of solid evidence of a general equity–efficiency trade-off, it focuses on the reciprocal, complex and dynamic interaction of social policy and economic policy at the regime and policy levels. Here, it is worth noting that the regime-level institutionalist perspective needs to be carefully applied to understanding, comparing and evaluating the policy context in developing countries, mainly due to the immaturity of their institutional configurations. In seeking the potential room for feasible institutional innovations in developing countries, more attention is devoted to the institutional linkage between social and economic goals that is concerned with four main policy agendas: distribution, protection, production and reproduction.

Based upon the four policy agendas, this chapter identifies four institutional linkages: infrastructure, social investment, tax incentives and cash transfers. Korean achievements during the industrialization period were readily made possible by appropriate utilization of the first three institutional linkages. But it should also be pointed out that all these types of the institutional linkage need to be modified and strengthened in order to meet complex social needs in an era of post-industrialism, which remains for further research.

## Notes

1. Amsden (1989); Haggard (1990); Evans (1995).
2. Deyo (1992); Goodman et al. (1998); Chung (2006); Kwon (2005).
3. The timespan of the analysis is restricted to the industrialization period from the early 1960s to the mid-1990s, and this research does not explicitly deal with politics or policy making behind the institutional linkage between

economic and social policies since its main focus is to illuminate the specific mechanisms of the institutional linkage itself. For a detailed analysis of welfare politics and social policy making during the industrialization process, see Lee (2008) and Ringen et al. (2011).

4. Kwon (1999); Shin (2003); Ringen et al. (2011).
5. Tang (2000); Holliday and Wilding (2003); Shin (2003).
6. From the early 1960s to the economic crisis of 1997, South Korea experienced changes with regard to economic policy: EOI, HCI, stabilization and liberalization, and globalization. Although each economic policy tended to have different effects on social protection, this study mainly focuses on the export-oriented developmental strategy, based upon both labor-intensive industrialization and HCI.
7. In 1994, the Private Participation in Infrastructure program was formally launched in South Korea with the purpose of delivering infrastructure facilities from the private sector in order to reduce the burden on public spending as well as to exploit the efficiency and creativity of the private sector. The limited success of the initial efforts and budgetary constraints after the Asian financial crisis of 1997 prompted the Korean government to pursue new initiatives of the program (Hahm 2003).
8. During the HCI process of the 1970s, the representative framework of a state-led training system was a training levy program based on the Basic Vocational Training Act (1976). Under the centralized training levy system, firms with 150 employees or more were required either to invest a certain percentage of total wages in training their employees and/or new entrants to the labor market or pay a training levy to the government in lieu of providing in-plant training. For firms like *chaebol*, however, 'retraining and upgrading the skills of their own employees was more efficient and cost effective than contributing to public vocational training institutions over which firms had no control' (Yi and Lee 2005: 151). However, as the government's guidelines on vocational training barely satisfied the training needs of individual firms after the 1980s, most employers did not follow the government's guidelines and preferred paying the levy than training workers (Yoo et al. 2011). Thus, the compulsory levy system was substituted by a new incentive scheme of voluntary vocational training through the Job Skill Development Program of the Employment Insurance Program (Lee J. 2009).
9. The allocation of already limited social spending due to the developmental strategy was further restricted by the extraordinary requirements of national defense expenditure in the South-North division of Korea. Public spending for national defense and economic development left little for social development expenditure.
10. Korea Institute of Public Finance (1997); Ministry of Finance and Economy (2000); Yoo (2000).

# 6

## The Development of Transformative Social Policy in South Korea: Lessons from the Korean Experience

*Moo-Kwon Chung*

### Introduction

Over the course of the past five decades, South Korea has experienced a remarkably successful transformation to a rapidly modernized country in the areas of economy, politics and social welfare. Today, South Korea has become one of the countries from which many other developing countries wish to draw lessons as a case study in successful modernization.

One of the potential lessons that deserves more attention is the role played by social policy in transforming the country from among the poorest without natural resources to one of the largest trading countries with a variety of globally competitive manufacturing goods, ranging from cars, ships, electronics to mobile phones. In this context, this chapter attempts to address three new perspectives under the conceptualization of 'transformative social policy', which have been neglected by the conventional approaches of both social policy and developmental studies, and draw out some lessons from the South Korean case.

First, the focus is on the basic functions of social policy from the conventional approach, which aims at protection and distributional functions in terms of directly ameliorating the social problems of capitalistic economic growth, to the 'transformative' role of social policies with their culminating outcomes and thus enhancing 'social capability' to influence a wide range of policy areas and development and transform the society and economy as a whole. Secondly, it is important to look at various 'functionally equivalent' policies or institutions that had played a significant role in promoting industrialization as well as enhancing welfare beyond a narrow category of policies and programs



mainly based on the advanced western welfare states. Thirdly, when learning by example, it is also relevant to recognize the political aspect of transformative social policy and the dynamic changes in the politics and power relationships between the state and society in each stage of development (that is, from early nation-building industrialization to democratization) leading to different historical paths and outcomes of development and welfare.

Through these new perspectives, we can identify institutions and actors that have played a significant role in enhancing the immediate or long-term outcomes of the specific welfare dimensions such as wealth and income, knowledge and skills and health in the process of industrialization, and explain the role of those institutions and actors in bringing changes in processes, institutions and actors in a wide range of policy areas. Some of these policy areas are dealt with in other chapters. Therefore, this chapter pays specific attention to the way institutions and actors generating welfare outcomes brought economic and political change in three specific policy areas: land and agricultural reform, skill formation focusing on vocational training, and social insurance and public assistance.

### **A new approach to social policy: transformative social policy in a development context**

In the context of developed countries where the conceptual underpinnings of social policy are closely related to the welfare state debate, social policy can be defined as ‘various forms of the state’s interventions related to improving human well-being’. Under the abstract conceptualization, social insurance, public assistance and social services focusing on care and health have been regarded as its core policies and institutions, followed by education and vocational training and housing policies, which are considered in a broader sense (Baldock et al. 2007). However, this conceptualization is more or less based on a configuration of an ‘aspect of the end-state of development – the welfare state’ and on the distributional effects of income and social protection, many of which may not be directly relevant to developing countries (Mkandawire 2004: 5).

Here, we look at social policy more closely in the development context, and emphasize the notion of transformative social policy in the sense that it, in whatever form, effectively changes human capabilities as well as welfare outcomes if and only if there is a change in institutions and the behavior of agencies and perhaps a long-term outcome

of development, although it does not produce the immediate outcome of the improvement of welfare (Mkandawire 2007). These institutional and behavioral changes take place mainly in the areas of accumulating and converting human capabilities into productive power, redistributing produced wealth and earned income, protecting people from the present and future risks and caring for children, the disabled and the elderly.

In this context, we may need to redefine the concept of social policy to include those functional equivalents to the conventional social policies that welfare state studies have long ignored (Estevez-Abe 2008).<sup>1</sup> In fact, various forms of the functional equivalents had been implemented at the early stage of industrialization of the late industrializers and, as the capitalist economy became mature, more orthodox social policies – such as social security policies – have grown by replacing the early functional equivalents or by coordinating with them. This approach conceptualizes and identifies social policy with a focus on welfare functions in diverse historical paths and a wide range of practices for development rather than mandated policy goals of the established welfare state. It also helps to find various forms of policies, institutions and actors involved in the government actions that consequently affect the welfare of people from a long-term perspective of development, for example, from early nation building to mature industrialization. Among late industrializers, including South Korea, the state has been an important agent for inventing various types of transformative social policy and changing economic and social structures through them.

Finally, social policies are not only a means of distributing political power between the state and society to achieve change, but also reflections of the power relationship at specific times of changes. From this perspective, we should be aware that the power relationship between the state and society are creating different dynamics by playing ‘transformative’ roles and leading different historical outcomes according to the time sequences of development (that is, from the early stage of industrialization through the transition to democracy to the stage of the mature industrialization and the impacts of globalization). A successful case at a certain stage can be problematic in a later one if the mechanisms that led to the early successful outcome are not appropriately adjusted and coordinated. To date, many comparative studies for drawing out lessons tend to be static by focusing on either successes or failures in given specific time periods. However, if we have a historical perspective or a dynamic time dimension of the changes in the developmental process, then we can have many different lessons throughout the historical process of changes.

We can identify various and interesting examples of transformative social policy, in particular those found in the histories of late industrializers not only in continental European countries such as Germany (the first generation of late industrializers), but also in the East Asian countries, including Japan, South Korea and Taiwan.<sup>2</sup> Although there have been several attempts to establish a theoretical framework for the investigation of the transformative role of social policy, it would be fair to say that they were largely unsuccessful in providing a solid framework for analysis. Although the suggestions to look at protection, redistribution and reproduction are highly insightful, it is also important to realize that how these areas are interrelated have not been clearly theorized (Mkandawire 2007; Yi 2010).

One of the ways to move forward from this seemingly theoretical impasse is to collect more empirical evidence for transformative social policy. A plausible strategy for the theorization of this approach is to investigate policy areas where welfare outcomes are generated as the immediate consequences of policies that explain the role of social policies in bringing about changes in process, institutions and actors as well as the long-term consequences of the policies.

With this in mind, in order to identify the transformative role of social policy from South Korea's experiences, three different forms of transformative social policy are chosen because each has played a specific role in different stages of development and also created problems and limitations as times changed in the historical process of development: (i) land reform and agricultural policy as typical functional equivalent policies at the early stage of nation building and industrialization; (ii) skill formation as a broader category of social policy at the stage of heavy and chemical industrialization (HCI); and (iii) social security policies as orthodox social policy at the stage of matured industrialization. Whatever the form taken, as transformative social policy they all provide interesting and important lessons.

## **Development of transformative social policy in South Korea: achievements and limitations**

### **Land reform and agricultural policies**

#### *Land reform*

Recently, land reform and agricultural policies are re-emerging as important policy agendas for development in emerging markets as well as current developing countries, as in Africa and South East Asia, because the serious inequality of asset distribution has been a critical barrier to

poverty reduction and accountable for poor macroeconomic performance.<sup>3</sup> In fact, looking closely at the histories of late industrializers in East Asia—such as South Korea and Taiwan, even China today—it is land reform that redistributes lands to cultivating farmers at the initial stage of development as a crucial policy measure to assist wealth redistribution, which consequently shifts the power relationships in the industrialization process, thereby creating the conditions for successful industrialization. The Korean case provides useful lessons for developing countries today, although it was implemented under a unique historical circumstance.<sup>4</sup>

Table 6.1 shows that the wealth redistribution effect was far-reaching; in 1945 almost 50 percent of farm households were tenants, but by the 1960s only around 7 percent of farm families were tenants. The reform had the immediate impact of dampening discontent among peasants by abolishing notorious tenancy relationships that had long been one of the main causes of social instability. Although its immediate impact on agricultural productivity and the income maintenance of the rural sector are debatable, it had a far-reaching impact on South Korea's successful industrialization.

First, land reform in South Korea profoundly affected class and state formations in post-colonial society (Hamilton 1986). The swift change in land ownership and the demise of the landlord class' power in the economy prevented them from playing 'any deterrent role' against industrialization (Evans 1987: 212). The political and economic weakness of the landlord class provided more leverage for state power and made a state–business alliance, with the state having the upper hand, much easier for successful industrialization (Chung 1992).

Secondly, land reform also directly or indirectly contributed to human capital formation, which is one of the most crucial factors for successful industrialization (Putzel 2000). It is well known that South Korea's traditional culture has placed a high value on education. Land

*Table 6.1* Owner–tenant distribution of farm households (percentage)

Type of tenure	1945 (%)	1947 (%)	1964 (%)	1965 (%)
Full owner	13.8	16.7	71.6	69.5
Owner–tenant	34.6	38.3	23.2	23.5
Tenant	48.9	42.1	5.2	7.0
Farm laborers and burnt-field farmers	2.7	3.1	–	–

*Note:* – indicates data not available.

*Sources:* Ban et al. (1980: 286); Putzel (2000: 5).

ownership with transferability for farmers created a sense of security and resulted in better planning and more investment in children's education and agriculture than the previously exploitive and insecure tenant system. Much of the farmers' increased income, if there was any, was spent on education for their children, in particular at the primary education level.<sup>5</sup>

Thirdly, it made a relatively homogeneous agricultural sector that provided the government with an environment for simpler policy design and easier implementation (Chung 1992). The government could easily manipulate the price of agricultural goods because of the diminishing oligarchy of landowners in control of a fragmented class of farmers. Through the government price controls, the rural sector's supply of agricultural products became compensation for the low real wage of the workers in urban areas, who were mostly migrant workers from rural areas. Thus, land reform in South Korea promoted industrialization based on cheap labor and maintaining macroeconomic and political stability.

#### *Agricultural policies*

Land reform in South Korea changed the dynamic of social relationships by redistributing land wealth to farmers and enhancing their social mobility, and thus became an underlying cause for successful industrialization. However, it is debatable to what extent it generated income increases because the terms of trade were not favorable to farmers during the 1950s and 1960s after the land reform.

At the time, grains – the main agricultural products – were mostly purchased by the government at a purchase price usually well below the market price (see column 4 in Table 6.2). The policy that created a substantial transfer of 'surpluses' to the urban industrial sector was undoubtedly the primary cause of the gradual decline in rural living standards up to 1967. The unequal exchange between the agricultural and urban industrial sectors also pushed the rapid migration of rural people to the urban and industrial sectors.

There were two reasons for the government's low purchasing price; first, during the 1950s, South Korea's import substitution industries and agriculture had been heavily dependent on the imports of raw materials, parts, agricultural machineries and fertilizers, mainly from United States (US) aid. Grain imports through the aid program US Public Law 480 (PL 480), with a sizeable volume, pushed the price of grain down and weakened the incentive for the government to develop policies for agricultural development by increasing the purchasing price. Secondly,

Table 6.2 Agricultural terms of trade, income and product prices, 1961–78

Year	1. Agricultural terms of trade 1974=100 <sup>a</sup>	2. Rural/urban per capita real income (%)	3. Index of real income per rural house 1963=100 (%) <sup>b</sup>	4. Ratio of government purchase price to market price for rice (%) <sup>c</sup>
1961	71	–	–	87.7
1962	70	–	–	58.9
1963	93	–	100	59.4
1964	92	–	105	89.3
1965	83	–	84	92.1
1966	78	–	87	88.2
1967	79	–	88	83.7
1968	78	–	92	81.7
1969	81	–	103	89.0
1970	90	67.4	106	97.9
1971	92	79.9	131	88.9
1972	98	84.5	142	101.6
1973	101	83.6	149	93.4
1974	100	95.0	147	88.4
1975	100	92.9	152	–
1976	99	84.5	–	–
1977	99	76.4	–	–
1978	99	65.6	–	–

*Notes:*

<sup>a</sup> Index of prices received by farmers divided by index of prices paid by farmers.

<sup>b</sup> Nominal income per household deflated by the rural price index, rounded up.

<sup>c</sup> Clearly, the market price would be lower if the government share were sold privately.

– indicates data not available.

*Sources:* 1. Bank of Korea (1970: 352, 1981: 266). 2. Kim and Joo (1982: table A-7). 3. Lee E (1979: table 3). 4. Ban et al. (1980: table 105) cited in Hamilton (1986: 40).

the political power of the farmers was still very weak in spite of land reform. The rural sector had been co-opted by the conservative authoritarian ruling blocs and could not organize its own independent political force due to anti-guerrilla wars and the Korean War. The structure of fragmented individual farmers was not a good environment for creating a channel through which they could have conveyed a demand for a price increase.

In the late 1960s, the Korean government started paying attention to the terms of trade in the agricultural product market. Expecting the termination of PL 480, which would lead to purchasing foreign grains and

consequently a substantial drain on foreign exchange reserves for industrial investments, the government realized the necessity of increasing the supply of domestic grains. Another significant cause of this policy change was a political motif created by regular election systems. The late 1960s was also a period characterized by a series of elections, including presidential elections. Although the elections at the time were not so transparent as a democratic mechanism to change power, they were an accepted barometer that showed the level of legitimacy of the ruling government. President Park Chung-hee wished to continue to rule the government and he most needed strong support from the rural sector where the majority of voters supporting him resided.

In 1969, the government created the Grain Management Fund and implemented a dual-price system as a result of a desperate need for self-sufficiency in food production to relieve foreign exchange constraints that feed industrialization, on the one hand, and kept grain prices low in urban areas, on the other. The government implemented three main agricultural policies. First, it decided that the domestic production of fertilizers, although joint ventures with multinational companies (MNCs), was conducted under highly disadvantageous terms. Secondly, it created the Fertilizer Account whereby the government purchased fertilizer and sold it to farmers at subsidized prices. Thirdly, it made efforts to develop high-yielding varieties (HYVs) of rice. In this milieu, Park also initiated the New Community Movement (*Saemaul Undong*) in order to modernize rural areas in 1971. The government orchestrated this movement by utilizing an extensive administrative network and subsidizing grain prices, cement, fertilizers and HYVs of rice.<sup>6</sup> These measures critically improved the rural economy and consequently the welfare of farmers. Column 1 of Table 6.2 shows that the terms of trade in the grain market changed in favor of the rural sector, and 1974 witnessed the best terms of trade when per capita rural real income increased to 95 percent of urban real income.

However, all of these subsidizing measures, ultimately aiding industrialization, resulted in a government fiscal deficit with high inflation.<sup>7</sup> In fact, these dual-price measures were not sustainable and finally were aborted during the early 1980s when the government of President Chun Doo-hwan implemented austerity programs. Inequalities between the rural and urban sectors decreased during the 1970s, before widening later on. The government's food policy shifted gradually from self-sufficiency to the importation of cheap grains.

As in any capitalist development, the rural sector became a basic resource creating economic surplus for capital accumulation. But the

Korean state actively attempted to improve agricultural growth and income to balance the increased inequalities between the rural and the urban sectors during the height of industrialization for political as well as economic reasons. It is an important lesson, even today, that when neoliberal policies prevailed in rural areas, the government's active role in the agricultural sector improved agricultural production and income in various ways, especially since the initial period of industrialization is the most crucial for its development and for improving the livelihood of farmers.

**Skill formation and labor market structure:  
human capital formation**

The formation of good human capital is perhaps the most crucial area of transformative social policy in the sense that it is the basic institutional condition for enhancing human capability and thus contributing to successful industrialization in the context of the late industrializers. Skill formation is one of the most important components of human capital formation along with health and education, although it is not a core institutional area of conventional social policy.<sup>8</sup> The macroeconomic and distributional consequences of the skill regime is a result of the complicated process affected by various factors such as the industrial structure, the labor market, the role of the state, production strategy and political relationships among labor (artisans), business and the state at the time of industrialization. And whether the skill regime will lead to a high-skill or a low-skill equilibrium mainly depends upon how to solve the problems of the market failure of the portability in skills and politically coordinate the interests of main actors such as business and skilled labor and the relevant policies of, for example, the educational system and labor market.<sup>9</sup>

Several comparative studies of skill regime formation in Germany and Japan, both of which currently have economically competitive manufacturing sectors, provide useful explanatory tools for understanding its strengths and limitations in South Korea.<sup>10</sup> Three different types of skill regime thus can be observed: (i) 'solidarism under the coordinate market economies' in Germany, which has an institutional arrangement for the collective provision of a pool of high portable skills that all employers can share; (ii) 'segmentalism within the coordinated market economies' in Japan, where the provision of skills is mainly coordinated through private plant-based training in the context of a strong internal labor market; and (iii) 'segmentalism in the liberal market economies' as in the UK and US, where skills are supplied primarily through



competitive a private market mechanism. While the first two coordinated models tend to have a high-skill equilibrium, the liberal model has a low-skill equilibrium.<sup>11</sup> The German solidaristic model has been relatively well coordinated with a stable supply of skills and equitable welfare outcomes, but the Japanese style of coordinated segmentalism tends to secure high-skills and intensify dualization of the labor market.

*State-led skill formation during HCI*

The developmental path of the Korean skill regime has been affected by the timing of its industrialization and historical contingencies. Thus, the development process of the regime provides both strengths and limitations that could provide useful lessons for developing countries. Due to a late and compressed transition to modern capitalism since the latter half of the twentieth century, South Korea could not form a politically influential group of craft artisans similar to those which played a critical role in forming a modern skill regime in the early late industrializer countries—such as Germany in the late nineteenth century—nor a weaker one as in Japan at the turn of the twentieth century. South Korea inherited only a few of the remnant vocational schools and a training system established by the Japanese colonial government. Thus, the Korean state could have more autonomy in building the vocational education and training system in the early period of industrialization.

Following independence, the Korean state quickly expanded the universal education system in order to create a strong sense of national unity in the early nation-building process by focusing mainly on expanding general education from the elementary school level. But it had paid little attention to developing an organized vocational training system until the early 1960s when South Korea started a series of five-year economic development plans. Expecting a serious shortage of skilled workers for the upcoming industrialization, the government began to build a vocational education and training system from the mid-1960s. Since then, the skill formation in South Korea has undergone three distinctive stages: (i) the state-led vocational training stage (1967–75); (ii) the business compulsory training stage (1976–98); and (iii) the regulated private training stage (1999–present) (Chung 2008).<sup>12</sup>

The formation of the vocational training system started with the enactment of the Vocational Training Law in 1967. Given the limitations of the lack of budgets and experts to build the public training system, the government made great efforts to seek and fully utilize foreign aid and loans from foreign financial institutions and consultants from

Germany, Japan and the US in order to build the planned public vocational institutions.<sup>13</sup> During HCI, the government gradually encouraged and forced the business sector to establish internal training programs and institutions by enacting the Basic Law of Vocational Training in 1976, which prescribed company-based training programs as duties.<sup>14</sup>

Figure 6.1 shows the development pattern and the performance of the vocational training institutions as a result of the government skill formation policy. First, the number of training institutions increased rapidly between 1974 and 1980, when HCI peaked. The government established public training organizations throughout the 1970s, but it was not sufficient to supply the demand. The government pushed the business sector to set up plant-based training programs within the firms such as on-the-job training and, as a result, the number of programs rapidly increased during the latter half of the 1970s. Undoubtedly, the state's prompt initiation of the vocational and education policies in the 1960s had greatly contributed to meeting the immediate demand for skilled workers at the shop level during HCI.

Nonetheless, the supply of highly skilled workers was quickly saturated due to rapid economic growth and the high demand from the construction boom in the Middle East. As a result, employers started poaching skilled workers by offering higher wages. This brought up the coordination failure in wage moderation and the stable supply of skilled workers in the labor market. Big businesses in the HCI sector began to establish their own on-the-job training programs to secure core high-skilled workers and provided them with corporate welfare and lifelong employment. Thus, South Korea's skill formation was initially state led, but became much like 'segmentalist plant-based training with strong internal labor market and dualization' similar to Japan.

Although the government quickly established public vocational training centers and schools, it was not possible to form high-skilled artisan groups at the business level as in early German and Japanese industrialization, which today is a competitive factor in manufacturing sectors (Hatori 2007). Instead, the Korean government and the diversified big business groups set their production strategies to compete in the world market by learning the imported technologies. Amsden (1989) calls it "industrializing through learning". The government emphasized and expanded engineering higher education in the 1970s and HCI big businesses placed highly educated engineers as shopfloor managers in order to educate and train the workers at the shop level. This production strategy was effective in constructing efficient assembly lines for the final products and upgrading the necessary technology and skills.

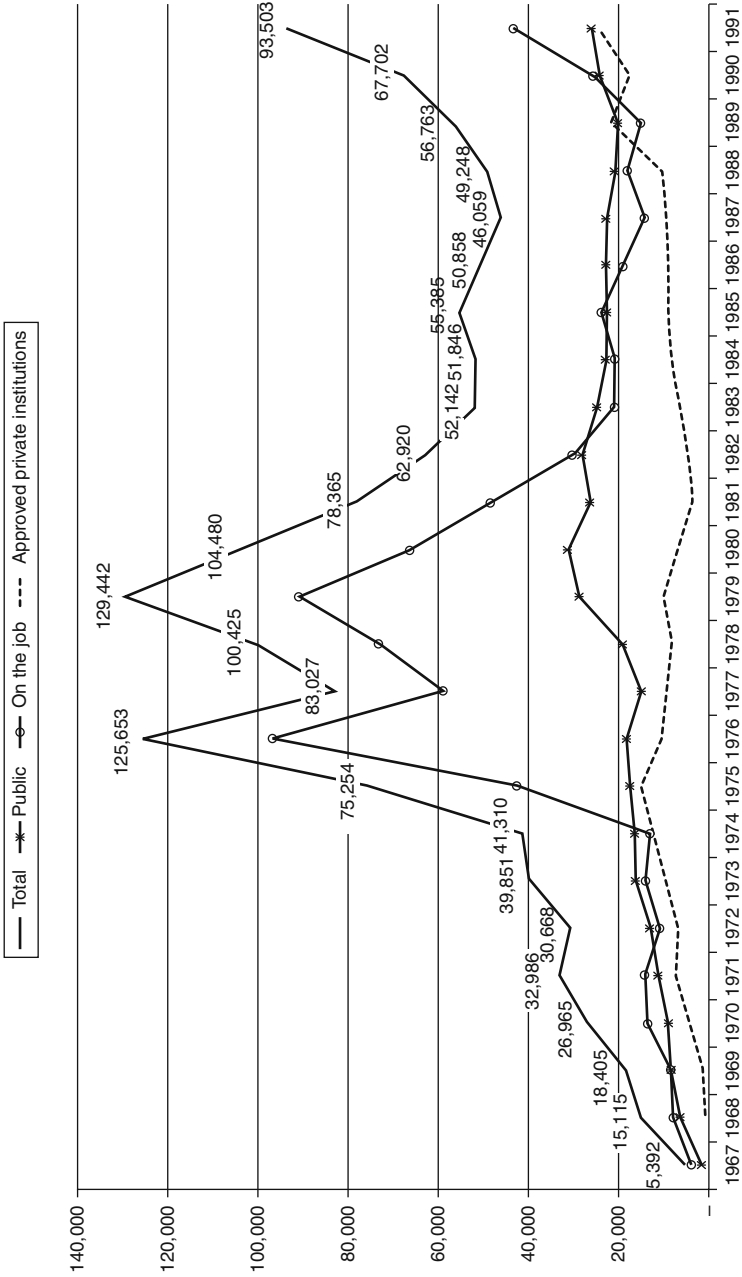


Figure 6.1 Number of technicians trained in the various vocational training institutions, 1967–91  
 Source: excerpted and modified from table 2-10 p. 35, table 3-15 p.133, table 3-17, p.137 in Chung (2008).

However, this production strategy led by HCI created a dualization in both the business structure between a few leading large firms and many subcontracted SMEs and the labor market. This skill formation process in South Korea became the institutional basis of a far deepening dualization that exists today.

*Changing industrial structure, democratization and regulated private skill formation: loosened coordination and dualization of the labor market*

The demise of Park's *Yushin* regime, which had initiated a big push for HCI during the 1970s with an impressive expansion of the vocational training system, marked a very important turning point for skill formation in South Korea. Although the initially overinvested HCI resulted in the economic recession, it had built a foundation for transforming the Korean economy into a new leading manufacturer in such areas as automobiles, shipbuilding, chemicals, electronics and machines today. In the early 1980s the subsequent Chun government forcefully restructured the overinvested HCI sector, implemented harsh austerity programs and gradually liberalized the economy to recover from the economic recession.

In this milieu, the Ministry of Labor and the Ministry of Education attempted to upgrade the vocational education and training system to meet the changing industrial structure toward a more high-tech manufacturing sector (Seo 2002; Chung 2008). The government established several special technical universities to provide a higher quality of vocational teachers and trainers. In addition, the private companies establishing private techno-colleges beyond the vocational high school level were allowed to supply highly-skilled workers. The government also developed an independent public corporation, the Korea Vocational Training Corporation (now the Human Resource Development of Korea) to coordinate the skill formation regarding the planning for vocational training with the private sector and certification.

However, these efforts for upgrading the skill regime at the ministry level turned out to be ineffective because the Chun government's main policy priority shifted from the previous state-led skill formation to the expansion of general higher education to meet heightened popular demand. The policy shift was implemented without careful coordination of the demand and supply of higher skills in the labor market. Since democratization, the subsequent governments began to further deregulate the higher educational institutions and loosen their coordinating role of the vocational training school system at the secondary school level to meet the skill demands of the industrial sector. This has

resulted in serious coordination problems for both skill development and labor markets with a high demand for higher education and the inefficiency and ineffectiveness of the public training institutions. The big business sector had gradually dominated the skills market, taking advantage of poaching higher skills.

The Chun government also forcefully changed labor organization to corporate unionism from the previous industrial unionism when it implemented harsh austerity programs to control the labor movement. Thus, the Korean labor organization was further decentralized, fragmented and atomized. The labor unions in the big business sector started to lead the labor movement, but they could not mobilize all the workers at the industry level let alone the entire working class. Solidarity was limited to big companies only. The company-based labor organizations intensified the internal market and dual labor market structure.

As the skill mismatch became more serious from the late 1980s, the government in the early 1990s once attempted to import the German dual apprentice model based on a '2+1 system' to upgrade the vocational education and training system. However, it failed because several important institutional conditions such as a trust-based relationship between employers and workers, a well-managed, sophisticated and independent skill certification system and an inter-company shared system of vocational training were more or less absent and uncoordinated.

In sum, the state's early role in establishing the vocational training system and higher education policy emphasizing engineering education had contributed greatly to meeting the immediate needs for the HCI drive during the 1970s in the absence of high-skilled artisan workers and the appropriate technologies. However, in the later period, skill formation in South Korea, interacting with the mode of wage determination led by the big business sector and company-based labor relationships, became one of the important institutional bases for the overall dualization of Korean economy and society, with gaps in wages, employment stability and corporate and public welfare between big business and SME sectors, on the one hand, and between organized and non-organized labor, on the other.

### **Development of the social security system: income and risk protection**

The social security system, including community care services, is the main body of social policies in the modern welfare state. It basically aims to protect the major social risks of health, old-age income,

unemployment and care (for example, children, elderly, disabled) that the capitalist economy has inevitably created.

This income and risk protection function is regarded as 'social wages' not only to prevent at-risk groups from poverty, but also to reallocate the wage-profit share between business and labor through corporatist coordination. Thus, the social security system can contribute to economic growth by creating stable demands in the domestic market for stable business profits and promoting economic competitiveness of the export sector in the world market. It can also increase equal opportunities for individuals to develop their own potential human capital and then take risks in entrepreneurial ventures. Ultimately, a well-designed social security system can contribute to reproduction of families, social integration and social capital. In this sense, the social security system also can be regarded as 'transformative' by contributing to production and reproduction of capitalist economy in direct or indirect ways.

#### *HCI and the development of the social security system*

In South Korea, the developmental process of the social security system has been remarkable in terms of speed and range of protection. Its development emerged during the 1960s when the Korean state began to modernize and implemented a series of five-year economic development plans.<sup>15</sup> But the actual development of social insurance programs started during the HCI drive of the 1970s that had created a large-scale working class and the subsequently related social risks and labor questions. This had been a period of critical momentum by which the Korean economy was upgraded into one of the leading manufacturing countries. In 1973, the government enacted the national welfare pension program in the name of the welfare of the people, but it had a hidden intention behind it to mobilize domestic capital by channelling the pension fund into HCI investment.<sup>16</sup> In spite of its social and economic motivation, the implementation of the pension program was soon postponed due to the economic recession that was driven by the oil crisis.

As the next social security policy, medical insurance was implemented in 1977. Until that time, private medical institutions had mainly delivered medical services, except for rudimentary primary health care, with resulting rapidly rising health costs. Accessibility problems and other disputes regarding the medical services in the private sector were increasing and turned into a political issue. As mentioned above, the big push of HCI in the mid-1970s had quickly exhausted the supply of skilled workers and the big business sector needed to protect their core workers and reduce heightened health costs. In this context, the

government persuaded businesses to cooperate and finally implemented a medical insurance program in 1977 by revising the unimplemented 1963 law (Chung 1992). Therefore, this program initiated by the state was a product of a close coalition between the state and the big business sector. During this period, labor organizations, which had been politically excluded, were not actively involved in the decision-making process of social welfare programs, including health care.

The medical insurance program began to cover manufacturers with more than 500 employees and gradually expanded its coverage to smaller firms. Due to the limited coverage scheme at the initial stage, the distributive effect was regressive. The medical insurance program contributed to protecting core workers in the industrial sector and people with stable jobs from health risks. Consequently, most of the people who desperately needed coverage—such as poor urban dwellers, the self-employed working in the informal sector, and farmers and fishermen—were excluded from the benefits. Instead, the government implemented a health assistance program to ease the financial burden of a small segment of the health costs of the poorest people.

Throughout the period of industrialization, conservative political elites and economic technocrats believed that scarce economic resources had to be mobilized for investment in industries and were very reluctant to initiate and implement social welfare programs that required large-scale state financing. Thus, the government first carefully implemented major social insurance programs to protect the core workers in the industrial sector who were also able to pay contributions. During HCI, only the work injury and medical insurance programs were implemented by protecting the core groups of industrial workers. This pattern of development clearly showed a closed connection to the state's industrialization strategy. It was reminiscent of the early late industrializers in Germany and later in Japan (Manow 2001). It was much like a 'Bismarkian' model or Titmuss' 'industrial achievement' model. Or we could call the Korean model a 'developmental welfare regime' as a version of the late industrializer in the Asian context in the latter half of the twentieth century, denoting the role of the developmental state as statecrafts in constructing a welfare system with a developmentalist ideology.

*Democratization, globalization and the expansion of the social security system*

South Korea's successful industrialization brought about democratization in the mid-1980s. Democratization in turn introduced new social

programs and the rapid expansion of coverage of the existing social insurance program to those who had been excluded in the early development process. The government of the newly elected President Rho Tae-woo implemented the minimum wage law in 1987, the aborted pension program (with coverage for firms with more than five employees) in 1988 and the expansion of health insurance coverage for the urban self-employed in 1989. The medical insurance program became the first universal social insurance program in South Korea. In just over ten years from its implementation in 1977, it greatly contributed to improving accessibility to medical care and the health status of ordinary Koreans.

Under the subsequent government of President Kim Young-sam, the national pension program was further expanded to cover farmers and fishermen. In addition, the Employment Insurance Program was implemented in 1995, anticipating the skill mismatch and unemployment for structural adjustments in the future. Until the mid-1990s, South Korea had four major social insurance programs to protect the major social risks: work injuries, health, old age and unemployment (Table 6.3). Democratization with industrialization in South Korea, as seen in many of the advanced western welfare states, has been regarded as a critical point in the development of the social security system.

However, democratization alone does not explain the whole picture of the development of the social security system. The balance of power between the state, business and labor is more crucial in shaping the levels of protection, redistribution and service quality than a mere transition to a formal democracy. Democratization had been carried out by the conservative ruling coalition without any significant real power shift to either the labor or the popular sectors. This rapid expansion in the coverage of the major social insurance programs itself was remarkable from a comparative perspective. However, the basic developmentalist ideas, which are an 'economic-growth-first' rule and the state's minimum financial role in welfare, were still embedded in the Korean welfare system. Thus, the government imposed strict rules on contributory obligation for the insurance benefits. In addition, it was very reluctant to take a policy option to subsidize low-income groups. Consequently, a large segment of low-income people in the informal and marginal sectors who could not pay contributions continued to be excluded from any entitlement to benefits.

The financial crisis during the late 1990s in South Korea was another turning point in the development of the welfare system from the perspective of the impact of globalization on social protection (Chung 2001).<sup>17</sup>



The government of President Kim Dae-jung, a progressive one based on more of the popular sector's political support, implemented a wide range of welfare reforms with more protection for the previously excluded marginal sector under the name of 'productive welfare', implying the continuous emphasis on the production side of the economy, although it had undertaken a wide range of neoliberal structural adjustment and economic reforms required by the International Monetary Fund (IMF).

In 1999, the national pension program began to cover everyone with taxable income, including the urban poor and the self-employed. The Employment Insurance Program and the Worker Injury Insurance Program also finally covered all employees in 1999 and 2000, respectively. For the health insurance program, which had already covered the entire population since 1989, the government unified the fragmented corporative system to improve administrative efficiency and social integration in 2000. Another significant reform under productive welfare was the public assistance program since the original program was unable to function as a safety net for the poor under high unemployment. Therefore, a new system – the National Basic Livelihood Security System (NBLSS) – was enacted to provide poor people with a minimal level of income as a right, regardless of whether they have the ability to work. This was a significant change in South Korea's history of social welfare in that the notorious 'new poor law' type of public assistance program had finally been replaced with a modern form of poverty relief. In 2007, the government began to implement the old-age long-term care insurance program. Table 6.3 shows the summary of the fast and impressive development process of the Korean social security system.

As described above, within a period of just 40 years South Korea, as a late industrializer since the Second World War, has certainly achieved an extraordinary development of its social security system, introducing a universal and comprehensive system alongside its economic success. Undoubtedly, much of the population has been protected from major social risks such as health, old-age, work-related injuries and unemployment. However, behind this development of a formal system of social security there are some serious problems and limitations in terms of the actual protection and redistribution.

Table 6.4 shows that the real effective coverage has yet to expand further. Most insurance programs, with the exception of health insurance, actually protect only half of the legally entitled population. This is because neither low-paid irregular workers nor small business employers in the low value-added sectors could afford to pay their share of

*Table 6.3* Development of the social security system in South Korea

Social security system	First enactment	Coverage expansion/ reforms	Full coverage
Health insurance	1963 (not compulsory) 1975	1977: workplaces with 500+ employees 1981: 100+ employees 1988: 5+ employees 1988: includes farmers/ fisheries 1989: self-employed in urban areas 2001: comprehensive single fund	1989
Work injury insurance	1963	1964: 500+ employees 1965–73: 16+ employees 1982: 10+ employees 2000: 1+ employee	2000
Pension (old-age)	1973 (aborted) 1986 (revision)	1988: 10+ employees 1992: 5+ employees 1995: includes farmers/ fisheries 1999: includes self-employed 2003: 1+ employee	1999
Employment insurance	1993	1995 unemployment benefits: 10+ employees training programs: 70+ employees 1998: 1+ employee	1999
Old-age long-term care	2007	Over 65 years old	
Public assistance	1960	2000: basic livelihood law	

*Source:* Author's summary based on the government's announcements.

contributions. This is a result of an industrialization strategy that inherently created dualization in the labor market and industrial structure, as in skill formation. The low actual coverage clearly manifests the incompatibility between the flexible labor market with a large informal sector and the strict contribution-based social insurance programs, which has been a basic principle of the development of the welfare system. This discrepancy between the legal and the actual mandate requires further structural reform of the social welfare system in terms of provision and

Table 6.4 Actual coverage of major social insurances, 1985–2010

Year	Non-agriculture employees		Actual coverage				
	Total employees (thousands)	(thousands)	Total %	Public pensions <sup>a</sup>	Health Insurance Program <sup>b</sup>	Worker Injury Insurance <sup>c</sup>	Employment Insurance Program <sup>d</sup>
1985	14,970	11,165	74.6	5.5	44.1 (51.1)	40.3	–
1990	18,085	14,629	80.9	31.2	–	51.6	–
1995	20,414	17,729	86.8	41.1	–	44.5	23.7
1996	20,853	18,237	87.5	42.2	–	44.7	23.7
1997	21,214	18,644	87.9	40.3	–	44.2	23.0
1998	19,938	17,330	88.9	38.8	–	42.8	29.7
1999	20,291	17,765	87.6	58.5 (85.7)	–	41.9	34.1
2000	21,156	18,650	88.2	60.8 (81.9)	–	50.9	35.2
2001	21,572	19,125	88.7	59.9 (80.70)	–	55.3	36.1
2002	22,169	19,771	89.2	60.4 (79.6)	–	52.9	36.2
2003	22,139	20,189	91.2	62.2 (82.9)	–	51.8	35.6
2004	22,557	20,732	91.9	60.0 (80.8)	–	50.0	36.4
2005	22,856	21,041	92.1	60.0 (80.3)	–	56.8	38.2
2006	23,151	21,366	92.3	60.7 (82.0)	–	54.2	39.8
2007	23,433	21,707	92.6	61.6 (83.4)	–	58.4	42.2

(continued)

Table 6.4 Continued

Year	Non-agriculture employees			Actual coverage			
	Total employees (thousands)	(thousands)	Total %	Public pensions <sup>a</sup>	Health Insurance Program <sup>b</sup>	Worker Injury Insurance <sup>c</sup>	Employment Insurance Program <sup>d</sup>
2008	23,577	21,629	91.7	61.9 (83.2)	-	62.3	43.6
2009	23,506	21,541	91.6	63.3 (84.8)	-	64.4	45.3
2010	23,829	21,904	91.9	64.8 (86.2)	-	64.8	46.2

*Notes:*

<sup>a</sup> The figures include those contributing premiums to national pensions, civil servant pensions and school teachers' pensions. The figures in the brackets include the people who should pay contributions based on the legal criteria, but are officially exempt by the government due to their low income in addition to the actual recipients of the pension (the number in the left column).

<sup>b</sup> Health insurance began to cover the entire population from 1989, but it is difficult to estimate the number of non-recipients due to non-payment of contributions. It is roughly estimated that the actual receiving rate of health insurance is more than 90 percent. In 1985, the 51.1 percent included those protected by the medical assistance program.

<sup>c</sup> The actual coverage of all employees in the non-agricultural sector is calculated from (the number of employees covered by the Worker Injury Insurance Program / all the employees in the non-agricultural sector) × 100.

<sup>d</sup> The actual coverage of all employees in the non-agricultural sector is calculated from (the number of workers covered by the Employment Insurance Program / all the employees in the non-agricultural sector) × 100.

<sup>e, d</sup> The actual coverage rate of the Worker Injury Insurance Program and the Employment Insurance Program includes the special category of workers who should be covered, but are legally excluded due to their particular job characteristics (e.g. heavy truck drivers, golf club caddies and teachers for homework studies).

- indicates not applicable.

Sources: For 1985–2007, Kim J.-W. (2010: 72); for 2008–10, Ministry of Health and Welfare (2012).

a financing scheme—for example, toward a more tax-based universal system along with reducing the dualization of labor market from the current strict contribution-based social insurance system.<sup>18</sup>

Access of the needy to the minimum income protection schemes is hindered by the conditionality embedded in the public assistance programs. Many low-income individuals, especially the elderly, still remained excluded from benefits because actual conditions for access adopted unusually strict income and wealth criteria, including a family obligation to support them. As Figure 6.2 shows, the effectiveness of the public transfer programs on poverty reduction is the lowest among 29 Organisation for Economic Co-operation and Development (OECD) countries. This reveals that South Korea still has many challenges that should be dealt with in the process of universalization of the social security system.

South Korea is not yet proactive in investing public funds in social welfare, as shown in Figure 6.3. Overall total public social expenditure is gradually on the rise, reflecting the ongoing development of the social security system. But it is still only approximately 10 percent of gross domestic product (GDP) and, among the OECD countries, it is in one of the lowest groups (Figure 6.4). A major challenge is how to finance the social security system. As discussed above, the insurance-based social security system becomes financially very problematic due to those who cannot afford the contribution because of unemployment or underemployment in the labor market with the increasing informal sector.

In sum, there is no question that South Korea is a country that has rapidly developed its social security system to formally cover the major social risks of most citizens. But it still has problems in its actual protection and thus has much room for further reforms to protect the marginal groups who are excluded from the current system. Furthermore, in the face of the changing economic and population structures, South Korea requires a paradigmatic change toward a ‘social investment welfare state’ with a more active role of the state in financing and protection compared to the current minimalist and old-fashioned developmentalist one, that is, an upgraded version of ‘transformative social policy’ at the same stage as mature industrialization and democratization. Nonetheless, the state’s efforts and capacity to develop the social security system during the industrialization process should be useful to other developing countries in terms of its pre-emptory efforts to protect the expected social risks during industrialization and the consistent expansion to universally cover the population.

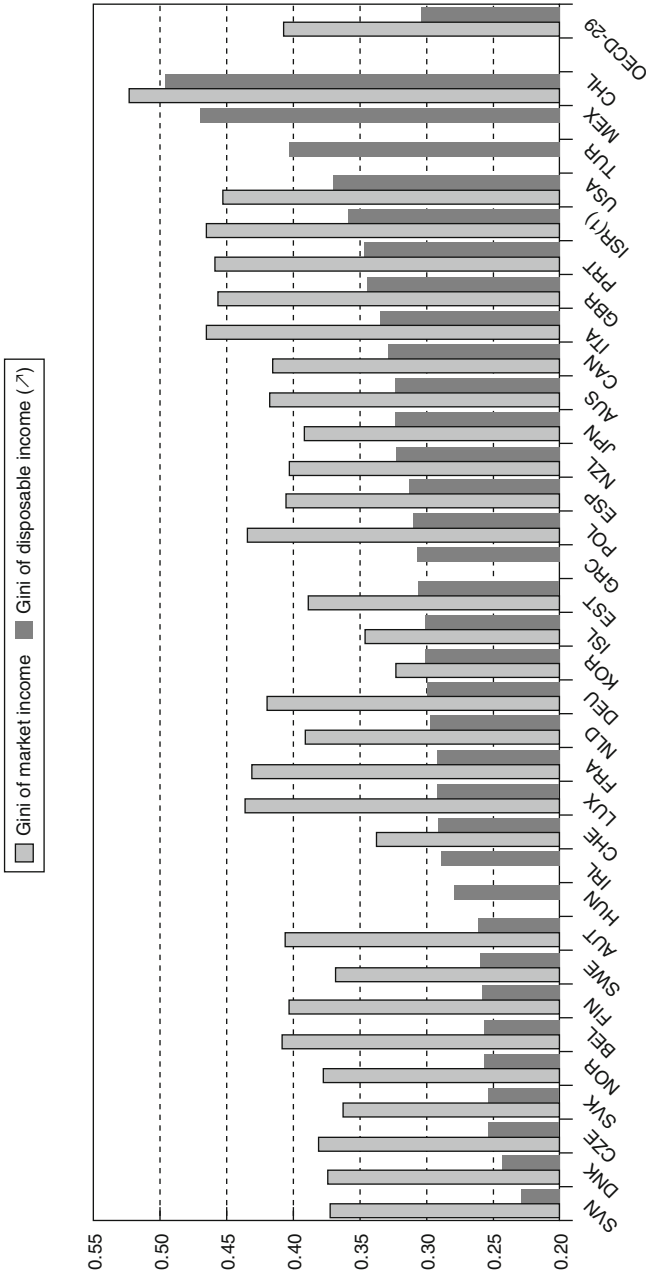


Figure 6.2 Gini coefficients of inequality of market and disposable incomes, working-age people (aged 18–65), late 2000s

Notes:

Late 2000s refers to a year between 2006 and 2009.

OECD average excludes Greece, Hungary, Ireland, Mexico and Turkey (no information on market income available).

Sources: OECD (various dates-a); for Israel, <http://dx.doi.org/10.1787/8888932315602>.

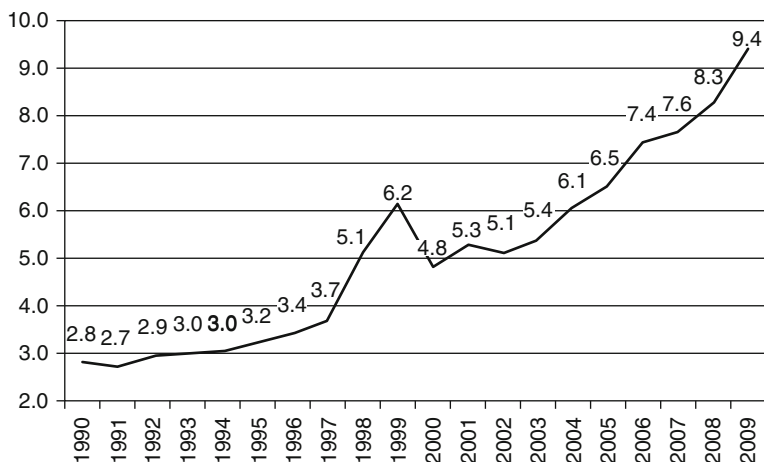


Figure 6.3 Trend of public social expenditure in South Korea, 1990–2009 (percent of GDP)

Source: OECD (various dates-b).

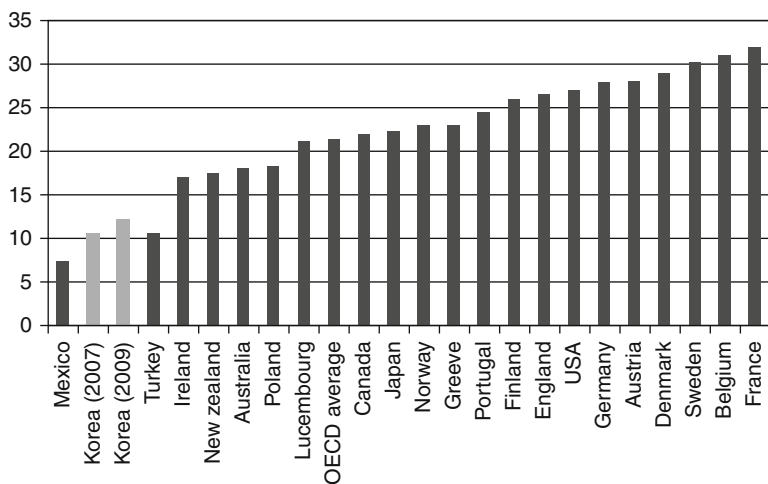


Figure 6.4 International comparison of gross social expenditure, 2007

Source: OECD (various dates-b).

## **Conclusion: lessons from the Korean experience**

This chapter examines three main domains of transformative social policy that South Korea has uniquely experienced—the agricultural sector, human capital formation and the social security system—in terms of how these policies have developed, to what extent they have been transformative and the lessons that could be learned by current developing countries. During this process, several important lessons can be drawn, although the timing of industrialization and thus the environmental conditions that South Korea experienced in the past may be quite different from those faced by the current developing countries.

First, from a development context, we need to extend our concept of social policy from the one manifested in the advanced welfare state to a concept that incorporates functionally equivalent policies. The Korean case clearly reveals that during the early nation-building process or the initial period of industrialization various state policies functionally equivalent to social policy had played transformative roles. For example, land reform and the subsequent agricultural policies during industrialization clearly contributed to its success as well as the welfare outcomes of farmers. For developing countries with a large agricultural sector and suffering from rural poverty and stagnant industrialization, the land reform and agricultural policies to protect the income and livelihood as well as the facilitation of the economic growth should be seen as important policy options from both a short- and long-term development perspective. If we stick to the conventional concept of social policy, we may lose important insights on various forms of functional equivalents to transform the economy and society, whatever their forms are.

Secondly, the Korean case shows that skill formation, as an important part of human capital formation in addition to education policy, has significantly contributed to successful industrialization, especially in the early stage of HCI. The formation of high-quality human capital directly impacts enhancing social capability in adopting and learning the imported leading technologies and innovation to catch up with the productive competitiveness in the world market. Since industrialization in the 1960s, the government has made its best efforts to supply skilled workers, especially for HCI, given the starting base of a lack of effective training systems and skilled workers. Although the government attempted to establish a high-skill regime, the actual skill formation in South Korea took the path to a segmentalist skill regime, which is



dominated by the skill requirements of big business. This is due to the lack of coordination between the general higher education system, vocational education system and business demands. Coordination failure contributed to the formation of a dual labor market with a strong internal market and corporate welfare. Therefore, the human capital formation toward a high-skill regime requires more sophisticated institutional design and coordination between the education system, vocational training system and the interests of the employers and workers.

Thirdly, the Korean social security system has developed in an impressive way toward, at least formally, comprehensive and universal coverage, which is unique among the comparable late industrialized countries. However, its development process, the basic framework of the social security system, has been aligned with early developmentalist principles: the least possible involvement of state financing, contribution-based entitlement of social insurance benefits and a strict work-based principle. Although the welfare system created a sizeable gap between those legally eligible for universal coverage and those who actually received benefits, it has contributed to protecting workers and ordinary citizens from major social risks.

Finally, we need to reconsider the role of the state in the face of the currently dominant neoliberal view of the state and market for development and welfare. As the Brazil, Russian Federation, India and China (BRICs) and other newly industrializing countries show, the state's role is still crucial in mobilizing domestic human capital as well as various economic resources in the absence of high-quality entrepreneurship, domestically accumulated capital or knowledge and technologies in the process of industrialization. They are often authoritarian and have problems with corruption and policy ineffectiveness. Nonetheless, most histories of successful late industrializers reveal that successful industrialization requires an effective developmental state, but if we want a more sustainable development with a balanced distributive outcome of welfare, then the effective state should be based more on the popular power of enlightened active citizens.

In this sense, constructing a 'democratic' developmental state that can implement a more inclusive developmental strategy with transformative social policy is a critical institutional condition for development.<sup>19</sup> The newly emerging developmental state should be able to defend the interests of the majority of its citizens from those of a few privileged groups and build up a competent and fair bureaucracy and effective administrative capacity through administrative reforms.

## Notes

1. Estevez-Abe (2008) provided several examples from Japan such as public works, subsidies to rural families, market restricting regulations and employment protections as functional equivalents to protect the livelihood of citizens.
2. See Gerschenkron (1962), Johnson (1982), Pierson (2004) and Chung (2007). The Nordic and continental European countries were the first generation of late industrialization and also became the most advanced welfare states (Pierson C. 2004). The East Asian Tigers, as a next generation of the successful late industrializers since the twentieth century, developed their welfare systems with different distributional effects and protection, although they are formally similar to those in continental Europe. For a comparison of German and Japanese non-liberal capitalism, see Streek and Yamamura (2001).
3. Putzel (2000); World Bank (2003); Department for International Development (2004); Chang (2009); Brooks (2012).
4. For more details about South Korea's unique historical contexts, see Chapter 9.
5. Even the redistributed lands were resold later to provide higher education for farmers' children in urban areas.
6. For a more detailed evaluation of the *Saemaul Undong*, see Chapter 7.
7. During 1972–79, the Grain Management Fund deficit amounted to about 3 percent of total government expenditures and roughly one-quarter of the total deficit (Ha 1992).
8. Recently, 'the variety of capitalism' perspectives regard skill formation as an important institutional area linking production and welfare regimes. For more details of the transformative role of health and education in the Korean context, see Chapter 8. For an analytical explanation on the interactive roles and effectiveness between protection and production functions of social policy, see Chapter 5.
9. For details of skill formation theories, see Finegold and Soskice (1988), Brown et al. (2001), Thelen and Kume (2001), Thelen (2004) and Kraak et al. (2006).
10. Brown et al. (2001); Thelen and Kume (2001); Swensen (2002); Thelen (2004).
11. Training could be accomplished either outside businesses (e.g. through public vocational schools), inside businesses (e.g. coordinated and monitored apprenticeship) or a combination of the two.
12. For a detailed story of development, see Seo (2002) and Chung (2008).
13. The Korean government utilized various sources of aid, loans and consultants outside South Korea—e.g. aid specialists from the US, ADB loans (1977–91), IBRD loans and German government funds and consultants—for detailed information, see Seo S-s (2002).
14. Since the late 1990s, along with the implementation of the Employment Insurance Program in 1995, which subsidizes in-house company training programs, the government encourages private training programs and institutions with public subsidies for flexibly meeting the needs of businesses.
15. The Basic Law of the Social Security System prescribing the basic ideas and principles of the social security system was enacted in 1963. It specifies

self-help, work incentives and a minimal level of government involvement in social welfare, all of which were symbolic manifestations of 'developmentalism' in the Korean welfare system. Two insurance programs (medical and work injury) were proposed, but only the Worker Injury Insurance Program was implemented by covering a selection of large industrial manufacturers. During this period, a series of special public occupational pension programs were enacted: the Civil Servants Pension Program in 1960, the Military Pension Program in 1963 and the Teachers' Pension program in 1973. The early implementation of public occupational pension programs, compared to public pensions for ordinary people, was clearly a common step found in the nation-building process to run the state apparatus by co-opting the core state elites.

16. This idea was presented by a US economist visiting the KDI, which was the major think-tank for economic development at the time.
17. For a detailed analysis of the Kim Dae-jung's government reforms, see Chung (2001).
18. A basic example would be the reform of the pension program from the current unified insurance system to a two-tier system: basic pension system and income-related insurance program.
19. For recent interest in the 'democratic developmental state' in current developing countries, see Stein (2000), Mkandawire (2001) and Edigheji (2010).

# 7

## The *Saemaul Undong* in Historical Perspective and in the Contemporary World

*Mike Douglass*

### Overview

Initiated by the government of President Park Chung-hee in 1970, the *Saemaul Undong* (New Village Movement) became a nationwide program of rural development that by the end of the decade had spread to cities as a national symbol of the Korean way of government-guided participatory development. Originating as village modernization projects based on materials provided by the government and village self-help cooperation, it was subsequently linked with the advent of the Green Revolution in rice production. The successes attributed to the *Saemaul Undong* are manifold. Village upgrading and heavily subsidized rice production together raised rural household living standards and incomes to the level of urban households. South Korea also approached self-sufficiency in rice production. Village projects had a snowball effect, with one success encouraging another, leading to substantial village improvements in a relatively short period of time. Local-level officials became more efficient in implementing public programs and were better able to support village and agricultural needs. As a source of unity and national identity, the *Saemaul Undong* also became a prominent slogan and symbol of a Korean way of development.

The limitations of the *Saemaul Undong* have also been noted. Taking place during a period of martial law meant that participation was contained within village-level projects, with critical assessment of the program muted. Its lack of rural-urban linkages indirectly contributed to national spatial polarization of development and the eventual depopulation of rural regions and rural towns. The industrial component of the *Saemaul Undong*, which was oriented toward decentralizing operations of large corporations, did not experience significant advances.

The mechanisms of the Green Revolution component of the *Saemaul Undong* created high-cost production regimes that proved difficult to sustain after support was withdrawn.

In terms of its two main components, village modernization and the Green Revolution, the *Saemaul Undong* had run its course by the early 1980s. Villages had been modernized to the levels that self-help village cooperation could achieve. High levels of subsidies for agriculture could not be maintained indefinitely. Limits on the use of South Korea's Tong-il high-yielding rice variety (HYV) also had been reached. Political unrest added to a turning away from the *Saemaul Undong* as symbol of government-inspired development.

In the decades from the 1980s to the present, the *Saemaul Undong* has gone through several reformulations. The principal direction running through all decades has been to limit the role of government in the *Saemaul Undong* and to increasingly emphasize the spirit of voluntary cooperation as a central characteristic of Korean people and national identity. *Saemaul Undong* offices continue to operate at the national level and among local governments in South Korea. The national government recently has called upon the *Saemaul Undong* spirit as a key element of its foreign assistance to Africa, Asia and Latin America. Implicit in this approach is the idea that a Korean way of rural development has intangible elements that can assist people in other countries to draw on their own voluntary efforts to better their lives.

As a complex set of policy experiences, the lessons of the *Saemaul Undong* are historically bounded and contextually contingent. As explained below, the dynamics that made it successful in the 1970s could not be reconstituted either in South Korea or anywhere else in the contemporary world. It is not a matter of the level of gross domestic product (GDP) per capita, that is, that it would be appropriate for other countries now at the level of income that South Korea had at the time of *Saemaul Undong's* heyday. Agriculture technologies, structures of government, modern agriculture and many other factors have changed rural regions everywhere in terms of the range of possibilities that rural households have for livelihood and self-advancement in today's globalized economies.

However, when viewed as a social learning process, lessons might be drawn from the *Saemaul Undong* experience that transcend its historical confines. One is the objective and inspirational knowledge that it really did occur. In other words, as an experiment in rural development that learned and adjusted as it went forward, the *Saemaul Undong* reveals an experience in which central government effectively paid attention

to rural welfare and livelihood and, through a combination of policy interventions, succeeded in mobilizing rural society and, with government material and price support, raising rural standards of living toward those of the city. The *Saemaul Undong* also shows that in acknowledging that cooperation can make important contributions to people's welfare and livelihoods, government can have a role as catalyst in initiating rural advancement.

This catalytic role was partially derived from the legitimacy enjoyed by what has come to be known as South Korea's developmental state. As explained by Woo-Cumings' (1999b: 20) explication of Johnson's (1984) explication of the developmental state in Japan, the Park regime enjoyed a 'moral mandate' of unquestioned acceptance of a strong state presence in people's lives, which was crucial in carrying out *Saemaul* projects that depended on the capacity to 'mobilize the overwhelming majority of the (rural) population to work and sacrifice' for a 'revolutionary project'. However, without the cement, steel and agricultural inputs provided by government, and without the extraordinary government price support for grain production, stirring the enthusiasm of rural people alone – even with the catalytic mandate of the developmental state – would not have been sufficient to raise rural well-being and incomes.

The successes and limitations of the *Saemaul Undong* as it played out in the 1970s are still not settled matters in South Korea. Older generation rural households tend to look back at the decade as one of the great *Saemaul Undong* accomplishments that lifted rural regions on to a par with their urban counterparts. They recognize, however, that the time for rural development to be based on voluntary labor has passed into history. People from urban areas seem to have a more mixed assessment of the *Saemaul Undong*, which many see as a top-down rather than bottom-up program that was carried out before democratic governance was in place. In either case, however, the *Saemaul Undong* is an important episode in South Korea's national development that has lasted in the collective memory of people decades after its halcyon days were completed.

### **The *Saemaul Undong* in the context of rural development theory and practice**

Rural development planning is best understood as a local response to prevailing ideas and concepts at a particular historical moment. General ideas and prescriptions for rural development have changed greatly

over time, as have the global and local contexts for rural development planning. The place and time of the *Saemaul Undong* as an approach to rural development in rural South Korea in the 1970s came about during the decade in which the country was among a handful of miracle newly industrializing countries and ideas about rural development were shifting from reviving traditional pre-colonial communal traditions to formal economic sector development approaches focusing on an emerging Green Revolution in grain production as its centerpiece for rural development.

In this milieu, villages in South Korea were renovated and the rural economy grew rapidly under the banner of the *Saemaul Undong*, remaining an iconic experience in modern South Korean history. Eventually, the question to be asked is whether lessons can be drawn from this experience that are relevant to efforts to develop rural areas in other countries in the world. Preliminary to addressing this question is a need to locate the *Saemaul Undong* within the prevailing theories, strategies and practices of rural development of its time.

The intention here is not to distill a model of rural development from the *Saemaul Undong*, but rather to assess its components and key interrelationships as a way to think through them with reference to other contexts to explore which programs and projects inspired by the *Saemaul Undong* might be worthy of pursuing elsewhere today. While this is a speculative undertaking that is full of caveats and cautionary stories, this study concludes that lessons can be drawn from the successes as well as pitfalls of the *Saemaul Undong*, and practical approaches toward rural development can be extrapolated as starting points in other contexts. Such a conclusion cannot be drawn from a consideration of the *Saemaul Undong* alone, but is equally contingent upon understanding the *Saemaul Undong* in a comparative perspective of the contexts of other countries.

Looking back into the history of rural development from the advent of national development planning in the post-colonial world following the Second World War up to the 1970s, rural development thinking in Asia and other de-colonized world regions initially gave emphasis to community development and advocated a return to traditional social relationships and endogenous forms of livelihood. This approach fit well within the political agenda to build national identities with independent governments of newly formed nation-states. Gandhian economics in India, Ujamaa development in Tanzania, Harambee in Kenya and such luminaries as Paulo Freire in Brazil captured the imagination of rural development to focus attention on the village, the community

and the poor as agents of their own progress.<sup>1</sup> Non-alignment rather than reintegration into a global capitalist world system was a prominent posture of what was then called the Third World. In Latin America, plantations owned by transnational corporations were nationalized, and socialist revolutions were under way.

Socialist experiments were soon to become the exceptions rather than the mainstream, and by the late 1960s, the community-centered approach also was being superseded by newly theorized universal models of stages of national economic growth and industrial takeoff.<sup>2</sup> These changes in thinking were part of the advent of 'developmentalism' as a technocratic and economic process that gained dominance, along with the prominence given to the United Nations (UN) and the World Bank as major development policy institutions that gave credence to the appearance of the strong-arm developmental state, South Korea being an oft-cited principal example.<sup>3</sup> In South Korea, the Park government began to piece together a large technocratic capacity, with policy think-tanks and planning bureaus established and headed by economists, business school graduates and engineers who mostly had graduated from United States (US) universities (Park 2005).

Under the economic tutelage of national development planning, 'rural' became a sector, with villages as sources of labor for producing commercial crops (McNicol 1993). While urban industry was the hope of the future, agriculture needed to play its part in three ways: (i) to supply cheap labor for urban industry; (ii) to supply food for rapidly expanding urban populations; and (iii) to provide capital for investment in infant industry through price squeezes on agricultural commodities. In this manner, rural development was subordinated to the mission of accomplishing a historic transition to an urban-industrial society led by high rates of economic growth that, according to the popular theories of the day, would trickle down to rural households (Lewis 1954; Fei and Ranis 1964).

However, by the 1970s, economic growth was found to still be leaving large segments of society in poverty, particularly rural households, leading to basic needs strategies as counterweights to unrestrained economic growth. The World Bank put forth its strategy of redistribution with growth, which was intent on measuring the cost of the dampening effect on economic growth that policies aimed at redistributing wealth and income from the rich to the poor might bring (Chenery et al. 1974). As a concept, basic needs accented the role of agriculture in providing food, particularly grains as food staples, as poverty was redefined as a lack of calories measured by the income needed to obtain sufficient



amounts of rice to sustain life. Such a definition resonated in South Korea in the 1950s and 1960s. Historically an agrarian economy, South Korea became even more so following the division between North and South Korea at the end of the Korean War, which left the colonial industrial structure and natural resources in the North and very densely settled rural regions in the South.

The density and pressure on agriculture were intensified by the repatriation of more than a million Korean citizens from Japan following the end of the Second World War. In the first few years of the Park government in the 1960s, urban industry became the favored sector, and agriculture began to lag more seriously behind rising urban demand. This was dramatically changed in the 1970s with the advent of the *Saemaul Undong* and its associated Green Revolution program.

The shift toward basic needs also lent itself readily to the objectives of the science of crop engineering that was then producing and disseminating the Green Revolution as a rural development strategy aimed at contributing not only to rural households, but equally to rapidly increasing ranks of urban workers who, in their seemingly unlimited supply, received very low wages in the city. The Green Revolution soon became a centerpiece of policies throughout the world, including Asia.<sup>4</sup> Countries such as South Korea, that had previously been recipients of food aid, could at last be self-sufficient in basic grain production, and in so doing could give new hope to agriculture as a source of rising rural incomes, while feeding the expanding cities and creating higher levels of food security (Staatz and Eicher 1990; Barraclough 1991).

In parallel with the shifts in mainstream policy paradigms, the 1970s proved to be an exceptional decade, during which strategies for an 'alternative development' also flowered. These ranged from explorations of Maoism to a re-energized 'liberation theology', 'small is beautiful' initiatives and continuing proposals for community-based rural development. Indicative of the times was the emergence of dependency theory in Latin America, manifested in the signing of the Cocoyoc Declaration at a UN gathering in 1974. In calling for national self-reliance to redress the failures of global economic growth, the Cocoyoc Declaration stated that 'a temporary detachment from the present economic system that perpetuates economic dependency' could be required (UNEP/UNCTAD 1975: 4). In other words, what constituted rural development in alternative development proposals was not just minor tinkering with the new conventional theory, but was instead diametrically opposed to it.

Critiques of the Green Revolution also found their way into the search for alternatives. Among the identified problems, to name a few,

were: (i) high dependency on chemical inputs and water, and thus prohibitive costs to small farmers; (ii) high risk of pest infestations due to the homogeneity of adopted grain varieties; (iii) vertical integration into global agribusiness that increased farmer outlays and risks; and (iv) the pushing of women out of agriculture (Goodman et al. 1987; Shiva 1991). Despite such criticisms, the Green Revolution was adopted around the world and become a main component of the *Saemaul Undong* as well.

Because of its high costs and need for high levels of coordination in delivering new seeds, expanding irrigation systems, organizing credit systems and constructing rural roads and storage facilities, the Green Revolution was also highly dependent upon government support. This fit well in the Korean context of a strong central government. In South Korea, as in all countries adopting the Green Revolution, the government needed to build large-scale credit cooperatives and storage facilities and to buy large shares of the crops as well as to market them (Kim Y.-C. 2004). Without such government-initiated support, the Green Revolution would not have been adopted by farmers, almost all of whom had very small farms and low incomes. Providing low-cost credit through farmer cooperatives was especially crucial in getting rural households on board the *Saemaul* Green Revolution movement. Government involvement in the purchase and sale of grains was necessitated also by the policy to buy high from farmers and sell below market prices to burgeoning legions of low-wage urban workers, most of whom were migrants from the countryside, as a way of lifting rural incomes, while keeping a lid on urban wages to remain internationally competitive in expanding export industries, which was a major issue in sustaining the Korean government's strategy of export-oriented industrialization (EOI).

Another element added to rural development thinking internationally during the decade of 1970s was the spatial dimension, namely, rural-urban relationships and linkages. While some of this discussion focused on debates concerning urban versus rural biases in planning,<sup>5</sup> from a more pragmatic perspective a host of strategies appeared for linking rural with urban development. These included such ideas as special integrated rural development programs that focused on non-farm employment and rural spatial linkages, central place theory and urban functions in rural development, and many other rural-urban linkage programs such as agropolitan development that stressed the need to localize governance institutions.<sup>6</sup>

As compelling and diverse as the many proposals for integrating rural and urban development at local levels might have been, in South Korea

none were adopted, and the focus on urban industry prevailed through the widespread adoption of the growth pole approach toward industrial deconcentration away from rapidly growing metropolitan regions (Lo and Salih 1978). The growth pole approach effectively de-linked urban from rural development as a regional or localized development process, and the treatment of rural and urban as sectors to be planned under separate bureaus also contributed to the absence of a much-needed spatial or subnational regional dimension to national development policy.

This missing urban link in rural development would ultimately prove to be the Achilles' Heel of much of rural Asia, including rural South Korea, as spatial polarization of development continued to focus, first, on the Seoul Capital Region and, second, on the Seoul–Busan corridor. Rural regions and rural towns began a chronic process of depopulation, which in South Korea had already begun in many rural districts by the 1980s. Belatedly in the 1990s, the government adopted a policy of regional balance, which faced even greater challenges than it would have in the 1970s (Douglass 2000).

The above overview shows how the *Saemaul Undong* emerged during a decade of worldwide changes in rural development thinking and strategies as they were being applied to what was then beginning to be called less developed or developing countries. In its own way, the *Saemaul Undong* represents a bridge between the traditional community development approach popular in the earlier post-colonial world and the then emerging models of economic sectors and the role of agriculture in providing foundations for the expected national urban–industrial transition, which was beginning to take off in South Korea in the late 1960s. It also appeared at a moment when previous thinking about the lack of prospects for an agriculture-led development was being challenged by the advent of the Green Revolution, which became a major component of the *Saemaul Undong*.

South Korea's amalgam of *Saemaul* rural development components had unique features, three of which stand out as being paramount to the success of the *Saemaul Undong*. One was radical land reform as a foundation for both rural and urban–industrial growth. Another was the ability to use urban–industrial growth to subsidize rural development rather than the other way around, which was the common experience in other countries in Africa, Asia and Latin America. The third was the capacity of government to mobilize rural households that was based on a sense of common purpose embedded in the general acceptance of a strong developmental state in rural South Korea.

Even with these exceptional features, the *Saemaul Undong* can still be said to have fit within the emergent conventional thinking about rural

development of the 1970s. It did not venture into the ferment in that decade for alternative development that leaned toward either devolved models of participatory democracy or the varying degrees of socialist experiments that were under way in China, North Korea and Viet Nam. While it did draw upon traditions of community cooperation in Korean villages, it did not rely solely on this component, but instead also included a national Green Revolution campaign that was being adopted around the world.

### **The *Saemaul Undong* in the context of rural and national development in South Korea**

How the *Saemaul Undong* proceeded in relation to ideas of rural development in the 1970s is summarized in Table 7.1, which shows its key components as it progressed over the decade and beyond. The main point to be drawn from the table is that while the *Saemaul Undong* adopted most of the components then thought to be important for rural development as part of national development, it did not follow the progression of the more general case, and it also had elements uniquely innovated in South Korea.

Beginning with the singularities of the Korean experience, a critically important precursor to the *Saemaul Undong* that laid the social and economic foundation for it to advance was agrarian land reform. This was carried out in South Korea beginning in 1948 in the early post-colonial years under US occupation and a newly elected democratic government. With Japanese colonial landlords vacating South Korea, de-colonization left the land in disarray and Korean landlords in a relatively weak position in being associated with Japanese colonization and being linked with it as collaborators, allowing tenants to feel empowered to withhold rent payments. At the same time, with a communist regime being established in the north, land reform was seen by political parties vying for popular support as a necessary means of winning the following of the majority of Korean people such as farm households (Mitchell 1949; Jeon and Kim 2000).

The outcome of this land-to-the-tiller agrarian reform was the creation of a nation of very small-scale owner-operators typically working farms of one hectare or less. In 1945, tenants comprised 70 percent of farm households (Pak 1956). The land reform processes were completed throughout the 1950s, and by 1961 owner-farmers held a reported 97 percent of agricultural land (Jeon and Kim 2000). High rates of inflation greatly assisted tenants in paying for land purchases

Table 7.1 Components and chronology of the *Saemaul Undong*

Phase component	Main features
Pre- <i>Saemaul Undong</i> (1950–70)	National focus on urban–industrial development
• Land reform	Radical land-to-the-tiller reform before the <i>Saemaul Undong</i> was initiated
• Role of agriculture	Relatively benign neglect of agriculture
1st Phase (1970–75)	Focus on village modernization
• Village modernization	Materials given to villages for self-improvement
• <i>Saemaul Undong</i> training centers	Elaborate national system of <i>Saemaul Undong</i> training centers set up to train and indoctrinate leadership; acted as mechanism to locally integrate rural development activities beyond sector ministries
Saemaul spirit	An ideology of South Korea as a culture of cooperation launched to raise enthusiasm and mobilize contributions and participation
2nd Phase (1972–78)	Focus on agriculture
• Green Revolution	Forced adoption of HYVs of grain
• Extension services	Embedded in the Green Revolution phase of the <i>Saemaul Undong</i>
• Rural cooperatives	Set up with Green Revolution
• Mechanization	Belatedly adopted mechanized farming
3rd Phase (1973–77)	<i>Saemaul Undong</i> expansion to non-agriculture and cities

Source: Author's analysis.

over a number of years with the price fixed at the time of agreement by landlords to sell the land at the value of 150 percent of one year's crop. South Korea stands apart with Japan and Taiwan as the only market-oriented countries in Asia to have achieved radical land-to-the-tiller agrarian reform. Though the resulting farms were very small, they nonetheless provided for family food security and, as new agricultural technologies and price support were made available, a source of increasing incomes. Farm incomes immediately increased with land reform (Jeon and Kim 2000).

Another diversion from the prevailing models in the Korean experience was the decision by the national government not to use agriculture as the economic base for financing the growth of urban industry. Even though Japanese colonialists had made investments in irrigation and other aspects of farming, South Korea, unlike Taiwan, did not inherit a well-developed agricultural economy from its colonial experience. Throughout its post-colonial history it has been, and remains, a

major importer of food (Ho 1979; Muller 2010). Instead of relying on rural development to finance urban industry, South Korea was able to create an exceptionally powerful industrialization process through international loans, foreign assistance (including US military financial transfers) and a nationalized banking system that was used to subsidize rural development with the advent of the *Saemaul Undong*. The subsidies started in 1972 and were accomplished by paying high prices to farmers for rice, which was then sold at lower prices to urban consumers.

Though the high levels of subsidies were not sustained in the longer term, until the latter half of the 1970s they had the double virtues of raising rural household income to a level equal to that of urban households, while also keeping prices low for the urban workforce. This was counted by rural households who benefitted from it as one of the great miracles of the *Saemaul Undong*. For the first time in history, official data showed that rural households were economically on a par with urban households.<sup>7</sup>

Also setting South Korea apart from the 1970s mainstream rural development strategy was the initiation of the *Saemaul Undong* as a village modernization program rather than first as a program to increase agricultural productivity. The government's stated purpose for the program was to lift the standard of living of rural people up to the level of urban households. Implicit in this intention was poverty alleviation through physical improvements in village infrastructure, amenities and housing. Beginning in the winter of 1970–71, officials brought 330–500 bags of cement and one ton of steel reinforcement rods to each village throughout the country. Fortuitously, the cement became available due to oversupplies made by recently completed world-class cement plants that were seeking help to dispose of their growing inventory (Kim 2011).

Following the self-help use of these materials, the government reviewed the work that villagers had done and ranked each village according to its capacity to make good use of the resources given to it. The most successful ones were given more resources to develop further and to act as inspiration for other villages to follow. Within a few years, reports compiled by local officials found that almost all villages had reached the highest developed category of *Saemaul* village renovation (Moore 1984). After the first round, the government decided to exclude nearly 18,000 villages from the next round, leaving just 16,000 villages that could participate. Among those that received the new round of resources, village leaders noted that competition to do better than neighboring villages was one of the principal motivations to undertake

*Saemaul Undong* projects (Kim C.-y. 2011). Approximately 6,000 of the excluded villages decided to join the second round using their own financial resources for materials.

Throughout the 1970s *Saemaul Undong* experience, the village remained the territorial unit for policy implementation (Moore 1984). No attempt was made to carry out projects beyond the village level or to link rural with urban development. To boost the village program, *Saemaul* training centers were established across the country, and cadres of central government trainers worked with local officials and residents in selecting and implementing village projects.

A nationally orchestrated *Saemaul* ideology of social cooperation was advanced to mobilize popular involvement at grassroots levels. Central to this ideology was the idea of accelerating national development to overcome the lost decades of colonial rule that had favored industrialization in North Korea, which had become South Korea's chief competitor as a contrasting model of development that might still hold sway among some elements of its society. The large planning technocracy that Park had been putting in place was called upon to administer what would be a huge national program and to also activate rural households and villages by raising people's enthusiasm through *Saemaul* events around flags, songs and spirited testimonials of officials and farmers alike.

Korean villages, like rural societies throughout the world, had a long history of social cooperation that could be readily tapped by the descending layers of *Saemaul* administration and training:

Korean rural villages had organizations for mutual cooperation among farmers called *Dure* (farmers' fraternity for mutual aid) and *Hyangyak* (autonomous regulatory charter). Villagers were united around some traditional characteristics, such as regional affinity, common interests and group works. In view of these features, villages were designated for the main engines to push ahead *Saemaul* projects, and were thus to directly receive the government's materials support. (Goh 2010: 6)

To link with and help activate traditions of village self-help, the *Saemaul Undong* created three levels of administration and bureaucracy. At the lowest level, every village had a general assembly and a village development committee, composed of 12 elected delegates headed by a *Saemaul* leader, to make village-wide decisions on project proposals. For its part, the government prepared lists of recommended projects it thought

were appropriate for the level of village in question (Goh 2010). It also required each village to have a woman as one of the *Saemaul* leaders. This was accompanied by a women leaders' training program.

Above the village level were the *Saemaul* Leaders' Training Institutes at the provincial and central levels. Leaders would come to these institutes for intensive periods of one or two weeks. A principal focus of training was motivation for rural development and abilities to convince villagers of the importance of the *Saemaul Undong*. At the highest level were the president and the cabinet, which met at least once a month to discuss the program's progress. Park was directly involved in all aspects of the *Saemaul Undong*, including writing its theme songs and lyrics (Kim C.-y. 2011). County, provincial and central governments also took on the duties to document, monitor and evaluate the progress of the *Saemaul Undong*. The national press and television were continuously called upon to favorably report on *Saemaul Undong* projects.

By 1977, all villages in the country had joined the *Saemaul Undong* and were moving up the ladder of implementation of new projects (Kim C.-y. 2011). The success of village modernization substantially added to the feeling of rural prosperity, which, in turn, served to enhance the *Saemaul* ideology of national solidarity that was to become part of the nostalgia and continuing high regard for the *Saemaul Undong* even many years later when its key drivers were no longer at play.

In addition to village modernization, the *Saemaul Undong* adopted the strategy and policy package of the Green Revolution. Up to this point, government policymakers had felt that the very high rural densities in South Korea, which also indicated very low labor and land productivity, held little promise for productivity and income gains in agriculture. At the same time, with grain rationing in cities and South Korea being a major recipient of US food assistance, price incentives to increase production were dampened.<sup>8</sup> Thus, unlike many other countries, rural areas of South Korea were left in what could be called a state of benign neglect (Kihl et al. 1981). Although the government was a major purchaser of rice and barley from the 1950s onward, and it had kept purchase prices low as a means to keep urban wages down, the squeeze was not as great as, for example, in Thailand, where an export rice premium reduced farmer incomes by as much as 50 percent (Phongpaichit and Baker 1995). The main impact was to reduce incentives for farmers to invest in grain production and agriculture more generally, leaving rural South Korea further behind the city in income gains (Ho 1979).

South Korea's Green Revolution was not the induced innovation associated with Japan and Taiwan's agricultural revolution based on



extension services, model farmers and market incentives (Hayami and Ruttan 1979). Rather, it was a process of directed innovation by a strong developmental state that compelled farmers to adopt the Tong-il HYV, and in so doing to enter into a system requiring expensive chemical inputs, expanded government storage capacities, state-sponsored cooperatives and intensive irrigation (Burmeister 1987).

In this regard, by placing the *Saemaul Undong* under the Ministry of Home Affairs, which is in charge of local administration, the program was able to avoid debilitating divisions into a number of specialized, and often competing agencies such as agriculture, public works or finance. In this manner, the *Saemaul Undong* was able to work as a cross-cutting institutional arrangement to coordinate efforts at the local level. Thus, instead of separate line agencies operating as institutional silos linking the center to villages, the *Saemaul Undong* was pushed forth by awakening local government officials to the need to activate and cooperate with villagers to accomplish a wide array of interconnected projects that, in this sense, worked to integrate, for example, road and bridge construction with programs to mechanize farming that depended on good roads. As further explained below, it also enhanced government efficiency at local levels.

Mechanization of grain production was also part of the Green Revolution. In this regard, South Korea began to use small tractors and tillers much later than other countries that had entered the new crop regiment. Although initial programs were established in 1972 to encourage the use of agricultural machinery, only after 1978 was the mechanization of rice transplanting and harvesting fully pursued with the promulgation of the Agricultural Mechanization Promotion Law aimed at greatly increasing the supply of machinery and its use. Indirect subsidies for mechanization appeared in several forms, ranging from government subsidies for the production of farm machinery in South Korea, which kept sales prices lower than they would otherwise have been, to the setting up of repair and maintenance facilities, supporting research and development (R&D) for further machinery development and helping to organize joint-use systems among farmers and tax exemptions from farm machinery purchases (Cho K.-J. 2003). The effects of mechanization were transformative. The tractors could be used for non-farm production and marketing and, although slow, also for general farm to town transportation. This observation underscores the contributions of rural roads to improving rural economies during the *Saemaul Undong*. By the 1990s mechanization was nearly complete.

Mechanization was also important in compensating for the decline in the rural population and, in particular, the agricultural labor force. The number of farm households in South Korea reached its peak in 1967 at 2.6 million; by the end of the 1980s, it had fallen to 1.8 million (Seok 1998). Since household sizes shrank, too, the actual drop in rural population was even greater. From 1960 to 1990, the rural population decreased from 14.5 to 6.6 million. During the same period, the share of rural population over the age of 60 more than doubled to reach 1.3 million. The availability of farm machinery to help transport farmers and carry crops and supplies has been a crucially important contribution to sustaining agriculture with aging populations.

Rural depopulation in South Korea, and elsewhere in Asia, was principally a depletion of younger working-age people. As such, mechanization was crucial to overcoming labor shortages and a rapidly aging rural population. Power tillers, tractors, transplanters, sprayers, threshers, dryers and forage cutters all began to enter into farming in South Korea in the 1970s.<sup>9</sup> In a country that was highly protected against the import of manufactured retail goods, the possibilities for rapidly advancing the use of agricultural machinery was related directly to the increased industrial capacity of Korean manufacturers to make them, which came fully online only from the latter half of the 1970s (Kim C.-y. 2011). Mechanization was likewise critical for the survival of family farms. From 1970 to 1991, the average age of household heads increased from 45 to 60 years old (Seok 1998). Figure 7.1 compares South Korea with the rural and urban population growth of other economies of Asia. It shows that during the 1970s and 1980s, when the *Saemaul Undong* was in full swing, South Korea experienced the highest rates of rural population loss and among the fastest pace of urban population growth rate among the selected countries.

Almost all of the urban population growth accrued first and foremost to the Seoul Capital Region and, secondarily, to the southeast coastal Ulsan–Busan–Masan complex and cities such as Daegu and Daejeon located along the Seoul–Busan urban–industrial corridor. This pattern underscored the absence of rural–urban linkages that might have provided non-farm employment opportunities in rural regions. Table 7.2 and Figure 7.2 show the steadily increasing degree of spatial polarization in South Korea from 1960 to the 1990s. Table 7.2 indicates that from 1960 to 1998, the concentration of factories continuously surpassed the increasingly high concentration of population in the Seoul Capital Region. In 1980, after the first decade of the *Saemaul Undong*, Seoul accounted for more than one-third of the national population

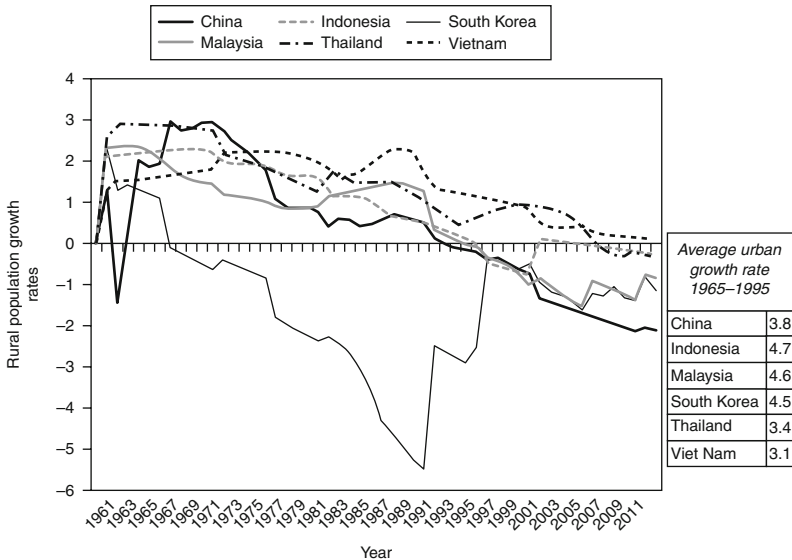


Figure 7.1 Rural population growth rates, selected Asian countries, 1961–2011  
 Source: World Bank (2013b); and United Nations (2005) and Selya (2004: 83); *Population Statistics, Taiwan-Fukien Area* cited in McNicoll (2006).

and 44 percent of the nation's factories. Figure 7.2 graphically displays the polarization pattern over time. Even the second-largest city, Busan, and its surrounding South Gyeongnam Province did not gain in share of population from 1960 to 1998, the time of the Asia financial crisis. The Seoul Capital Region has continued to increase its share of national population into the twenty-first century (Douglass 2009).

One of the more surprising features of the *Saemaul Undong* and all of the agriculture support policies that went with it was that farm sizes stayed relatively constant, neither increasing nor decreasing significantly over the course of the 1970s and 1980s. Several reasons can be found for this. One was that because there was no large landlord class, farmers were not compelled to sell land due to rent squeezes. At the same time, the government strongly enforced the terms of the 1950s land reform that limited farm size to a maximum of three hectares. Another element was mechanization, which allowed aging farmers to continue farming even with reduced labor supplies. A third was, ironically, the price of land, which was so high that most farmers did not have the financial capacity to buy other farmers' land (Seok 1998). High

Table 7.2 Share of national population and factories in the Seoul Capital Region, 1960–98 (percent)

	1960	1970	1980	1990	1995	1998
Population	0.8	8.2	5.5	2.8	5.3	5.6
Factories	6.7	2.8	3.8	4.8	5.6	5.1

Source: Korean Statistical Information Service (2013).

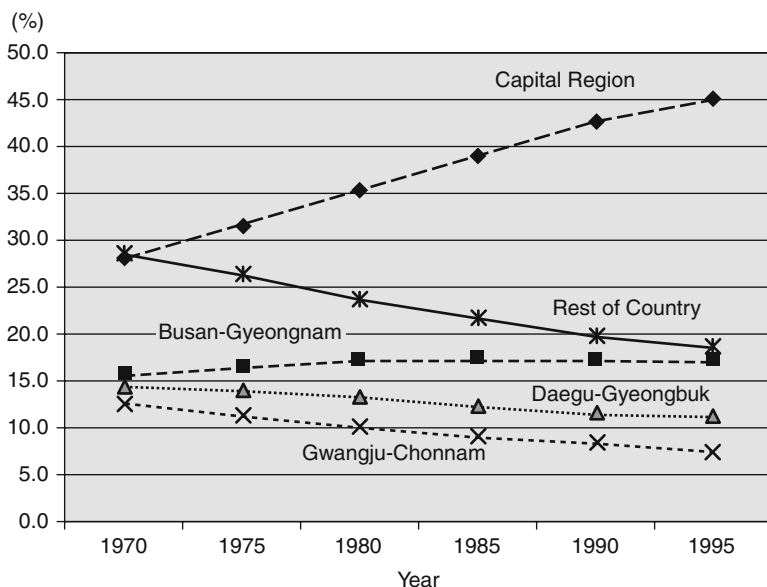


Figure 7.2 Population share of South Korea by region, 1970–95

Source: Korean Statistical Information Service (2013).

rates of out-migration also meant that parents did not have to divide land among children, and thus there was no decrease in farm size due to inheritances.

The absence of strong economies of scale related to farm size, especially in paddy production, was another important factor in farms not increasing in acreage (Herath 1983). To the extent that such economies exist, they were mostly to be realized in the sharing of off-farm infrastructure and equipment, such as irrigation and water management systems, storage facilities, machinery, roads and agricultural services. In this regard, farmers typically shared machinery rather than each farmer

buying it. Government Green Revolution programs and village modernization also provided off-farm infrastructure and services. By the end of the 1980s, rural depopulation was reaching a point that the government began to support experiments with group farming as a way to deal with labor shortages and aged workers (Kim 1992). But during the heyday of the *Saemaul Undong*, this had not yet occurred and, as noted, farms remained postage stamp sizes.

In the early years of the 1970s, the Green Revolution worked out well to increase incomes and supplies of grain. However, once price support was ended in the latter half of the 1970s, and the somewhat typical problems of HYVs emerged – for example, widespread plant disease, high costs of production and high indebtedness – farmers tended to return to other seed varieties, including the Akibare variety adopted from Japan in the 1980s, and less expensive forms of production (IFPRI 2002). In 1978, the Tong-il HYV of rice seed was being used on more than 75 percent of all rice land, leaving the nation highly susceptible to a blast outbreak that swept across the country in that year, leading to a severe drop in rice production that continued over the next two years. As a result, the Green Revolution in rice production came to an end in 1981 with the withdrawal of state insistence on using Tong-il HYV and the beginning of the de facto policy to let farmers make their own decisions about production (Burmeister 1987). High uses of chemical inputs and mechanization continued, however, which also led to high levels of borrowing and potential indebtedness that has since plagued rural South Korea (Nemeth 1988).<sup>10</sup>

The documented successes of *Saemaul Undong* as village modernization and the Green Revolution led the government to proclaim that every successful rural development venture was the result of the *Saemaul Undong* spirit of selfless cooperation (Brandt 1979). This masked, however, very different government–rural relationships as the focus shifted from village to agriculture and later onto urban factory production and schools. As villages completed the projects they could do through self-help and the Green Revolution ran its course, the principal component that remained was the *Saemaul* spirit, which over time was glorified in a *Saemaul* song, flag, cap, vest and training centers with testimonials from *Saemaul* veterans about the power of Korean society to join together to overcome adversity and develop the country.

From this ideological perspective, another take on the stages of *Saemaul Undong* has been recently put forth with its renewal as an exportable rural development strategy. Table 7.3 shows that the process is now being presented as one in which government first leads the way,

Table 7.3 Stages of creation and regenerations of the *Saemaul Undong*

Stage	Characteristics	Period
1	Foundation and groundwork	1970–73
2	Proliferation	1974–76
3	Energetic implementation	1977–79
4	Overhaul	1980–89
5	Autonomous growth	1990–98

Source: NCSUMK (2011).

and then as it matures into its current form, it becomes so ingrained in society that it becomes autonomous in its continuing advancement as a voluntary and private sector initiative. This also can be seen as another way of saying that the *Saemaul Undong*, by the early 1980s, had run its course as an umbrella for linking rural development policies of government with popular rural mobilization (Moore 1984). Instead, the *Saemaul Undong* had turned into civil society efforts promoted by neo-liberal political philosophy.

A number of factors contributed to bringing the *Saemaul Undong* as a multifaceted rural development program to an end by the early 1980s. Democracy movements and the discrediting of the regimes that followed Park made the *Saemaul Undong* less lustrous and more critically assessed. Villages had been substantially upgraded, and subsequent new directions in agriculture and urban areas did not have the same level of social engagement that village modernization had. Local governments, though not yet enjoying autonomy from the center, also began to reduce the presence of *Saemaul* offices in many provinces.

Villages were also beginning to more seriously depopulate as an outcome of South Korea's accelerated transition to an urban society. From 1960 to 1980, the share of national population in cities jumped from 28 to 57 percent (Ko 1994). By 1990, the share would reach 74 percent and, by 2000, the country's urban transition was nearly completed. Rural populations were not only shrinking relative to the total urban population, they also had entered an era of chronic shrinkage, leaving an aging labor force too few in numbers to launch a new *Saemaul Undong* for rural revitalization.

Yet, with continuing high protection of agriculture from international trade, the demographic shift meant that fewer farmers were charged with providing greater quantities of food for ever larger numbers of non-agricultural populations (Savada and Shaw 1990). Fulfilling

this imperative was beyond the capacities of the *Saemaul Undong* as understood under the ideology of village-level grassroots mobilization for local improvements. Mechanization of farm production was also unable to compensate for the declining rural labor force in terms of endlessly improving productivity.

South Korea's success in agrarian land reform also began to create new bottlenecks because farms were too small to create the types of economies of scale needed to ratchet up production to new heights with fewer, aging farmers. Thus, while during the entire 1970s experience of the *Saemaul Undong* and its Green Revolution when the country substantially completed the cycle of transformation from peasant to small-scale commercial farmer, these producers were not supported to a level at which they could well carry out their expected roles of providing self-sufficiency in food production for the nation.

From its experiences in the 1970s, the *Saemaul Undong* left a legacy of social mobilization for contributions to village life that would last through the years to serve as the basis for its resurrection as a main program in South Korea's new era of giving assistance to rural development in other countries in Africa, Asia and Latin America. As explained by the National Council of *Saemaul Undong* Movement (NCSUMK) (2011), the overhaul during 1980–89 was all about re-centering the movement on the following:

- social atmosphere: kindness, order, selflessness and cooperation;
- escape from inactivity and contraction;
- economic development: combined farming, distribution improvement, and credit union activities
- environmental activities: cleanliness, developing parks throughout the country, and building better access roads;
- reborn as a private sector organization: enhancing the role division between government and private sectors.

These points sum to a tacit acknowledgement that the days of big government leading the way were over. The private sector was now expected to take the reins, all the while that people were still being encouraged to be kind, selfless and cooperative as a way to escape from the inaction related to the shrinking village and dissolving rural life. The principal economic push was to consolidate farms, expand local credit organizations and maintain high levels of protection of the agricultural sector from international competition. NCSUMK (2011) declared that 'rural modernization is not a matter of raising the economic viability of

agriculture; rather, it is directly connected to the modern attitudes and mindsets of the agricultural populace'. The lasting legacy, then, became the *Saemaul* spirit of social cooperation, self-help and diligence. In this regard, emphasis must again be given to the role of the national government in being the catalyst for rural mobilization through village modernization, and economic growth through increasing the productivity of land and labor in agriculture.

### **Achievements of the *Saemaul Undong* and impacts beyond rural development**

The *Saemaul Undong* had many laudable achievements (see Tables 7.4 and 7.5). Village modernization reached most villages to improve living standards materially. The added focus on subsidized grain production led to tremendous increases in rural incomes.<sup>11,12</sup> Along with previously accomplished land reform, the programs and projects associated with the *Saemaul Undong* greatly reduced the most extreme forms of rural poverty, even though poverty remained widespread (Brandt 1979). Tile replaced thatch roofs, village roads were widened and resurfaced, bridges and stream embankments and irrigation facilities were improved substantially. Rural households had cooperative savings accounts to help finance purchases of durable goods, from everything such as television sets to farm equipment and inputs.

One way of appreciating the accomplishments of the the *Saemaul Undong* in the 1970s is to have a view of conditions in rural South Korea in the 1960s before its initiation:

The 'barley hump' (rural famine before the barley harvest in late spring) was dominating over most Korean farmers. About 80 percent of Korean farmhouses remained thatched, only 20 percent of them could enjoy electricity, half of them had no village entry roads for cars, and even power tillers were denied access in most village roads (Goh 2010: 1).

Some caveats and reservations concerning *Saemaul Undong's* achievements are needed, however. According to Ahn and Boyer (1984), by the end of the 1970s none of South Korea's 34,000 villages remained classified in the 'underdeveloped' category. Yet Brandt (1979, 1980) reported that the more remote villages did not become significantly engaged in the movement and, furthermore, the poorest 15–20 percent of villagers who were landless or land poor did not benefit from the agriculture



Table 7.4 Village improvements through the *Saemaul Undong*, 1970s

Project name	Unit	Objective	Performance	Growth (%)
Expanding village roads	Km	26,266	43,558	166
Constructing new agricultural roads	Km	49,167	61,797	126
Installing small bridges	Unit	76,749	79,516	104
Constructing village centres	Unit	35,608	37,012	104
Building warehouses	Unit	34,665	22,143	64
Housing improvements	Unit	544,000	225,000	42
Improving village layout	Village		2,747	
Constructing sewage systems	Km	8,654	15,559	179
Supplying electricity	Household	2,834,000	2,777,500	98
Operating Saemaul factories	Unit	950	717	75

Source: NCSUMK (2011: table 3).

component. Other observers also reported that competition among lower-level officials encouraged false reporting and exaggerated statistics (Moore 1984). Without press or academic freedom to report and research *Saemaul Undong* projects, caution is called for when drawing from the evidence compiled through government agencies. Even with these types of caveats however, the weight of reporting from a multitude of sources nonetheless points to the conclusion that the programs and projects pursued under the rubric of the *Saemaul Undong* did make substantial contributions to rural welfare and incomes.<sup>13</sup>

As the *Saemaul Undong* moved to the city in the latter 1970s, the record is less clear. Ho (1979) concluded that the economic impact of the *Saemaul* Factory Program was modest at best. What gains were made were heavily concentrated around Seoul, Busan and Daegu. Furthermore, because the policy was aimed at attracting firms to relocate away from bigger cities, almost all of the factories were export units of South Korea's *chaebol* conglomerates rather than emerging from the countryside, which severely limited local multiplier effects. The regional pattern of Saemaul factories is shown in Table 7.6, indicating that from one-third to more than one-half of the number of establishments, jobs

Table 7.5 Rural household income changes, 1970–79

Year	Household income	Agricultural income		Non-agricultural income	
		Amount	Ratio (%)	Amount	Ratio (%)
1970	255,800	194,000	75.9	61,800	24.1
1973	480,700	390,300	81.2	90,400	18.8
1976	1,156,300	921,200	79.7	235,100	20.3
1979	1,531,300	1,531,000	68.7	696,200	31.3

Source: NCSUMK (2011: table 3).

and exports were attributed to Gyeonggi Province in the Seoul Capital City region. Other high shares were in the *Saemaul Undong* heartland of North and South Gyeongsang provinces, that is, near Busan and Daegu, which were major sites of textile and footwear production.

Other critical perspectives provided more far-reaching cautions against wholeheartedly praising the *Saemaul Undong*. Nemeth (1988) documented how once self-reliant communities in Cheju-do were pulled into the program in ways that led to the atrophy of village capacities rather than their enhancement. Shifting agricultural land from self-provisioning to commercial production made rural life more precarious in the face of unpredictable market price swings. The processes of incorporation into the movement ultimately led to the loss of community, accelerated outmigration and debilitating depopulation. Muller (2010) further elaborated that for the country as a whole, rural life after the 1970s deteriorated along with a rapidly aging population, urban encroachment on prime agricultural land and World Trade Organization (WTO) pressures to further open South Korea to imports of agricultural commodities from abroad.

Others have chronicled how disillusionment was intrinsic to the program in that the mechanisms that were adopted to implement it could not be sustained. Price support for agricultural commodities, village modernization and the Green Revolution were all elements that had intrinsically limiting features in their time horizons (Moore 1984). These were the key material dimensions of household and village mobilization that were also effectively promoted through ideological exhortations to join together to support South Korea's magnificent rise from rags to riches. In other words, the developmental state was crucial in activating and promoting the social values galvanizing people into action. Thus, when authoritarian rule in the post-Park era lost popular support in the countryside as well as in the city, a key element

Table 7.6 Regional distribution of Saemaul factories, 1976

	Number of establishments		Employment		Output		Exports	
	Unit	% of total	Persons	% of total	Million won	% of total	US \$ 000	% of total
Pusan	3	0.83	1,081	2.21	2,095.0	1.77	3,799	2.06
Gyeonggi	116	32.13	20,876	42.71	46,165.3	38.94	73,828	40.11
Gangweon	16	4.43	1,610	3.29	1,651.7	1.38	2,805	1.52
Chungcheongbug	20	5.54	1,863	3.81	4,273.6	3.60	4,318	2.34
Chungcheongnam	33	9.14	4,689	9.59	11,720.1	9.89	21,645	11.76
Jeonrabug	21	5.82	2,048	4.19	2,845.2	2.40	3,935	2.14
Jeonranam	24	6.65	1,643	3.36	4,153.2	3.50	4,955	2.69
Gyeongsangbug	69	19.11	7,348	15.03	16,177.1	13.65	27,311	14.84
Gyeongsangnam	55	15.24	7,510	15.37	29,151.5	24.59	41,157	22.36
Jeju	4	1.11	206	0.42	325.3	0.27	304	0.17
Total	361	100.00	48,874	100.00	118,558.0	100.00	184,057	100.00

Source: NCSUMK (2011).

underpinning popular support of the *Saemaul Undong* was forfeited, particularly after the 1980 Gwanju massacre of civilians by the regime of President Chun Doo-whan.<sup>14</sup>

Concerning other spheres of national development, although a stated purpose was to raise rural incomes, an equally prominent driver was the perceived opportunity to keep basic food prices low for a very rapidly increasing urban labor force engaged in competitively producing goods for export. The subsequent adoption of the Green Revolution had its successes in terms of self-reliance in grain production to a point at which rationing was no longer needed. Its longer-term legacy is not so clear, however. The agricultural transformation in South Korea substantially replicated programs pushed by central governments in most countries in the world. With its purpose to provide rice for the city, it inhibited the pursuit of the longer-term need to diversify agriculture for rural resilience and sustainable incomes. Meanwhile, the amount of agricultural land began to precipitously decline as urbanization expanded into prime agricultural areas and, in an increasing numbers of cases, it was abandoned (Figure 7.3).

Assessing the value of the *Saemaul Undong* as an ideological force is the most difficult task. On the one hand, its popularity in the minds of many Korean people remains exceptionally high, and this has allowed the use of the term to be instrumental in mobilizing people across the nation, rural and urban, to engage in altruistic, voluntary activities for the common good. The success at this level is well recorded and, as mentioned, has been the focal point in the export of the movement to other countries.

On the other hand, separating emotional attachments from material benefits risks oversimplification. As noted by Kim C.-y. (2011),

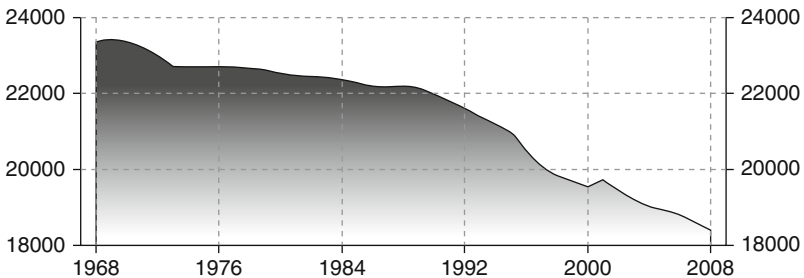


Figure 7.3 Agricultural land in South Korea (km<sup>2</sup>)

Source: Trading Economics (2011).

Park's Chief of Staff from 1969 to 1978, the government had tried to compel farmers to produce rice at below market prices in the 1960s, and the results were poor. Kim regarded the president's decision to raise the government purchase price substantially above the market rate as one of the most effective mechanisms to achieve high participation in the *Saemaul* Green Revolution. Kim's observations were confirmed by Ahn and Boyer (1986) who, in undertaking a rural survey in 1983, found that lack of allegiance to the *Saemaul Undong* was directly related to levels of indebtedness, tenancy and low income (Boyer and Ahn 1991).

Yet, against a backdrop of a long history of rural neglect and poverty, the sudden uplifting of villages and household incomes was a good reason for a majority of rural households to give trust and support to government-led *Saemaul* indoctrination. What was appreciated most of all was that government at last paid attention to rural people, and for a while many people prospered under the banner of the *Saemaul Undong*. The benefits were so well received that even the authoritarian rule could be put aside. As a woman from rural Cholla-do stated: 'We were devoted to the *Saemaul Undong* because we could eat rice – he was a dictator, but he fed the people' (Han 2004: 75). From such statements, the fond memories of the *Saemaul Undong* come not from rural development alone, but also more broadly from the economic achievements of the entire Park era that came to be represented as being the outcome of the unique capacity of Korean people to cooperatively build a prosperous nation (Han 2004).<sup>15</sup>

### **The political dimensions of the *Saemaul Undong* and rural development**

A basic political dimension of the *Saemaul Undong* and rural development that separates South Korea from many other experiences in the world is the strong role that the government has played as a developmental state. Since many governments style themselves as being in pursuit of development, the term developmental state is specifically used here to refer only to strongly interventionist states that, as presented by Johnson (1982) in his seminal contribution of the concept, are capable of coherently designing and instituting policies both within the state apparatus and in relationships between the state and non-state actors.<sup>16</sup> More specifically in the instance of the *Saemaul Undong*, the government was able to impel popular participation in the movement based on a commonly held expectation of strong government presence in economy and society. While people were aware of the corruption and

abuses of power of government, as long as material conditions of life were being improved, the state was able to retain its legitimacy in being the vanguard of rural development and the *Saemaul Undong*.

As it emerged from the destruction and economically ineffective leaders of the early post-colonial years, South Korea under Park and subsequent governments is often presented as a prototypical developmental state.<sup>17</sup> Without this understanding of the capability of the developmental state in South Korea, any assertion that the *Saemaul Undong* as it was put in action under the Park government is transferrable to another setting with a different form of state–business–civil society relationship would be quite questionable. In the same vein, without the consistency of government in actually carrying out projects that it said it would implement, village voluntarism and enthusiasm for *Saemaul Undong* programs would have dissipated quickly.

The relatively high degree of autonomy of the Korean state under Park was gained from at least three major sources. Land reform was crucial in eliminating rural elites who would have been certain to challenge central government interventions in agrarian and village relationships. Secondly, the nationalization of the banking system gave government tremendous leverage over business interests. Thirdly, until the late 1970s the *chaebol* had not yet achieved the size and scale of power to effectively or consistently challenge state authority (Douglass 1994). Taken together, these factors and others, including a very large military force loyal to Park, gave the president substantial power over elites, the techno-bureaucracy and the emerging corporate economy. In the case of the *Saemaul Undong*, the relative autonomy of the state was used to link government programs with a rural base that had supported Park in his rise from military to presidency. This deployment had the effect of putting pressure on lower levels of the bureaucracy to improve their performances in working with the central government as well as with village households.

Another significant political dimension of the *Saemaul Undong* was the paradox of Park's conscious attempt to de-couple it from political party politics in favor of his party, which would have had a divisive impact on the *Saemaul Undong*. Instead, he tapped into the practical concerns of rural people in ways that raised their enthusiasm without trying to appeal to other sources of ideology, such as Confucianism or anti-communism, that had been used to defend the regime's harsh use of police powers that culminated in instituting martial law from 1972, which was to last until well after Park's assassination in 1979. Critics had already pointed out that anti-communism, in being 'anti-', did not

constitute a genuine national ideology (Brandt 1979). Rewards of economic growth in the form of increased consumption of material goods also lacked a spiritual foundation. At the same, appealing to lineage or vertical social relationships extolled by Confucianism had to be avoided if horizontal relationships of cooperation spanning each village were to be tapped for political support.

In filling this vacuum in national ideology by appealing to such ideals as self-help, cooperation and steadfast commitment to community as the *Saemaul Undong* motto, Park was able to steer it toward becoming a depoliticized source of a national consciousness based on simple, shared virtues. As such, it represented a paradoxical form of state populism – ‘a strange amalgam of egalitarian ethos, an ideal of social welfare and developmentalist dictatorship’ (Han 2004: 87) – that appealed to an anti-elitist egalitarianism that resonated with the *minjung* ideology that was rising among the increasing numbers of Korean Christians.<sup>18</sup>

In this manner, as long as the government produced palpable material benefits through efforts that could be said to be guided by a shared egalitarian ethos, people could look away from its excesses in the use of political power to counter democratic movements and the discontents of labor.<sup>19</sup> With land reform levelling society in the 1950s and with extraordinary rates of urban–industrial growth relieving rural population pressures, the sources of peasant rebellions in South Korea of the nineteenth century – for example, poverty resulting from immiserating tenancy, high levels of inequality within rural areas, exorbitant taxes, illegal crop takings and exploitative money lending (Palais 1975) – were either absent or had been substantially ameliorated by the 1970s, even though rural poverty still remained pronounced. At the same time, martial law defended by government as a measure to counter communism meant that the *Saemaul Undong* had no radically transformative intentions; nor could it readily succumb to the urban-based populism of Latin America that saw regimes come and go around the rise and fall of charismatic leaders.

By its own logic, this non-partisan program made no reference to processes or procedures to mediate conflict. Rather, it was left to the state to decide, and to take care of such matters. Through these means, the Park government was able to claim that democracy was achievable ‘not through elections, but through gradual training and practice in carrying out state-supported projects’ (Han 2004: 87). In both practice and the lore of the *Saemaul Undong*, Park showed how he was engaged in on-the-ground solutions by visiting the countryside frequently to observe and symbolically participate in them. This involvement began with the

creation of the movement. The *Saemaul Undong* Museum near Shindo Village in North Gyeongsang Province proclaims that in 1969, while on a train passing through the area, Park, who was told of the self-help successes of the village in recovering from a disastrous flood, stopped the train to visit the village. He is said to have then launched the *Saemaul Undong* based on the inspiration of Shindo (Kim C.-y. 2011). His special car from that train now stands next to the museum. This is one of countless stories exemplifying the inseparability of the *Saemaul Undong* from Park, the person.

Yet, although the government consistently claimed the *Saemaul Undong* to be apolitical, political analyses of the motives for launching and moving forward with the *Saemaul Undong* in the 1970s saw a clear relationship between it and the declining political popularity of the Park government, which had relied on rural votes for its victories, but in 1970 had not fared as well as it had in previous elections. At the same time, cities were becoming centers of protests and insurgent actions against the government. By focusing first on village modernization, results could be quick and obvious to all, leading to a revival of popular support for Park. To a large extent, this strategy worked because the results were widespread and visible. Raising the purchasing price of rice had an equally immediate effect of bolstering rural support for the government.

In contrast to those who saw clear political motives behind the *Saemaul Undong*, defenders of the Park regime are just as certain that he actively worked to stop political parties from using the *Saemaul Undong* for partisan political gain. Top officials in government concluded that the risks of politicizing the movement were too great.

The *Saemaul* Movement would have failed if it was tainted by politics. Free from the influence of politics, the *Saemaul* Movement was a pure national movement to help farmers break themselves free of poverty by instilling an ethos based on the principles of diligence, self-help and cooperation. Recognizing this fact, participating farmers made their best efforts, finding that they could produce remarkable performances on their own; that's why the movement was sustainable. (Kim C.-n. 2011: 225)

Thus, although political considerations were undoubtedly part of the government's motivations, the record shows that on the surface the *Saemaul Undong* was steered clear of political party capture and thus overt politicization within the village or at higher levels was avoided.



To the extent that it achieved popular successes in rural South Korea, non-partisanship worked best to shore up Park's political base in the countryside. However, in the context of South Korea's rapid transition to an urban society, what did begin to become more obvious was a rural-urban divide in popular attitudes toward the Park government and, therefore, the *Saemaul Undong*. As the popularity of the *Saemaul Undong* grew in villages, increasing dissatisfaction with martial law and authoritarian government increased among city dwellers.

This is not to say, however, that the *Saemaul Undong* was unpopular in cities. It did have many supporters and activities in cities as well. Rather, what might be concluded is that just like rural people, significant segments of the urban population were unable to separate the *Saemaul Undong* from Park and his government. Nonetheless, urban *Saemaul Undong* rallies, parades and community projects were carried out in ways that also avoided direct association with Park's or other political parties. Thus, different interpretations of the *Saemaul Undong* have divided some elements of South Korea's urban population who see it mainly as a political ploy, from those of rural households, particularly in the heartland of Park's origins in Gyeongsang Bukdo, where the *Saemaul Undong* still tends to be seen as an exceptionally successful, altruistic endeavor.

Political dimensions of the *Saemaul Undong* also reached into local governments in practical ways. As previously discussed, many observers noted that for the first time local officials became accountable for improving rural life.<sup>20</sup> Competition among them to produce results was keen. Some analysts proclaim that, in fact, the biggest political impact of the *Saemaul Undong* was not so much one of making rural people more politically in line with government as rather making local officials more accountable to both the center and to the village. The training centers set up across the country included military-like exercises and the construction of sleeping quarters for training trainers.

At the threshold of the *Saemaul Undong*, the government declared martial law, which would last beyond Park's assassination into the 1980s. This presents a conundrum for those *Saemaul Undong* historians who assert that it was a grassroots process of decision making. In practice, the *Saemaul Undong* was heavily orchestrated by the central government. Yet, in paying attention to villages and rural quality of life for perhaps the first time in history, people's enthusiasm was also genuine. As partial proof of this, official data show that approximately 60 percent of the value of all contributions of labor and material came from villagers themselves. In this sense, the possibility that people could have

pursued *Saemaul Undong* projects in a completely apolitical manner can be put forth. But in a time when South Korea had no freedom of press, and public speech and assembly were severely constrained, this possibility cannot be fully explored or validated. As it wound down at the end of the 1970s, and with Park's assassination in 1979, the lasting political image of the *Saemaul Undong* is its association with Park and a developmental state that rigorously moved policy to action, which from a rural perspective brought benefits to the majority.

### **Distinctive features of the *Saemaul Undong* in comparative perspective**

The *Saemaul Undong* had several distinctive features that set it apart from other rural development programs. Thorough land reform many years before the program began, it focused on: (i) village modernization rather than on agriculture at the outset; (ii) the use of industry to subsidize farm incomes and the Green Revolution; and (iii) the blending of programs with a national ideology of cooperation in development that together formed a set of experiences and institutional arrangements that set South Korea and the *Saemaul Undong* apart from most other rural development experiences. Land reform, for example, has fallen off the rural development agenda in most countries; yet, it was as fundamental as the foundation that was established before the *Saemaul Undong* began. Village modernization also had Korean features that are not common.

One of these characteristics is the homogeneity of Korean society. The absence of large ethnic minorities arguably added to the bundling of national identity with the *Saemaul Undong* ideology, which tapped into long-held cultural traits of the Korean people. To this must be added the presence of a strong developmental state capable of following through with the policies it adopted, which stands in contrast to the 'soft' predatory or rent-seeking states that lack political will to leverage non-state actors and leave large gaps between policies and implementation. Gunnar Myrdal's *Asian Drama* (1968), which presages the idea of the developmental state well before Johnson's (1982) crystallization of the concept, declared all South Asian countries to be 'soft states' that lacked the political capacity to either lead development or tackle the root sources of poverty. Similarly, Yoshihara (1988) typified the Southeast Asia of the 1980s as being a region of 'ersatz capitalism' that was experiencing industrialization without development, that is, without innovation, economic efficiency or human progress.<sup>21</sup>

Even with its singularities, the *Saemaul Undong* also had elements that can be found in other societies. Village-level mobilization has its roots in post-colonial nationalism that has been tapped by governments throughout the world. The Green Revolution became a standard package of policy tools that was applied in Asia and Latin America, though it did not arrive in sub-Saharan Africa until very recently (Zoomers 2002; Blaustein 2008). Development ideology is a more diverse set of phenomena. A prominent feature of national ideology promoted in the open economies of East and Southeast Asia, most especially South Korea and Taiwan, was the use of the threat of communism as a rationale for maintaining the authoritarian state. Yet the *Saemaul Undong* did not overtly appeal to the fear of communism or foreign enemies. Instead, it adopted a more pragmatic idea of social cooperation for improving life. Nor was it presented as a radical alternative to the existing system.<sup>22</sup> To the contrary, it was intended to rejuvenate the Park government (Chae 2011).

Rather than isolating each component to contrast with other experiences, the overarching distinction of the *Saemaul Undong*, compared to most of the rest of the world, is that it took place in a bona fide miracle economy with extraordinary rates of economic growth. The fact that rural-urban income gaps were widening before the *Saemaul Undong* began was not so much about rural areas getting absolutely worse off, but rather that cities were the magnets of growth, leaving rural South Korea stuck in low-productivity occupations and villages in need of upgrading. Land reform had helped substantially to level rural society and allow it to keep afloat as children became educated and moved to the cities, but by itself it did not spur either village upgrading or increases in agricultural productivity and incomes. It was the *Saemaul Undong* that provided a timely correction to the urban bias under way at this early juncture of South Korea's economic takeoff. It did so with a specific combination of interventions at a particular moment in South Korea's economic history.

### **Lessons of the South Korean experience for developing countries**

Over the past few years the Korean government has begun to export the *Saemaul Undong* as a way forward in rural development in developing countries around the world. As of 2011, the government reported that at least 70 countries had already adopted the redesigned *Saemaul Undong* approach to development, including urban as well as rural areas.

What the leaders of the contemporary *Saemaul Undong* say about lessons to be drawn from it is a useful point of departure for considering its lessons. In this regard, the most revealing aspect about the literature now being produced by NCSUMK is that the source of its success is the social will to cooperate, rather than an outcome of specific economic policies or national development paradigms. This theme has run throughout the course of the *Saemaul Undong*. From its early days onward, its leaders as well as many analysts have stated that it is less about concepts and theories and more about the practical processes of problem solving (Douglass 1983).

A second lesson from the *Saemaul Undong* was that by putting it under the Ministry of Home Affairs, which is in charge of local administration, rather than the Ministry of Agriculture or Ministry of Public Works, it was able to act as cross-cutting institutional mechanisms to coordinate efforts at the local level. This capacity building through local administration accompanying the *Saemaul Undong* of the 1970s was augmented by the thesis that in the early stages of development, when capital is scarce, government must act as the 'big push' to get economies going toward takeoff. Today, however, much of rural development thinking has shifted to neoliberal paradigms of small government and 'for-profit business' taking the lead.<sup>23</sup> As such, the developmental state approach to rural development is itself seemingly passing into history. Unless there is a return to the idea of state-led development, the *Saemaul Undong* must find a new footing as a decentered, community driven program.

With central government no longer expected to play a leading role in rural development, a hopeful direction is to catch the new wave of decentralization that is spreading around the world to invigorate local governments to link with community-based, non-profit civil society organizations in pursuing rural development (World Bank 2001, 2005). Recent evidence from countries such as Indonesia, which has promulgated the most far-reaching devolution of governance in Asia, shows how local governments can be more responsive to community empowerment initiatives (Firman 2010). Since 1995, South Korea has also been moving in the same direction, though at a more deliberative pace (Kim J. 2004).

Such decentered approaches fit well with contemporary times, but they do not readily address the larger rural development issues related to livelihood and the agrarian economy. In many countries, a post-agrarian rural world is emerging in which substantial shares of income are no longer from agriculture.<sup>24</sup> It is a world in which migrant

remittances make up substantial shares of rural incomes in many countries and where handheld communications devices instantly link people in the village to the world. Large corporations, including those from South Korea, also are buying up cropland for industrialized food production (Rees 2011), and contract farming with global corporations have been replacing the independent family farm for some time. *Saemaul Undong* as a program of social cooperation will have difficulty in finding a way to assist in localizing the benefits of these dynamics that give way to corporate decision making without enhancing local governance.

Given these profound changes in the context for rural development, any application of a *Saemaul Undong* philosophy, which is how it is now being put forth, represents an experiment more than a model derived from history (Park 2009). The heart of this experiment continues to be that people can join together to make a difference at grassroots levels. How this will play out in the contemporary world is a matter of conjecture that is likely to encounter a wide range of experiences and outcomes. Successes are being documented in the adopting countries (NCSUMK 2011). But without a clear role of government, the outstanding question is: how can small-scale self-empowerment activities that create their own spaces of hope scale up to become national rural development programs?

## Notes

1. Nyerere (1962); Ngau (1987); Freire (2000); Hunt (2003).
2. Lewis (1954); Rostow (1960); Fei and Ranis (1964).
3. Byres (1986); Amsden (1989); Douglass (1994); Evans (1995); Kang D. C. (2002).
4. Ahmed (1988); Ruttan and Hayami (1990); Goodman and Redclift (1991).
5. Lipton (1976); Chambers (1983); Bezemer and Headey (2008).
6. Johnson (1972); Friedmann and Douglass (1978); Ruddle and Rondinelli (1978); Tacoli (2006).
7. Since rural families were larger than urban families, using per capita income data would show higher income inequality favoring urban areas where households had fewer members at that time. In addition, income data in South Korea during this time eliminated highest income groups from the calculations, making government statistics on household income data questionable (Steinberg 1982).
8. From 1956 to 1970, under US P. L. 480 food aid (also known as the Food for Peace Program), South Korea received \$800 million of aid commodities, largely in the form of wheat and cotton (Ahn and Miles 2011).

9. As an indicator of the rapid decline of South Korea's rural population, despite government subsidies and support for the purchase of farm machines, their sales reached a peak in 1997 and have plummeted since then due to a fall in demand (Kim C.-n. 2011).
10. Government statistics show that the average indebtedness of each rural South Korean household increased from 111,061 won in 1978 to 839,666 won in 1982 (Ahn and Boyer 1984: 442).
11. Burmeister (1987); Choe (2005); Han (2004).
12. In 1988, rice accounted for 90 percent of total grain production and over 40 percent of farm income. The government's rice support program reached a record \$1.9 billion in 1986 with a purchase price that was about five times that of the world market (Savada and Shaw 1990). But farming costs also had skyrocketed and, as land ownership shifted to cities, high increases in tenant farmers followed. In 1985, non-farm owners of farmland amounted to 65 percent of total land in tenancy.
13. In 1976, the government spent one-quarter of the Ministry of Home Affairs budget and 9 percent of the entire national budget on programs associated with the *Saemaul Undong*. Villagers had never before received such largesse from the government.
14. Chun also removed the Saemaul Movement from the Ministry of Home Affairs and appointed his younger brother to lead it. In 1988, his brother was charged with large-scale extortion and embezzlement while he was chair of the movement from 1981 to 1987 (Savada and Shaw 1990).
15. As rural household incomes began to fall relative to urban incomes and government investment in agriculture dramatically dropped from the late 1970s, Saemaul efforts increasingly focused on spiritual training to maintain a well-disciplined society (Han 2004).
16. Amsden (1989), Evans (1995) and Woo-Cumings (1999a), among others, elaborated the idea of the developmental state in the Korean context in slightly different ways. What is common among them is the point that is made here, namely, that this type of state is not ubiquitous: its relatively high degree of autonomy allows it to engage with economy and society as a guiding force rather than simply as a rent-seeking force.
17. As used here and by Amsden (1989), Evans (1995) and Woo-Cumings (1999), the developmental state contrasts with authoritarian regimes that are predatory, or rent seeking, in simply plundering or extracting prebends from the business interests.
18. Park adroitly dropped the first round of the rationale for the *Saemaul Undong* that proclaimed it to be a 'New Mind Movement intended to cure the malaise of idleness and complacency' that elites assumed about rural people (Moore 1984: 580). Instead, he began to appeal to a social consciousness of cooperation and selflessness in uplifting communities.
19. As stated by Brandt (1979), in drawing from social traditions, with the *Saemaul Undong's* stress on obedience to experts and paternalistic leadership, while extending the idea of community to encompass the entire nation, it succeeded in combining vertical authority with egalitarian principles.
20. Brandt (1979); Burmeister (1987); The Korea Times (2010).
21. Yoshihara (1988) distinguished between crony capitalism in the Philippines, presidential family capitalists of Suharto's Indonesia, royal capitalism in

- Thailand and bureaucratic capitalism in Malaysia, each of which are variations of rent seekers that comprise ineffective governments.
22. Similar ideals were put forth in Tanzania, but they were done so not as a way forward for a capitalist-oriented economy; instead, in Tanzania, Ujamaa was billed as African socialism (Nyerere 1962).
  23. Unlike the contemporary biogenetic revolution, which is corporate driven, the Green Revolution linked to the *Saemaul Undong* was fundamentally a government induced, subsidized and integrated program.
  24. Bryceson (1996); Rigg (2006); Haggblade et al. (2010).

# 8

## How Could the Enhancement of Education and Health Contribute to Economic Growth in South Korea?

*Ilcheong Yi*

### **Introduction**

It is now widely agreed that investment in human capability, particularly in the areas of education and health, is a key factor for successful development. Previously, however, the dominant economic model for growth was based on the assumption that increasing physical capital was the primary driver for economic growth. Despite emphasis on the investment in human capital by many classical economists, including John Stuart Mill, Thomas Malthus, Adam Smith and Alfred Marshall, the idea that such investment, in particular education, should be treated as equally important as investment in physical capital for economic growth was revolutionary to many scholars until the 1960s (Myrdal 1968).

As investment in human capital began to be taken seriously in the analysis of economic growth, the South Korean experience attracted scholarly attention because the rapid economic growth of the country proved to be strongly correlated to an overall increased education level during the period of rapid industrialization. Several factors, however, have been ignored or neglected in these discussions. First, the education level was already comparatively high among the newly independent countries during the colonial and post-independence periods before intensive industrialization had begun. Second, and related to the first point, how the process through which investment in human capital is linked to the industrialization process was not thoroughly explained. Third, health, a vital factor for enhancing education levels, was also mostly excluded from discussions.

With these issues in mind, this chapter aims to explain the development of education and health in South Korea and the process and



mechanisms through which the enhancement of education and health are linked to development, in particular the industrialization process. It addresses issues regarding the factors that contributed to improving conditions for advancing education and health and the pathways in which human capital is formed and accumulated on the one hand, and how it contributed to industrialization on the other. The chapter first describes the explanatory framework and then discusses institutional legacies from the colonial periods that have shaped the conditions for the later development of education and health. This is followed by an analysis of public and private institutions and policies that improved the conditions for education and health, with a special focus on the alignment of policies and institutions in public and private sectors, and across policy sectors, to explain the pathways in which the human capital and economic growth relationship operates. Lessons for developing countries are provided in the concluding remarks.

### **Explanatory framework**

Since the late 1950s, factors other than physical capital, such as technology and human capital, have started to be incorporated into economic growth models based on the Harrod–Domar model. For instance, the neoclassical model of economic growth of Robert M Solow and Trevor W. Swan recognized human capital as significant during the 1950s.<sup>1</sup> Developed and categorized under various names such as the new economic school, the new growth theory and the endogenous growth theory, many recent economic models emphasize the importance of human capital and measure its impact with indicators such as the education level of the labor force on economic growth. However, there are three problematic assumptions of these theories with regard to human capital.

First, in the process of model building, they assume that investment in school-related activities is the only variable that best reflects the conditions of education. As can be seen through many cases in developing countries, the availability of schools or teachers, the major indicators of investment in education, does not guarantee high levels of school attendance. Thus, many factors other than investment, such as social attitudes toward education, living standards and environmental conditions including geographical location, have a significant impact on school attendance. The absence or ignorance of these factors is still prevalent in the model building of new growth economic theories. Secondly, factors determining human capital formation and

accumulation are often incorporated separately into an economic model. Health, which is one of the key factors determining the level of school attendance, is often neglected or absent in assessments of educational investment. Thirdly, quantified inputs to education or health do not explain the nature of inputs in terms of their contributions to economic development. As Dore (1976) pointed out, without enough modern sector jobs or school places to go around, the great majority of students may have to spend years 'prepping' for a succession of entrance examinations (Unger 1980). In the same vein, if the educational investment induces the educated elites to avoid productive work, then economic growth is more likely also to stagnate.

These problems have also been obstacles to understanding the South Korean case. First, input-output models of social services, in particular those focusing on financial investment in educational facilities such as schools, teachers and education-related facilities, have failed to explain why there was consistent improvement in the level of education in South Korea, even during the period when there was little investment in educational facilities. Secondly, many scholars could not explain why enhancement of the education level in the 1940s and 1950s could not produce rapid industrialization and it took another decade to see the increase in productivity.

These issues are addressed by analyzing the development of health and education in South Korea through a historical institutionalist approach with two specific focuses. First, specific attention is given to the colonial institutional legacies that have shaped education and health institutions. Colonial institutions have been argued to have a significant impact on post-independence institutions and, in particular, to determine the level of political stability, economic growth and provision of public goods.<sup>2</sup> As such, different colonial regimes produce different policy regimes that significantly affect the developmental path. In particular, within colonized countries, different institutions also were established with various intentions that have led to different outcomes across regions (Banerjee and Iyer 2004). This is particularly relevant to the South Korean case, where Japanese colonialism used different mechanisms to extract resources from the urban and rural regions and, therefore, this chapter analyzes the impact of different education and health institutions in different regions, specifically urban and rural experiences. Secondly, the policies and institutions of the different Korean governments are examined, focusing on how they have interacted with one another. Particular attention is paid to how the governments modified inherited institutions according to their own policy goals.

Special attention also is given to the investigation of which institutions, organizations and policies have created synergies in the education and health sectors. The synergy in the framework presented is conceptualized as a consequence of the process to overcome the frictions from the division of labor, pooling inputs to produce greater output rather than a separate output and creating dense networks within and between sectors. This process takes place in various functional areas such as production, redistribution, protection and reproduction (UNRISD 2006).

### **Colonial institutions of health and education systems in South Korea**

One of the reasons this chapter gives special attention to colonial legacies in post-independence Korea is due to the relatively high levels of education and health conditions compared to similar colonies. With regard to health, in the absence of detailed statistics, it is only possible to infer the improvement of health with indirect indicators. Between 1910 and 1940, the population of the Korean peninsula increased from 19.52 million in 1925 to 24.33 million in 1940, estimated as a 1.25 times increase, compared to the world population increase from 2.0 billion in 1927 to 2.3 billion in 1940, estimated as a 1.15 times increase.<sup>3</sup> Taking into account the fact that colonial Korea was mobilized for the Second World War and was not a country with a low frequency of natural disasters and low death rate per natural disaster (Guha-Sapir et al. 2004; Kahn 2005) on the one hand, and assuming that the country had a similar fertility rate as other developing countries on the other hand, the higher than average population increase may be a reflection of a low mortality rate via improved health conditions such as nutrition and sanitation (Kim C. 1965; Miura 2004). In fact, during this period, colonial Korea had lower death rate levels from preventive diseases closely related to the sanitation and hygiene relative to that of other developing countries (Park 1955).

In the field of education, estimates by the United Nations Educational, Scientific and Cultural Organization (UNESCO) revealed that the enrollment ratio of primary education in 1939, which constituted one-third of school-age children, was already higher than those recorded by other South Asian countries such as Burma, India, Indonesia and Pakistan in the 1950s (UNESCO 1954; Myrdal 1968). These estimates indicated that colonial Korea witnessed an improvement in education and health conditions even during the severe economic exploitation process. However, the indicators of these seemingly improved conditions do not explain

the *social and economic implication* of the improved conditions. What aspects of education and health were improved and how did they affect economy and society of post-independence Korea?

The Japanese colonial authority which ruled South Korea first as a protectorate and then as a colony from 1905 and 1910, respectively, to 1945, established the foundation of the modern education and health systems, which were very much 'Japanized' and militarized in nature. The health policies of the Japanese colonial government were formulated with the goal of the extraction and mobilization of resources for Japan's economic growth, rather than for the enhancement of living standards of Koreans. Two distinctive features characterize the Japanese colonial health system.

First, it was implemented as a tool for discipline. Rules and regulations on sanitation and hygiene were imposed on people through hospitals, schools and administrative institutions such as the 'hygiene police' (Cho H.-k. 1997).<sup>4</sup> Secondly, medical services provided by public hospitals mainly aimed to serve Japanese residents and a small segment of Koreans. There were some private hospitals, but they were mostly concentrated in the capital area of Kyunggi and accounted for less than 10 percent of the total population that the public hospitals served (Moon 2006). Furthermore, low-income households, which were mostly ethnic Korean, could not afford the high costs of private health facilities. This disciplinary and exclusive health system resulted in significant urban and rural disparity with regards to health conditions. Strict control of medical licenses protected the interests of medical doctors educated in western-style medical schools, which were mostly Japanese, resulting in an insufficient supply of doctors, further accentuating unequal access to health care. The Japanese colonial government tried to compensate for the lack of medical doctors by allowing medical personnel without medical licenses and traditional herbal experts, mostly Korean, to practice medicine, generally in rural areas (Table 8.1). The 'licenses' under both systems for medical personnel and herbal experts were area-limited to either rural or urban communities and issued specifically to address regional disparity. Although the area-limited license system contributed to the prevention of extreme regional concentrations of medical personnel, it could not address the overall undersupply of medical personnel. Despite the lack of medical facilities for low-income households, a coalescence of additional medical facilities targeting rural areas and improved sanitation and hygiene through disciplinary measures, combined with the Nazi-style population policy of 'give birth more,

Table 8.1 Medical staff and facilities during South Korea's colonial period

Medical staff and facilities		1915	1920	1930	1940
Medical doctors	Koreans	209 (66)	402 (94)	921 (229)	1,918 (551)
	Japanese and foreigners	663 (164)	633 (166)	828 (273)	1,279 (487)
Local doctors	Korean	0	5 (1)	116 (23)	365 (15)
	Japanese and foreigners	81 (5)	71 (3)	102 (8)	71 (5)
Traditional herbal medicine experts	Koreans	5,084 (736)	5,376 (615)	4,594 (484)	3,604 (324)
Hospitals	Public	27 (3)	27 (4)	44 (8)	56 (11)
	Private	264 (160)	112 (32)	79 (36)	105 (38)

Note: Figures in brackets ( ) are for the capital area of Kyunggi.

Source: Japanese Colonial Governor-General Office (various dates) based on Matsumoto (1999).

and produce more', contributed to the steady increase in population (Ryuzawa 2001).

The education system established under the Japanese colonial government exhibited similar characteristics to the health system, a result of Japanization, militaristic discipline and short-sighted policies to strengthen the Japanese colonial regime. First, the western school systems and curriculum had a strong Japanization element such as teaching the Japanese language and history as the main subjects introduced by Japan. Secondly, while placing a significant emphasis on primary education, the Japanese colonial government promoted vocational schools for secondary education, where they could train workers for colonial policy implementation, such as land surveying (Kang 1997). Most vocational schools taught basic skills in commerce and agriculture that were necessary for the low-level managers who were needed as part of the Japanese plan for the exploitation of Korean resources. Vocational education programs, in particular engineering, were considered inferior to an education in the field of humanities, which was more competitive and led to higher positions in the social and economic hierarchy of colonial Korea. For example, at Kyungseong Imperial University, established in 1924 and the only public higher education institution in the country in the 1930s, the engineering department was not established until 1938 when the demand drastically increased for engineers and technicians to be dispatched to the Japanese colony in Manchuria (Lee 2005; Yamamoto Kenkyukai 2008).

During the 1930s, the colonial regime emphasized both primary and secondary education, in particular Japanese language instruction, to prepare for the wars in Asia and beyond in order to strengthen the Japanese identity among Koreans (for an overview of this trend, see Table 8.2). With diverse motives ranging from strengthening Japanese identity to increasing human capital, there also was a strong demand from the media and academia for the legislation of universal primary education. The Japanese colonial government implemented a series of policies to expand primary education such as the 'one village one school' policy, which was created in 1929 and continued for eight years. Due to a lack of resources for education, the colonial government relied on school fees and, instead of increasing six-year primary schools, established a four-year primary school system, which accounted for 46.8 percent of all primary schools in 1936, in order to reduce the financial burden (Kim B. 2005). Although primary education continued to expand, it was under severe financial constraints and resulted in the underachievement of literacy and numeracy.<sup>5</sup> Universal compulsory primary education was not legislated until the end of colonial rule (Sano 2006). Neither did the Japanese colonial government pay particular attention to gender disparity in education. The levels of female enrollment for primary school were always lower than for their male counterparts, stagnating at less than half of male enrollment rates, and they fell even lower at the secondary education level. According to several estimates of primary school enrollment rates in the 1940s, the female school enrollment rate was either 24.2 or 33.1 percent in 1942, which was much less than the 56.3 or 75.5 percent male enrollment rate (Kim B. 2005).

The Japanese colonial government's recruitment system also had a great impact on Korean attitudes toward education and education systems. Koreans were recruited to play the role of intermediate-level managers, with a fairly competitive merit-based examination used to hire them for these positions. One of the largest public sectors where Koreans were recruited from was education. From 1921, the Japanese colonial government established public teachers' colleges and recruited Korean teachers. Entrance was highly competitive and those who passed the exams were required to exhibit both a strong loyalty to Imperial Japan and a high level of academic competence. For Koreans, passing the exams and being recruited by the Japanese colonial government meant upgrading their political, economic and social status, which is partly responsible for encouraging society to pay more attention to their children's higher education.

Table 8.2 Schools and students during South Korea's colonial period\*

Type of education	School type	Schools/ students	Year			
			1915	1920	1930	1940
Primary education	Traditional form of private village school for elementary education	Schools	23,441	25,482	15,036	4,105
		Students	229,556	292,625	150,892	158,320
	Modern primary school <sup>a</sup>	Schools	1,519 (429)	1,342 (681)	2,240 (1,727)	4,700 (4,483)
		Students	112,384 (60,660)	158,293 (107,285)	514,110 (459,457)	1,543,507 (1,385,187)
Vocational education <sup>b</sup>	Vocational middle school	Schools	70	46	83	139
		Students	1,540	788	3,520	8,261
	Vocational high school	Schools	20	31	52	90
		Students	1,422	1,951	8,757	22,855
Secondary education	Public secondary school	Schools	2	5	15	121 <sup>d</sup>
	Type I <sup>c</sup>	Students	882	1,346	6,198	32,753 <sup>d</sup>
	Private secondary school	Schools	2	9	9	-
	Type I <sup>c</sup>	Students	278	1,672	4,776	-
	Public secondary school	Schools	-	5	11	-
	Type II <sup>c</sup>	Students	-	2,045	5,792	-
	Private secondary school	Schools	-	0	0	-
	Type II <sup>c</sup>	Students	-	0	0	-
	Public female secondary school	Schools	2	2	6	-
	Type I <sup>c</sup>	Students	250	268	1,556	-
	Private female secondary school	Schools	2	5	10	-
	Type I <sup>c</sup>	Students	128	441	2,866	-
Public female secondary school	Schools	-	12	24	51	
Type II <sup>c</sup>	Students	-	2,276	7,546	12,443	
Private female secondary school	Schools	-	-	1	13	
Type II <sup>c</sup>	Students	-	-	162	5,035	

(continued)

Table 8.2 Continued

Type of education	School type	Year				
		1915	1920	1930	1940	
Higher education	Public professional college	Schools	0	4	5	-
		Students	0	613 (265) <sup>f</sup>	1192 (835) <sup>f</sup>	5,225 <sup>e</sup> (-) <sup>f</sup>
	Private professional college	Schools	1	3	8	-
		Students	14 (14) <sup>f</sup>	201 (137) <sup>f</sup>	1,410 (332) <sup>f</sup>	-
	Public teachers college	Schools	-	1	3	10
		Graduates	-	29 (29) <sup>f</sup>	437 (181) <sup>f</sup>	2,643 (-) <sup>f</sup>
	Public Kyungseong Imperial University	Japanese students	-	124 (in 1924)	599	720
		Korean students	-	44 (in 1924)	276	455

**Notes:**

\* In 1910, the total population of South Korea was estimated at 13,128,780 and the number of school aged children about 2.6 million.

<sup>a</sup> Figures include those of various forms of private and public schools for primary education excluding traditional village schools. Figures in ( ) are the numbers of public schools.

<sup>b</sup> Figures of vocational schools include those of both public and private schools in agriculture, fishery, commerce and engineering. In 1943, the numbers of students in these schools were: 14,150 (agriculture); 968 (fishery); 10,545 (commerce); and 2,802 (engineering).

<sup>c</sup> 'Type I' is for Korean students and 'Type II' is for Japanese students.

<sup>d</sup> Both public and private female and male secondary Type I schools.

<sup>e</sup> Statistics for public and private schools.

<sup>f</sup> Figures in ( ) are the number of Japanese students.

- indicates data non-existent.

Sources: Japanese Colonial Governor-General Office (various dates) based on Hirotsami and Hirokawa (1973) and Lee et al. (1997).



Features of Japanese-introduced education and health systems, such as Japanization, militaristic discipline, the use of education as a tool of colonial policy, the dual structure of education and health provision in urban and rural areas, and the deficit of attention to female education consolidated for almost half a century and had a significant influence on the post-independence Korean development of education and health. Some of these characteristics have been retained, while others have been modified. Some of them have been revived in different forms after a hiatus, and others have disappeared completely throughout the process of development. What has been retained, modified and lost, what was behind this process and how has it affected the nature of education and health in terms of economic and social development? The next sections address how the post-independence government and the successive government of President Park Chung-hee developed education systems with a focus on institutional continuity and interruptions.

### **Transition of education and health from colonialism to independence**

After liberation, one of the most important educational and health tasks of the US Army Military Government in Korea (USAMGIK), from 1945 to 1948, was to de-Japanize and transform existing Korean institutions into an American-style system (Meade 1951). De-Japanization continued under the First Republic led by President Rhee Syngman. An anti-Japanese sentiment was embedded in the education and health policies during this period.

One of the key challenges in establishing a new education system was the high rate of illiteracy in the Korean language due to the colonial education policy that had made Japanese the standard language and banned the Korean language on school campuses. It was estimated that 78 percent of the population was illiterate in the Korean language in 1945. An additional challenge was the shortage of teachers who could properly teach school subjects in Korean. According to 1939 statistics, most of the school teachers under the colonial regime were Japanese, who accounted for 40, 80 and 76 percent of the teachers in primary, secondary and higher education, respectively. The number of Korean graduates from secondary and higher education was insufficient to fill the vacancies in the schools left by the Japanese (Sorensen 1994). Teaching materials, including textbooks in Korean, were also in short supply.

In order to sort out the problems in the fields of education and health, a series of policies was implemented and institutions were built.

The Education Policy Council established by USAMGIK in 1945 consisted of about 100 Korean intellectuals and set important policies upon which education systems were to be established, for example, compulsory primary education and the expansion of secondary education to include one secondary school per subprovince (approximately 130 subprovinces existed in South Korea in 1945). Both USAMGIK and the Rhee government increased the number of qualified teachers by issuing licenses to those with secondary education. They actively supported in-service training and established teachers' colleges. One of the most important contributions to increasing the number of teaching staff was the government's emphasis on secondary and higher education. These policies paid off. From 1945 to 1948, the number of elementary school students rose by 82 percent, and the number of secondary school students increased by 182 percent. Over the same period, the number of available teachers increased by 55, 569 and 268 percent at the elementary, middle and secondary levels, respectively (Krueger 1982). Most notably, to respond to the explosion of demand for education, particularly in higher education, which Koreans previously had difficulty in obtaining under Japanese colonialism, USAMGIK facilitated the free establishment of universities. This resulted in an increase in the number of universities from 19 in 1945 to 42 in 1948, of which more than half were private universities (Kim J. 1979). The quality of the teaching staff also improved as higher education expanded.

Even during the Korean War (1950–53), the Rhee government established university consortiums in areas remote from battlefields where professors and students from various universities gathered for teaching and learning. About 40 percent of students enrolled prior to the war attended these universities (Kim J. 1979). This 'war university consortium' played a significant role in rebuilding the education system after the war in several ways. First, provincial governments that had supported the university consortium in their provinces demanded the establishment of universities, which led to the central government's policy to establish public universities at the provincial level. Secondly, those students who had continued their education during the war played a significant role in providing learning opportunities as well as in the economic recovery. After the war, the number of universities and students increased to 74 and 78,649, respectively, in 1955 and then to 80 and 81,641, respectively, in 1959 (Kim J. 1979).

After the Korean War, in addition to the effort of de-Japanization, anti-communism became another main characteristic of the education system. The Rhee government, which emphasized these aspects as the

two pillars of education policy, had already incorporated the military component into the school curriculum and organization, establishing the Students Units for Protecting Nations in all secondary and higher education institutions in 1949. The anti-communism element facilitated the government's education policy by emphasizing general arts and humanity education that focused on laws, literature and social sciences through which the government actively engaged with anti-communism education. This attention to education policy weakened vocational education as the education system shaped and nurtured the attitude of society to regard vocational schools as inferior.

Under these government policies, there was a significant increase in the number of schools at the secondary and higher education levels. The expansion of private sector involvement in education was particularly noticeable. In 1945, the proportion of private schools at all levels was only 19 percent. By 1952, this share reached around 40 percent, with a rapid increase in private schools at the secondary and higher education levels, and it accounted for 44.4 percent of total middle school students and 50.7 percent of total high school students in 1965 (UNESCO 1955; Korea Institute of Curriculum and Evaluation 2009). The expansion of the private sector was a consequence of the government policy to encourage private investment in education in general and specifically in the areas of secondary and higher education. Although the government spent most of the education budget (more than 75 percent) on primary education, it created an incentive for private investment in secondary and higher education through the land reform process. In the late 1940s, both USAMGIK and the Rhee government regarded land reform as an imperative process for political reasons (Cumings 1981) and landowners were desperate to regain the value of their land. The Rhee government established the Law on Special Compensation for the Land Owned by the Education Foundation<sup>6</sup> to encourage landowners to invest their land in public goods such as religious activities and education.<sup>7</sup> Knowing that the compensation for the land to be subjected to land reform would be small and delayed, landowners established private schools with their landed property, in particular secondary schools and universities. In this way, landowners could retain the value of their land in different forms such as the asset belonging to private schools (Editorial Committee for Korean Education 10-Year History 1960). This meant that land reform and related policies created a momentum that made new resources available for investment in education. During this period of transition from colonialism to liberation, the foundation of the Korean education system of universal

primary education was based in the public sector, while substantial dependency was established in the private sector to provide secondary and higher education.

In the health field, the colonial public health system, with policies such as the sanitation police, was dismantled and replaced by a public health bureau that was staffed with medical officers and/or medical doctors. However, a lack of financial resources significantly restrained public health activities, including spraying DDT pesticide and providing vaccinations, and worsened the situation of public hospitals, in particular those at the provincial level (Meade 1951).<sup>8</sup> Doctors were unable to secure salaries as high as they once had under the Japanese colonial regime. Additionally, an undersupply of medical equipment and medicines and the increasing burden on medical staff to care for public health and sanitation, which previously had been taken care of by the sanitation police force under colonialism, led to a worsening of public health conditions. A significant number of medical doctors started to migrate from rural to urban areas, in particular to the capital city, Seoul, when the colonial region-based license system was dismantled. Due to the departure of the Japanese landowners and the limited impact of land reform, the market demand for hospital health care was not large enough to keep medical doctors in rural areas. The concentration of doctors in urban areas, especially in the capital city area, became very serious, to such an extent that only 10–20 percent of doctors resided in the rural areas where about two-thirds of the population lived (Chun 2011).

The Rhee government paid little attention to other health issues, especially public health such as maternal care, prenatal and postnatal care, disease control and sanitation. The Department of Public Health, which was the biggest department of USAMGIK in terms of the number of staff and facilities, was reduced to a bureau of the Department of Social Affairs when the First Republic was launched in 1948. Greater attention was paid to other concerns, such as the resurgence of communist guerillas and food shortages. Redirecting attention to health issues was partly related to anti-communism. In contrast to the deteriorating health conditions in South Korea, free and universal health care was declared in North Korea in 1946 and undermined the legitimacy of USAMGIK and the Rhee government in the eyes of its citizens who were experiencing poor health conditions. A lack of centralization and coordination resulted in the sporadic and scattered development of health facilities in the public sector. Although there was no substantial investment in the nationwide public health system, government

departments with relatively more resources such as the Department of Interior, Department of Transportation and the Post Office Department began establishing their own hospitals for their own staff, thereby expanding health care for some segments of government officers. The supply of most medicines and medical equipment was dependent upon aid from the United States (US). The pharmaceutical and medical equipment industries were underdeveloped because of a lack of investment in industries in general (see Chapter 9). There was domestic production of some pharmaceuticals, but due to their poor quality they in fact became a source of illness and fraud rather than the remedy (Chun 2011). It is notable that the Rhee government also did not have a population policy to control fertility despite the rapid increase in population, largely attributable to a high number of returnees from overseas and refugees from the North and a 'baby boom' after the war. Only civil society organizations and academic groups carried out campaigns for population control without support from the government, but they were quite small in scale and impact (National Archives of Korea 2013).

The Korean adoption of the American system was prominent in health education. During and after the Korean War, there was an institutional division between public health and curative care in Korean society. The establishment of an education system that trained medical specialists, rather than general practitioners, accentuated this division (Lee 1969). The government also established the National Medical Law (1951) whereby the government assumed the role of providing public health such as sanitation and disease control, but curative care was still largely left to the private sector. Instead, the government facilitated private sector investment by changing the system from a license-based to a reporting-based system that made establishment of private hospitals less cumbersome (Lee 2010). The increasing number of private pharmacists, who also acted as general practitioners, helped address the increasing demand for health care. Despite a law established in the early 1950s calling for the separation of the prescription and dispensing of drugs, the government deliberately chose not to supervise and regulate the practices related to this issue. Without requiring prescriptions from doctors, people had easy access to pharmacies to obtain medicines. In fact, pharmacists were able to provide most health services to the poor by supplying medicine without prescriptions, while medical doctors provided medical services such as treatment, prescriptions and drug sales to the rich (Cho 1990). Although there is no statistical evidence on the impact of loose regulation of the separation of the prescription and dispensing of drugs, an informed guess is that

the dispensing of drugs without a prescription must have resulted in rampant misuse and abuse of pharmaceuticals (Kim and Ruger 2008). Together with the deterioration of the public health sector mentioned above, the development of a curative health sector, dependent upon the private sector, resulted in a fragmented market system of high-cost hospital care and low-cost pharmaceuticals.

### **Alignment of education and health with industrialization**

The Third Republic, headed by Park after a short-lived Second Republic, made significant changes in both education and health policies. First of all, Park had a very different attitude toward education. Park was particularly concerned with the role of education in changing the attitudes of society toward manual labour. He emphasized that in South Korea 'education should be one... to develop the character of productive human beings' (Park H 1999: 155, 170). Motivated by rivalry with North Korea, whose recovery from the war appeared to be much more successful and rapid than South Korea, Park established institutions and policies to make education more effective for economic growth. Considering the amount of liberal arts and social sciences education in South Korea 'excessive' (Korean Federation of Educators' Associations 1969), the Park government tried to shift the nature of education toward more practical vocational education and training by establishing more vocational schools than liberal arts schools (Seth 2002).

The Park government's education policies were based on five successive five-year plans for educational reconstruction (running consecutively over 25 years). An alignment of the education plan with the economic development plan facilitated reversing the trend of secondary and higher education from liberal arts, social sciences and natural science-oriented studies to vocational education, emphasizing technical and vocational training. The First Five-Year Education Plan was aimed at pursuing a radical change in the educational content. It aimed to change the ratio of vocational training centered secondary education to academically oriented secondary education from 1:2.3 to 1:1.7 by 1966. In the first half of the 1960s, the government made a series of plans to convert more than a half of all high schools into vocational schools, while also establishing new vocational schools, training vocational school teachers and increasing the number of classes for vocational subjects at all levels of education. The ratio of vocational high school students vis-à-vis academically-oriented high school students increased to 1:1.15 during the 1970s. The proportion of

vocational high school students decreased slightly in the mid-1970s but the ratio remained around 1:1.2 until the early 1980s. The number of vocational junior college also increased (Kim and Lee 2006).

Behind this success there were policy efforts in other policy fields. First, the government's income policies reduced the income and occupational welfare benefits gaps between workers with different levels of education in the 1970s and 1980s, in particular between those with university education and secondary vocational school education.<sup>9</sup> Secondly, the military was actively involved in vocational education and training in fields such as construction and engineering. It benefitted the graduates of vocational secondary schools by providing further training and education, in particular during the 1960s and 1970s<sup>10</sup> (Hwarangdae Research Institute 1992). Thirdly, the government's policies forced private companies to provide or finance skill education and training (the number of participating companies increased from 15 in 1967 to 81 in 1971), and facilitated a link between school education and on-the-job training (Yi 2007; Kwon and Yi 2009). Fourthly, various schemes for promoting the development of workers' skills were established. Several types of skill certificate systems were implemented to be readily used by companies and special scholarships for vocational training schools were established. In the 1970s, with the onset of heavy and chemical industrialization (HCI), a strong demand for technicians stimulated higher-level technical education (as well as a demand for low- and medium-level education) promoted more vocational training-oriented education.

The government's policy for higher education was to introduce open and transparent competition. In fact, competition for places at universities started with the entrance exams for secondary education. This early process of competition for higher education places increased the costs of education outside of schools in the 1960s and 1970s since many students needed additional preparation for entrance exams to upper-level educational institutes. The government responded to these problems in two ways, which have a strong sense of fairness and universal coverage, by:<sup>11</sup> (i) introducing lotteries in the allocation of secondary school places rather than examinations in order to facilitate a free flow of students to upper-level education; and (ii) increasing the capacity of secondary schools to accommodate more students through public subsidies to private schools (Kim G. 2002). Both measures demanded a deep penetration of the government in a unified examination system, the curriculum, school administration, the allocation of teachers, students and facilities and increased power over private schools. These policies resulted in increased enrollment in general secondary

education and prompted government concern about the increase in a highly educated, but unemployed, labor reserve and the implementation of tighter controls on the quota of entrants at the university level (Kim and Lee 2006).

In the health field, the Park government established various innovative mechanisms to better utilize private resources. With regard to public health, the Park government increased the number of public health centers and strengthened their functions, including immunization, family planning, tuberculosis control, sanitation administration and the provision of primary medical services to the poor. The number of the approximately 1,500 subcounties in South Korea without public health centers decreased to zero in 1964 according to government statistics. Until the late 1970s, these facilities played a major role in controlling infectious and contagious diseases, delivering primary health care and implementing immunization and sanitation (McGuire 2001). The confluence of these policies and institutions contributed to a drastic improvement in health conditions throughout the 1960s, 1970s and 1980s (Table 8.3). However, staffing the public health centers was a continuously difficult task given the financial constraints at the time. In response to this challenge, the government established a law offering graduates of medical schools, with medical doctors' certificates, the option to serve as public health doctors instead of doing military service. Additionally, a law was established to issue medical licenses to those who failed to pass the national examination on the condition that they served two to three years in remote areas (Kim B.-J. 2002). Although these policies did not have a significant impact, due mainly to factors such as the consistently low morale of the doctors, and more than anything else a limited number of graduates from medical schools, they established a social attitude that medical services are a public good that the government can and should control. This provided a foundation for a conscription system of medical doctors for public health in rural areas under the Chun government in the 1980s when the absolute number of medical schools was increased dramatically. This system of public health doctors became successful in the 1980s and contributed to staffing even the smallest administrative units in rural areas.

With regard to public health, active civil society organizations, which had been engaged in issues of fertility control under the Rhee government, continued to operate in the health field, in particular in the prevention of communicable diseases and parasitic infections. They established research centers and action groups to deliver information and treatments, and actively lobbied the government to make legislation



*Table 8.3* Trend of infant mortality in developing countries with similar income conditions to South Korea during the pre-industrialization period, 1960 and 2009

Country or territory	1960	1970	1980	1990	2000	2005	2007	2008	2009
Philippines	63	58	53	41	29	28	27	27	26
Panama	72	47	34	25	20	17	17	16	16
Sri Lanka	73	56	34	23	17	15	14	13	13
South Korea	96	41	17	8	6	5	5	5	5
Thailand	102	71	46	27	17	14	13	13	12
Congo	116	88	67	67	74	77	79	80	81
Sudan	120	103	86	78	73	71	70	70	69
Botswana	121	92	60	46	66	47	44	44	43
Indonesia	128	103	78	56	40	34	32	31	30
Uganda	131	116	112	111	94	86	83	81	79
Syrian Arab Republic	134	87	56	30	19	16	15	15	14
Papua New Guinea	143	107	81	67	57	54	53	53	52
Burundi	146	135	114	114	107	104	103	102	101
Lesotho	146	132	98	74	86	78	72	66	61
Togo	156	123	100	89	78	70	67	66	64
India	160	126	103	84	68	57	54	52	50
Turkey	162	150	105	69	36	25	22	20	19
Bangladesh	163	158	137	102	66	51	46	43	41
Burkina Faso	181	153	129	110	102	96	93	92	91
Nepal	197	158	130	99	63	48	43	41	39
Egypt	204	158	120	66	38	25	21	20	18
Malawi	217	193	150	129	99	82	75	71	69
China	–	83	46	37	30	22	19	18	17
Democratic Republic of the Congo	–	145	130	126	126	126	126	126	126
Equatorial Guinea	–	–	–	120	102	94	91	90	88
Guinea-Bissau	–	–	–	142	129	121	118	117	115
Guyana	–	59	53	47	39	33	31	30	29
Iran (Islamic Republic of)	–	129	89	55	38	31	28	27	26
Mali	–	183	160	139	120	109	105	103	101
Mauritania	–	132	94	81	77	76	75	75	74
Mozambique	–	185	173	155	123	109	102	99	96
Nigeria	–	–	126	126	114	97	91	89	86
Pakistan	–	136	117	101	85	76	73	72	71
Benin	–	152	126	111	89	81	78	76	75

*Note:* – indicates data not available.

*Source:* UNICEF (1998).

on public health issues. The government supported these activities by helping them carry out national surveys and allowing civil society to participate in the process of mobilizing foreign aid (Seung et al. 2003). Subsequent to this government and civic alliance for the prevention of communicable diseases and the control of parasitic diseases, both tuberculosis and parasitic infection rates have been reduced consistently since the 1960s. The government also started to actively promote fertility control through family planning and achieved success through coordinated policy implementation between government actors, civic groups and community organizations such as the Association of Family Planning and the Women's Organization under the *Saemaul Undong* that have been established nationwide since the early 1970s (Askew and Khan 1990; also see Chapter 13).

In the curative health field, particular attention was paid to those working in manufacturing industries and, therefore, largely those working in urban areas. Industrial accident insurance covering workers in big companies and factories was the first social insurance scheme implemented after the coup in the early 1960s, and the National Health Insurance System (NHIS) implemented in the late 1970s covered workers in big companies and factories based on the number of employees. Private hospitals also were forced to provide services within the insurance schemes. The fee for the service system was determined, set at about 75 percent of the already inflated market rate, and pushed by the private hospitals (Association of Korean Health Insurance 1997; Kim S 2009). This fee-for-service system, which continued even after the universalization of national health insurance in the late 1980s, became one of the primary sources of conflict between the government, the private health sector providing health services and the consumers of those services.

The government's policy to rely heavily on the private sector in both public and curative health resulted in the excessive expansion of the private sector, particularly in relation to curative care. In the mid-1960s, the number of private hospitals and clinics grew continuously and offered higher-quality facilities than the public sector. The salary gap between public and private sector doctors widened and most specialists either opened their own clinics or took positions in the private sector.<sup>12</sup> Thus, the private sector became larger than the public sector in the 1960s, resulting in limited access for the poor to high-quality curative health care due to the high costs. This also further widened the health gap between urban and rural areas. Responding to this health gap in the early 1970s, the government incorporated the curative health care services for the poor into the public health centers and public hospitals

by giving provincial hospitals the status of public corporations with an independent budget authority. It also promoted the construction of public health centers in small and remote villages by designating health facilities one of the main targets of the rural development program called *Saemaul Undong*. However, the result was mixed because, while there was an increase in accessibility, the level of quality did not improve.

### **Quantitative adjustment in education and long-term continuity in health**

The authoritarian Chun government that succeeded the Park government dramatically increased the number of places for students in universities by augmenting the entrance quota and setting a graduation quota. It was among the measures used to gain legitimacy, exemplifying government support to widen the opportunities for accessing higher education, which was one of the most prioritized aspirations of the population. The policy, dubbed 'admission over quota, graduation according to quota', was accompanied by several measures to reduce the burden of education costs such as banning private tutoring out of school and tightening control and reforming the examination systems for university entrance.

The policy resulted in a dramatic increase in the number of entrants to universities. In the early 1980s about 49 percent of high school graduates went on to university. The universities did not comply with the graduation quota and the number of university graduates increased continuously (Seth 2002). The government ceded to the pressure from the universities and the public by allowing a flexible graduation quota in 1983 and then abandoning the quota in 1987, with a consequent dramatic increase in the number of university students and graduates. Under these circumstances, the 1980s witnessed impressive progress in the total number of students. Between 1980 and 1989, middle school enrollment increased from 95 to 98 percent, high school enrollment increased from 63 percent of the high school-age population to 86 percent, and the proportion of young adults entering higher education institutions increased from 16 to 37 percent. By the time the policy that made middle school education compulsory was implemented in 1985, the enrollment rate had already reached 99.1 percent (Seth 2002).

Two of the most significant achievements in the health sector in the 1980s were the gradual expansion of health insurance coverage under

the authoritarian Chun regime and the achievement of universal coverage of national health insurance under the democratically elected government of President Rho Tae-woo. It is notable that universalization was achieved through the expansion of the coverage under the system established in the 1970s, which was dominated by the private sector and conformed to market forces. Many problems—for example, the multitiered pricing mechanisms for both insured and uninsured services that adversely affect those who cannot receive insured services—were unresolved in this ‘additive health reform’ (Wong 2004). One factor that contributed to the universalization of national health insurance was the opening up of medical education resulting from the government policy to remove the admission quota for universities (Kwon 2009). For instance, the number of licensed physicians increased by 7,077 between 1980 and 1985 compared to a rise of 5,814 between 1975 and 1980 (Ministry for Health, Welfare and Family Affairs 2008; Seo 2010). The increase in medical doctors also strengthened the public health system through the Public Health Doctor System in rural areas (Kwon 1986).

## **Conclusion**

In post-independence Korea, institutions in the education and health fields left by the Japanese exhibited strong characteristics of the colonial exploitation and mobilization of resources. The task of USAMGIK and the Rhee government was to reform, rather than dismantle, these institutions along the lines of the new goals and purposes established by the newly independent state. Despite their lack of public resources, USAMGIK and the Rhee government were successful in maintaining and encouraging aspirations for education by raising mobilizing resources through land reforms and other policies for the development of the private sector. Although the policy efforts under the Rhee government increased education opportunities, what they aimed at and achieved was a de-Japanized and anti-communist education system that did not directly contribute to industrialization. The field of health proved to be the area where the least government investment was made; however, there was a compensating growing private sector, stemming from the relatively recently developed medical education system that was made possible due to supportive government policy. The increase in health facilities and personnel, although small, was in the context of a segmented health care system with gross health inequality between urban and rural areas. The dual structure of health delivery, that is, the public sector with public health

and expanded curative private sector concentrated in urban areas, was established in the 1940s and 1950s and has continued to the present.

Major changes in the fields of education and health during the Park government were the result of the alignment of education and health policies with industrialization through a set of skillfully coordinated strategies. The Park government's agenda to shape institutions and policies that affected attitudes and behavior was based on various forms and features of public-private relationships needed to create effective synergies. These forms of mechanisms were highly constrained by the previous institutional and policy structures such as a highly developed private sector in curative care and secondary and higher education. The government had to develop policies to mobilize and employ the private sector to achieve its goals and targets within the framework of the economic development plan. The role of the South Korean military in education and health development, similar to other developing countries, such as the public doctor system in Thailand, is notable. The military, one of the most important institutions in the country, became a significant tool and resource for education and health development when the policy planners began actively employing military staff in order to achieve development goals.

The improvement of conditions for education and health in South Korea was the result of a continuous policy effort to solve problems inherited from colonial institutional legacies. Decision-makers did not dismantle these institutions entirely, but rather tried to apply them for new purposes. However, the way they utilized the system resulted in different outcomes. During this process, the policies of the successive governments differed in terms of their goals, purposes and direction. A key difference in the Park government's policies compared to previous governments, which served as an example that many developing countries sought to draw from, was the planning and coordination between education, health and industrialization policy sectors. This demonstrated that the strong government regulation of the private sector could shape a specific type of partnership between the public and private sectors for the success of social endeavors.

## Notes

1. Solow (1956); Swan (1956); Ruttan (2007).
2. Swan (1956); Gann and Duignan (1967); Smith (1978); Weiner (1989); Lipset (1994); Porta et al. (1998); Englebert (2000); Acemoglu et al. (2001); Banerjee and Iyer (2004).

3. The Japanese colonial Korean Government-General's Office first carried out a population census in 1925; see Korean Government-General Office (various years), UNDESA (2004) and Willott (2012).
4. The hygiene police, which focuses mainly on control of epidemics, is a narrowed-down system of the medical police or health police that operated under the 'enlightened despotism' of the eighteenth century (Baron 2006).
5. The enrollment rate at the primary school level increased from 2.1 percent in 1912 to 47.7 percent in 1942 (Lee et al. 1997).
6. The Education Foundation is called *Hakkyo Beobin*, which consists of tax-exempt corporate bodies formed to establish degree-granting institutions that include a founder or patron and perhaps several board members.
7. Seth (2002); Cho S. (2003); Lee Y. (2004); Hong (2006).
8. It has been reported that subsidies to the provincial hospitals, which accounted for 34 percent of the health budget in 1928, were reduced to 7 percent under USAMGIK.
9. Kim D. (1979); Park (1984); Yi (2007).
10. A rough estimate of the contribution of the military to all skilled labor workforces in 1970 is about 25 percent.
11. Regarding the fairness of rationing or allocation schemes employing lotteries, see Weitzman (1977).
12. According to Cho (1990), salaries in the private sector were almost twice that of the public sector in the late 1960s.

## Part III

# 9

## Effective Aid and Development Cooperation in South Korea

*Ilcheong Yi, Olive Cocoman, You-ah Chung and Hyunjoo Rhee*

### Introduction

Over the last two decades, there has been an increasing demand for more effective aid. The principles underlying the Accra Agenda for Action, the Five Principles of the Paris Declaration and the Busan Global Partnership for Effective Development Cooperation are the manifestation of the recognition that under certain conditions aid can be more effective for development. One of the major questions left incompletely resolved is which institutions and policies are needed to realize these principles and consequently make aid more effective for development. South Korea, which transformed from a heavily aid-dependent economy to an economic, social and political successful one, appears to offer an interesting case from which we can draw many lessons.

The case for aid's contribution to South Korean industrial growth, however, can be contested since its intensive industrialization, in particular heavy and chemical industrialization (HCI), took off in the 1970s when the volume of aid was significantly reduced. The commercial loans rather than public loans (or concessional loans in current terminology) played a significant role in this.<sup>1</sup>

This argument raises the question of what role aid has played in the Korean development process, and how the Korean governments have used aid resources for development. Three specific questions are raised. First, how has the role of aid varied in the different stages of Korean development, that is, the relatively stagnant stage in the second half of the 1940s and 1950s and the rapid economic growth stage in the 1960s and 1970s? Secondly, how have institutions and policies dealt differently with aid resources during different periods? Thirdly, can the South Korean experience offer reproducible solutions to aid-dependent developing countries?



With the aim of addressing these questions, we examine the period from 1945 to 1980 when grants from the major donor, the United States (US), was phased out, grant-in-aid almost disappeared and total official development assistance (ODA) against foreign saving started to decline drastically. We pay attention to key institutions and policies of donors and the recipient Korean governments shaping the different patterns of aid relationship and their outcomes. After a brief overview of aid flows to South Korea, we advance the explanatory framework with a strong focus on the contextualized explanation of the role of aid. The institutions and policies and their relationships with developmental outcomes are then presented for the different phases of aid reception. We conclude with suggested lessons that can be drawn from the South Korean case.

## **Overview of aid flows**

From 1945 to 1995, when the country graduated from the World Bank lending list, South Korea received a significant amount of aid.<sup>2</sup> Although statistics vary depending on the calculation methods, it is estimated that roughly \$26 billion of aid, much of it in grant or concessional forms of loans, from various donors, including the US as a main donor, was provided between 1945 and 1984 (Steinberg 1985). During this period, the size of grant-in-aid was reduced roughly from more than 20 percent of gross domestic product (GDP), the highest in the mid-1950s, to less than 1 percent of GDP in the mid-1970s (Figure 9.1).

When liberated from Japan in 1945, the South Korean economy was predominantly an agrarian society, with more than 70 percent of the population employed in agriculture. Several factories in the southern part of the country, such as textile factories and iron ore mills, were not fully operational because of lack of fuel, electricity, raw materials and machinery parts. The rapidly increasing population due to returnees from abroad and refugees from the communist North created additional economic and social burdens. South Korea was heavily reliant on aid from the US, which was the largest donor until the mid-1960s. In fact, until 1980, the US gave South Korea the largest foreign assistance, after Israel and Viet Nam (USAID 1981).

The political instability leading to the Korean War (1950–53) severely undermined economic and social development. During the war, it is estimated that more than 1.3 million South Koreans were killed and the cost of war damage was as high as \$6.9 billion (at current rates), equivalent

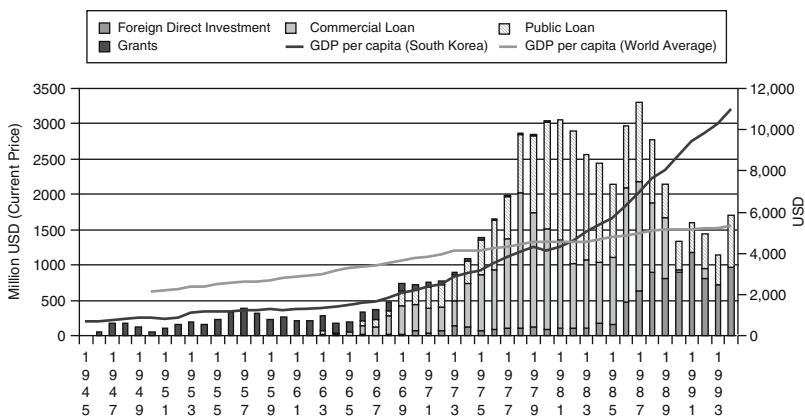


Figure 9.1 Macroeconomic and financial indicators, 1945–93

Note: USD = US dollar

Sources: KDI (1995); Kim C.-n. (2011); Groningen Growth and Development Centre (2012).

to nearly five times the 1953 GDP (Adelman 1974; Chung Y. 2007). After the war, South Korea became a priority recipient of US aid because of US foreign policy treating South Korea as a bulwark against the communist bloc. US economic aid alone between 1945 and 1961 was \$3.43 billion out of total aid and military assistance of \$5.04 billion (USAID 2010). The magnitude of US aid was significant in comparison with other developing countries (Ruttan 1996). Grant-in-aid accounted for as much as of 22.5 percent of GDP and 86.6 percent of imported goods and services in 1957 (Table 9.1).<sup>3</sup>

Provided under different programs such as the Post War Relief Program (1946–48), the Marshall Plan (1949–52), the Mutual Security Act (1954 and 1960) and the Act for International Development (1961), the US was the sole major donor to South Korea until the mid-1960s when Japan emerged as another major donor.

The share of grant-in-aid rapidly reduced, while public and commercial loans increased throughout the 1960s and 1970s when South Korea’s export industry expanded greatly (Figure 9.1). Between 1965 and 1985, real income per capita increased more than four times, by approximately 6.9 percent of GDP per capita growth per annum. This growth performance ranks second, following Taiwan with 8.6 percent, among the top 15 successful, large, non-oil-exporting middle-income countries (Dervis and Petri 1987; World Bank 1993). In reducing income equality and poverty, South Korea outperformed all middle-income countries

*Table 9.1* Grant-in-aid as a share of macroeconomic indicators, 1953–71

Year	Share of GDP (percent)	Share of imports (percent)	Ratio to foreign saving	Ratio to domestic saving	Ratio of all aid to investment	Ratio of all used for investment to all investment
1953	14.9	56.2	100	90.9	101.4	47.6
1954	11.0	63.6	100	100	96.5	50.0
1955	16.9	69.3	100	185.4	144.4	65.0
1956	21.8	84.6	100	375.9	272.5	136.3
1957	22.5	86.6	100	191.7	160.7	65.7
1958	16.9	84.9	100	187.8	143.2	65.3
1959	11.7	73.2	100	188.9	112.5	65.4
1960	12.6	71.4	93.9	93.00	126.0	93.0
1961	9.5	63.0	100	400	79.2	66.7
1962	10.1	55.1	97.9	383.3	85.6	78.0
1963	8.0	38.6	88.9	100	47.1	47.1
1964	5.2	36.9	102	64.2	39.4	39.4
1965	4.4	28.4	57.9	67.7	31.2	31.2
1966	2.8	14.4	28.9	26.2	13.7	13.7
1967	2.3	9.7	20.9	23.2	11.0	11.0
1968	2.0	7.2	18.2	14.4	8.0	8.0
1969	1.7	5.9	16.8	9.6	6.1	6.1
1970	1.0	4.2	11.9	6.3	4.1	4.1
1971	0.5	2.1	5.0	3.4	2.0	2.0
Average	9.25	45.02	70.65	616.78	78.14	47.14

*Source:* Chung Y. (2007).

between 1945 and 1985. High human development was achieved in the late 1980s.

After a brief surge of concessional loans during the structural adjustment period of the early 1980s, they continued to decline in both absolute and relative terms from the late 1980s onward. Figure 9.1 shows that the rapid increase of both commercial loans from the mid-1960s and foreign direct investment (FDI) from the late 1980s contributed to reducing the share of aid in total foreign capital. Aid reduced from about 9.3 percent of GNP in 1960 to about 0.6 percent of GDP in the late 1980s. US aid was almost phased out by 1975. South Korea graduated from the list of countries eligible for aid from the US Agency for International Development (USAID) in 1980, the Japanese Economic Development Cooperation Fund in 1990 and the World Bank in 1995 (World Bank 1995; Ministry of Foreign Affairs of Japan 1999).

## **Explanatory framework**

Explaining the role of aid to South Korea is a complex task because it has changed its characteristics in terms of the composition and objectives of donors as well as the nature, volume and magnitude of aid resources and their impact on economic growth as society has evolved. To simplify the diverse patterns of aid, we divide the period under examination into three distinctive phases according to the stated objective of aid and its developmental outcomes, in particular economic growth: (i) the Relief Aid and Asset Redistribution Phase (1945–52); (ii) the Reconstruction Aid and Resource Allocation Phase (1953–61); and (iii) the Development Aid and Resource Mobilization Phase (1961–80).<sup>4</sup>

In order to explain the relationship between aid and the development outcomes in each phase, we take into account the key institutions and policies in redistribution and production by which the impact of aid resources and the donor–recipient relationship on political economy of the recipient country are significantly determined. Two reasons lie behind this specific focus. First, recent debate on aid effectiveness lost the structural implication of aid, in particular the way aid affects the growth through industrialization and macroeconomic management (Fischer 2009). The effectiveness of aid for economic growth is dependent upon trade policy, industrial policy and macroeconomic management. South Korea, where the industrialization strategy successfully moved from import substitution industrialization (ISI) to export-oriented industrialization (EOI) on the one hand, to government control over the finance industry that had a significant role in the industrialization process on the other, can offer useful lessons on how aid can be effective in a broader context. Secondly, analysis of aid effectiveness based on statistical regression often links external aid to a final outcome without taking full account of the complexity of the causality chain. As a consequence, the relationship between aid and development has been mostly treated as a kind of ‘black box’. Statistical evidence about aid effectiveness, which is often contradictory and at best unclear and ambiguous, is partly related to this problem of attribution (Bourguignon and Sundberg 2007). One way to open a black box is to analyze effectiveness of the institutions that affect the nature of donor–recipient relationships and shape the way aid resources are used. Diverse development paradigms, political and historical norms, rules and relations such as the post-colonial relationships, commercial interests, the Cold War and the ‘War on Terror’ are particularly important factors for explaining aid effectiveness in terms

of institutional effectiveness within a specific context.<sup>5</sup> The contextual understanding is particularly important regarding aid effectiveness during the Cold War period for South Korea. US foreign policy was closely related to the aid policy for South Korea, and the effectiveness of aid cannot be properly understood and measured without taking into account the US foreign policy goal in South Korea.

### **Institutions and policies for effective aid and development cooperation: relief aid and asset redistribution phase (1945–52)**

The transition from liberation to the establishment of an independent republic was full of political, economic and social problems. Division of the Soviet-controlled North and the US-controlled South accelerated conflicts between the left- and right-wing political forces. The division also severed the production and distribution chain of goods and services established in the North that provided energy power and fertilizers to the South in return for consumer goods and food. The productivity of agriculture, accounting for more than 80 percent of the labor force, and the manufacturing industry, accounting for less than 10 percent of domestic products, deteriorated due to a lack of fertilizers, fuels and power. Inflation increased 20–25 times during this period. Consequently, poverty was widespread.

Under the circumstances, the primary goal of the aid policy of the US Army Military Government in Korea (USAMGIK) was to provide ‘such minimum supplies for the civilian populations of (occupied) areas as essential to prevent starvation, disease and unrest’ (Wolf 1960). Partly due to the ambivalent US foreign policy in South Korea, the Pentagon and USAMGIK, which were reluctant to include the country in its line of defense in East Asia, focused on relief aid rather than productive investment for economic development. USAMGIK imported food and non-durable consumer goods under the Government and Relief in Occupied Areas (GARIOA) aid program and, therefore, more than 90 percent of the aid consisted of finished goods, particularly food stuffs and medical supplies, which could be immediately distributed without further processing in South Korea.

During the first three years after independence, 1945–48, more than half of the \$400 million from GARIOA was spent on relief for the extremely poor and returnees from abroad and North Korea. The nationwide riots demanding food and jobs influenced the US aid policy to increase the volume of aid for poor relief. However, the poor relief fund

was inadequate to address the situations of those in extreme hunger and poverty, which was estimated at more than 2 million people and accounted for more than 12 percent of the population (Park B. 2005).

It was land and tenancy reform rather than poor relief policies that had a more significant impact on the socio-economic situation and the future development of South Korea. In 1945, about 83.5 percent of total farm households were either small land-owned farmers or tenants, and 65.3 percent of total farm households cultivated less than one *chongbo* (approximately 1.25 acres), which was considered a subsistence level (Jung 2003). More than two-thirds of the farm households were full-time tenants, with the remainder part-time tenants. The tenancy rate was extremely high, varying from 50 to 90 percent of the crops.<sup>6</sup>

There was rapid inflation, population growth from refugees and repatriation, a lack of fertilizers and adverse weather conditions to contend with. These circumstances aggravated an already explosive political situation. USAMGIK limited the tenancy rate to one-third of the annual yield of major crops and reimposed a government rice collection and rationing program that had been used by the Japanese colonial government, initially on a voluntary basis and eventually through a law in 1947 (Macdonald 1992). Under this system, USAMGIK also continued forced collection of 30 percent of the harvest, which was far lower than the Japanese system, but still threatening to households engaged in subsistence farming (Bank of Korea 1949). Imported food through the GARIOA aid program accounted for one-third to one-half of the total food collected and compensated for the lack of food rationing (Lee 1993).

Radical land reform was taking place in the North, but in the South widespread riots of organized peasants demanded more rice rations and equal distribution of land and protested against high tenancy rates across the country. This increased the interest of the US military government in partial agrarian reform such as placing a ceiling on rents, which it did by imposing a 33 percent ceiling rather than a large-scale redistributive land reform just after taking power in 1945, a strong signal of the necessity of agrarian reform for political stability (Pak 1966; Ban et al. 1980). The increasing power and influence of rural peasants' organizations and the surge of nationalist sentiments criticizing landowners as pro-Japanese collaborators effectively undermined the power and influence of landowners who could have resisted land reform.<sup>7</sup> However, land reform was not without resistance from the landowners. Facing this resistance from the landowners who organized themselves and became political allies fighting against recalcitrant left-wing groups, the US military

government had to compromise its original plans for land reform. Rather than a broader redistribution, USAMGIK decided to reallocate former Japanese-owned land only and 224,892 *chongbo* (79.6 percent) were redistributed to 609,122 households by 1948, accounting for 10.7 percent of total cultivated lands and 29.5 percent of all farm households (Chang 1985).

The political reasons for land reform continued after the First Republic was established in 1948. Under the circumstances, the Constitution of the First Republic, established under strong US influence, clearly stipulated the farmers' rights to the land. The US continuously conveyed the message of the political necessity of land reform to President Rhee Syngman. It was also in line with Rhee's political interest to weaken the landed class who were challenging his power (Macdonald 1992).<sup>8</sup> Rhee continued the process of land and agrarian reform and appointed Bongam Cho who had been vehemently arguing for land reform as the Minister of Agriculture and Forestry even though his socialist background became the subject of severe political attack. Under Cho's leadership, and despite strong opposition from the landed class, the land reform bill was passed in 1950 just before the Korean War and implemented in areas away from the battlegrounds. In the process of land reform, landowners facing the imminent prospect of ownership loss and low prices set by the government, sought ways to maintain the value of their land (Ban et al. 1980; Putzel 2000). Some rushed to sell their land below market price, but higher than the expected government price. Others changed the purpose of the land from agricultural to public use to avoid being subjected to land reform or transferred the ownership to religious or educational institutions such as temples, churches and schools that they could still manipulate (see Chapter 8). After the Korean War, two further rounds of agricultural reform increased full-owner cultivators from only 13 percent in 1945 to 88 percent by 1957 (Shin 1998).

Another notable contribution of USAMGIK to South Korean development was educational reform. Despite the shortage of necessary resources for the development of education, with the objective of democratizing and Koreanizing education, USAMGIK was able to mobilize South Korean educators to produce a series of plans to reform the centralized and authoritarian educational system established by Japanese imperialism. Although most of the reform plans could not be implemented because of the political instability and lack of capacity and resources, they were adopted and implemented later by the Rhee government. The increased literacy rate and enrollment rates across all levels of schools were among

the most noticeable outcomes of USAMGIK's aid policy (Seth 2002). Within three years of USAMGIK, the percentage of children attending primary school increased from less than 40 percent to more than 70 percent, the number of secondary schools grew from 62 to 250 and total enrollment increased sixfold. The number of students attending higher education increased from 3,039 in 1945 to 20,545 in 1947.<sup>9</sup> Investment in teacher-training facilities and courses and educational materials such as textbooks in the Korean language financed by aid resources, together with the expansion of private and voluntary schools, contributed to successful educational reform.

During this Asset Redistribution Phase, aid agencies made a significant contribution to South Korean development by initiating progressive reforms in land and tenancy systems and education rather than implementing programs for poor relief and productive investment (Chung Y. 2007). Providing a basis for economic and social development, they also shaped the nature of development in South Korea, such as economic growth with less inequality and manufacturing industrialization based on highly educated and skilled labor.

### **Reconstruction aid and resource allocation phase (1953–61)**

As the Korean War ended, the US placed the security issue firmly at the center of its foreign policy on South Korea, which became a key country of the US security policy framework for the Far East. The relationship between aid and development during this period was mainly shaped by the US foreign policy in the Far East, US interventions to address macro-economic instability and Rhee government policies to increase the real value of aid dollars and ISI.

Three significant changes in the US aid to South Korea can be identified. First, the amount of grant-in-aid in the 1950s increased dramatically. It was higher than in the 1940s and 1960s, culminating in \$382.9 million in 1957, which was equivalent to 67 percent of the government's general budget for 1958 (KDI 1990) and about one-tenth of the total US aid to all countries in the world during this period (Chung Y. 2007). On average, foreign aid amounted to \$253 million per year, and averaged \$11 per capita per year. Secondly, the US started to consider South Korean aid within a broad framework of its Far East foreign policy. The US expected increased aid to South Korea to be used to supply raw materials and parts as well as to purchase goods and services from Japan (Woo 1991). In fact, it was Japan and not South Korea that should have played



a central role in creating economic prosperity to fend off communism, with South Korea supporting Japan. The South Korean as well as the Japanese aid policy was also formulated according to this security framework (Macdonald 1992). The US government strongly emphasized the importance of an open economy as part of a value chain centered in Japan to the South Korean government. Thirdly, the US government and aid agencies started to take the issue of skyrocketing inflation very seriously, the upward spiral of inflation had existed since 1945. The 1948 Republic of Korea–United States aid agreement dealt mainly with this issue and clearly stipulated a condition for aid reception: the government would work to establish and implement appropriate monetary, fiscal and balance-of-payment policies. It also contained a specific clause about establishing a counterpart-fund account into which the South Korean government deposited Korean currency at an agreed exchange rate corresponding to the value of the received aid goods. The funds were to be used for US agencies' expenses, including the US army, and for projects agreed by the US. As the US security commitment to South Korea became stronger, and the amount of aid increased, it began to impose various pressures on the Korean government to address the problem of macroeconomic instability, in particular the huge government budget deficit and inflation.

Considering the Far East US foreign policy as a blueprint of Korean subordination to Japan and a resurrection of the colonial economic system, Rhee strongly opposed the relevant policy prescriptions such as the normalization of diplomatic relations and trade with Japan and supported the ISI policy against the export-oriented economic development recommended by the US aid agencies (Woo 1991). Various policies to restrict imports – for example, import licenses – were established. Although there was a rapid increase in the products of import substitution industries in the 1950s, ISI was implemented in a politically driven and inward-looking way that produced mainly import-replacing non-durable consumer goods that accounted for nearly 70 percent of total manufacturing output (Mason 1980).

Although South Korean industry had almost exhausted the possibility of 'easy' import substitution in non-durable consumer goods and their inputs, there was no systematic effort by either the government or business to transform the industrial structure in a Schumpeterian sense (Mason 1980; Palma 2003). Business success was dependent upon access to the controlled supplies of foreign exchange and domestic credit rather than the increase of productivity since the high protection of domestic output and quantitative restrictions on imports assured the possibility of

highly profitable business (Mason 1980). The entrepreneurs of industries were more interested in maximizing profits through bribing bureaucrats and politicians to buy foreign currencies at favorable rates, obtaining licenses to import scarce goods and borrowing funds at preferential rates (Kim 1976; Moran 1998). The corruption was widespread and 'damaging for growth', as expressed by Mustaq Khan (1996, 1998), since under the Rhee regime 'corruption was damaging for growth' as corruption did not allow the rents to end up in the hands of capitalist owners willing to expand production. Increasing prices due to the lack of goods was a much more serious problem, and was worsened by massive government spending, in particular for the military, police and bureaucracy, which was the political basis for Rhee's authoritarian governance (Haggard 1990; Cumings 1997). After the war, recognizing the strong security commitment of the US, the Rhee government expected that the large fiscal deficit would be or should be compensated by the US. With the obligation to deposit Korean currency in the counterpart fund in order to increase available funds, the Rhee government chose to overvalue local currency to increase the real value of the aid dollars received in exchange for local currencies in the counterpart fund despite strong pressure from the US to depreciate the exchange rate.

The government could control the flow of all US dollars through state-owned banks, which became a fertile ground for corruption (Haggard 1990). Although there were some improvements in terms of stabilization in the mid-1950s – for example, the devaluation in 1956, the establishment of the Ministry of Reconstruction in 1955 that developed and implemented financial stabilization plans with the US aid advisors, and the privatization of commercial banks in 1959 – the state-owned state-controlled financial system and import substitution industrial policy continued without significant modification. The performance of this policy under the Rhee regime is controversial.<sup>10</sup> There was an increase in the value of manufacturing, including a 250 percent increase in light manufacturing and a 300 percent increase in heavy and chemical industries between 1953 and 1960 (Krueger 1982). There was also a 3.9 percent GDP growth from 1953–55 to 1960–62, which is far lower than the spectacular growth rate after the mid-1960s, but not terribly bad compared to other developing countries at the time (Haggard 1990; Woo 1991). Critical during this period is not what both the South Korean government and import substitution industries did, but what they were supposed to do. Although the economic performance was not poor, businesses, politicians and bureaucrats sought rents by engaging with the allocation processes of aid goods and foreign currencies rather

than investing resources in productive sectors. The US as a primary donor paid more attention to the risk of fiscal instability and corruption rather than how to invest productively under these risks.

The effectiveness of aid during this period was determined by a large set of institutions and policies, including US foreign policy, Rhee’s import substitution industrial policy based on nationalistic sentiment and the contradictory macroeconomic policies of the US and the South Korean government. Without reliable counterfactuals, it is difficult to make an outright judgment on the effectiveness of aid for economic growth during this period. In retrospect, however, the objective of the US as a donor – that is, the security of South Korea against communism, was achieved. Also important is that there were various activities that needed a long gestation period to be accomplished. The bureaucrats who were trained as planners in the Ministry of Reconstruction and who would play a role in establishing economic planning are a case in point.

**Development aid and resource mobilization phase (1961–80)**

Three significant changes took place in South Korean aid in the early 1960s. First, US aid policy established economic development as its specific goal. It was initiated by the newly launched Kennedy administration, but also in parallel with the United Nations (UN) designation of the ten-year period of 1961–70 as the (first) United Nations Development Decade. Strong emphasis on the economic development in the aid policy demanded a stable political and economic environment. Secondly, grant-in-aid began to be replaced with development loans in the early 1960s, and its absolute amount started to decline. Grant-in-aid decreased from \$239.3 million in 1962 to \$51.2 million in 1971, before falling to less than \$1 million in 1982. Thirdly, Japan became one of the largest donors from the mid-1960s and significantly affected effective use of aid (Table 9.2).

*Table 9.2 Aid from the US and Japan to South Korea, 1945–83 (\$ millions)*

Aid	1946–52	1953–61	1962–69	1970–76	1977–83
US economic assistance	666.8	2,579.2	1,658.2	963.6	240.6 <sup>a</sup>
Japanese ODA to South Korea	0	0	500.0	672.9	756.9

*Note:* <sup>a</sup> the figure is for 1977–2010.  
*Sources:* Steinberg (1985); Kim (1987); USAID (1981, 2010).

Despite the decline of grant-in-aid, South Korea recorded a high growth rate and social development (Table 9.3) that was led mainly by the state and often described as the developmental state or state-directed capitalism. Three key features of this regime significantly influenced the mobilization and management of aid resources and the characteristics of aid effectiveness: (i) the government's strong control over financial resources; (ii) industrial policy with a substantial state production and promotion of private production as strategic industries; and (iii) comprehensive economic planning.

The government's strong control over financial resources was made possible through various institutions and policies. In 1961, just after the coup that brought Park to power, in the process of arresting business leaders on charges of illicit fortune accumulators and threatening to confiscate their assets, the government was able to renationalize all the commercial banks that had been briefly privatized in the later years of the Rhee government. And based on these assets, various special banks, also state owned such as agricultural credit institutions, banks specialized in commerce and small industry and the development bank for borrowing foreign resources, were expanded or established (Woo 1991). As a result, from 1961 to 1981 when a managed program of financial privatization was begun, the government owned all five nationwide commercial banks, all six special banks and two of the countries' three major non-bank financial development institutions. The Park government, through its ownership, could set interest rates, credit ceilings and loan priorities as well as make budget, salary and hiring and firing decisions at each individual bank. The government also tightened control

Table 9.3 Share of income, income growth rates and GDP growth rates, 1965–82

Year	Income share of the poorest 20%	Income share of the poorest 40%	Per capita GDP (1985 US\$)	Annual income growth rate of the poorest 20%	Annual income growth rate of the poorest 40%	Annual growth rate of per capita GDP
1965	0.058	0.19	1,058	n.a.	n.a.	n.a.
1970	0.073	0.20	1,680	14.85336	10.01642	9.689416
1976	0.057	0.17	2,558	2.925711	4.563106	7.258539
1982	0.070	0.19	3,395	8.379114	6.761875	4.831035

Note: n.a. indicates data not available.

Source: Roemer and Gugerty (1997).

over the private sector's access to foreign capital through the legislation of the Foreign Capital Inducement Law in 1962. While this law allowed the government to play the role of an insurance company by responding to foreign demands for insurance against possible default of borrowing companies, it also gave the government the ability to decide which enterprises would have access to foreign capital (Hart-Landsberg 1993).

With this capacity to control financial resources, the government's industrial policy held significant power to control production of the private sector. Industrial policy during this period, therefore, was more than just estimating the employment and outputs of the private sector. It also selected target industries for enhancing industrial output, set the targets of industries in terms of output and function to connect backward and forward production linkages and pushed private industries to achieve targets (Amsden 1989; Stern et al. 1995). Furthermore, the role of state-owned enterprises (SOEs) should be highlighted since the government not only controlled and guided the private sector, but also created growth itself. The government used social overhead capital as a leading sector and between 1961 and 1969 the rate of growth in infrastructure such as harbors, communication networks, the electricity supply, railways and highways was higher than in manufacturing and, therefore, higher than in any other sector (Mitchel 1988).

Strong control over both financial resources and industrial policy were integrated into economic planning. In fact, the idea of economic planning was not noble. All the developed and developing countries had been implementing various forms of planning, with or without explicit terminology, since the Second World War (Myrdal 1958). As Arthur Lewis (1965) once commented, 'they were all planners at that time'; thus, the question was not whether there should be planning, but what form it should take. The Park government seizing power through the coup favored economic planning that set out a clear program of goals and implemented by whatever means possible (Mitchel 1988). Their power was based on fiat and managerial capacity that was achieved by one decade of systemic training they received under US supervision, a part of the massive US military assistance, to help them design and implement far-reaching and comprehensive economic planning (Lee 1968).

Economic planning pursued by the Park government was based on a wide range of governmental and quasi-governmental organizations. The Korean Economic Planning Board (KEPB) and the president's Economic Secretariat with superministerial power played the role of a command post in the 1960s and the 1970s, respectively. The Ministry of Trade and Industry, the Ministry of Finance and the Ministry of

Construction provided key support in designing and implementing the economic plans. Even so, the economic planning structure was not only confined to the government. With strong control over financial resources and industrial policy, the government could also use the newly created quasi-governmental business organizations such as producers' associations and traders' associations as a part of the planning structure. Heavily controlled by the government ministries, these organizations included virtually all business entities as their members and played the role of consulting and implementing bodies for economic planning. For instance, the government's policies to control imports, the prices of goods and services and export promotion were effectively implemented through these networks. A strong militaristic discipline developed through various ways such as the appointment of retired army officers in major positions of private companies and the associations of producers and traders ensured that these quasi-state organizations would function as a coherent whole (Mitchel 1988; Hart-Landsberg 1993). Labor unions were excluded from this planning structure, but strongly suppressed or co-opted by the government only to the extent that they could not disrupt the implementation of economic planning. Increasing formal employment, decreasing the wage gap and increasing occupational welfare all played a role in maintaining the state's co-optation strategy sustainable during this period (Ringgen et al. 2011; also see Chapter 8). Through this planning network that was established across almost all sectors, the economic plans could influence the interests and behavior of all the economic actors all the way to the plant floor.

These institutions and policies of the government's control over financial resources, industrial policies and economic planning of Park's regime have shaped the aid relationship between donors and the government as well as the use and management of aid resources. First, the total control of financial resources helped the government to resist donors' pressure or demand for a specific way of macroeconomic management and allowed it to pursue its own development policy. For instance, when the US and the International Monetary Fund (IMF) pressured the Park government to accept a stabilization program in 1965, which included doubling domestic interest rates, the government pursued a counter-cyclical investment policy by increasing the inflow of foreign funds to selected firms to avoid the reduction of investment (Hart-Landsberg 1993). Secondly, limited access to foreign loans and subsidized foreign loans for selected industries produced a new form of corruption that became widespread in society, namely, kickbacks from

companies with foreign loans to the authorities. Corruption was greater than the previous period because of the massive influx of foreign capital (Woo 1991). However, the industrial policy that sets targets and pushes companies to achieve these targets forced them to pursue rents through productive investment and export performance rather than unproductive speculation. The institutions imposed on the companies that emphasized export performance contributed to mitigating the negative impact of the corruption compared to the corruption under the Rhee government.

Thirdly, the vast range of the network established for designing and implementing economic development plans contributed to enhancing the level of coordination for mobilizing foreign resources for investment. One example is the grants and loans from Japan in 1965 when the Park government agreed to diplomatic normalization with the country. Japan tried to expand its market to South Korea after a long process of negotiation over the amount and characteristics of money paid to South Korea in return for diplomatic and trade normalization. Although the opposition party and civil society, in particular university students, strongly opposed this normalization process with Japan, many major organizations within the economic development planning network were actively involved and coordinated with each other to attract a better deal from Japan. As a result, according to the 1965 agreement, Japan would give South Korea \$500 million in reparations without conditionality.

The 'no conditions-attached' aid, called 'comprehensive commitment', that is, a long-term commitment of Japanese government loans without specifying the use of the aid for certain projects, contradicted the modus operandi of Japanese ODA and many international financial organizations. In fact, it gave a free hand to the South Korean government to design and implement its own development projects. With these funds, the Park government was able to build HCI factories, in particular Pohang Steel and Iron, which had been strongly opposed by the International Bank for Reconstruction and Development (IBRD) on the grounds that the steel and iron industry was beyond the scale of the Korean economy; however, it turned out to be one of the biggest industrial successes in South Korean history (Oh 1996). Although there are no official data on corruption involved with the inflow of aid, in particular Japanese funds, during this period, much indirect substantiation occasionally emerged (Moran J. 1998). However, in this case, the 'efficiency effects' or 'productivity of corruption' could be maximized since the Park government, 'the patron', was powerful enough to limit

the negative impact of corruption and get the most funds invested in the productive sector (Khan 1996, 1998). This strong patron–client network, what E. M. Kim (Chapter 11) calls the developmental alliance, not only contributed to reducing the negative impact of corruption, but was also a factor in increasing the policy autonomy of South Korea since it could now form a coherent and coordinated design and implementation of economic planning.

The effectiveness of aid during this period was primarily dependent upon the government institutions and policies for industrialization. Although grant-in-aid decreased, the government actively mobilized and used foreign and domestic resources for investment in manufacturing industries, initially light consumer goods for export in the 1960s and later heavy chemical and electronic goods for export in the 1970s and 1980s. A coherent economic planning framework helped the government to develop policies, for example, funding from Japan for Pohang Steel and Iron, as mentioned above. Despite decreased grant-in-aid, the institutions and policies for mobilization and management of resources, industrialization and economic development planning could make a virtuous circle of economic growth composed of export increases, the expansion of the labor market and continuously increasing skilled labor. Together with rapid economic growth, the wage share of the functional income distribution increased, the gap between industrial and agricultural sectoral incomes was reduced and the income of the poorest income quintile grew continuously, particularly in the early 1970s and the 1980s. During this period, the distribution of income in South Korea became more equitable than in other developing countries (Adelman 1974; Roemer and Gugerty 1997).

## **Conclusion**

The term ‘Third World’, which is no longer used because of its derogatory connotation, reflects one important advantage of newly independent countries such as South Korea: they were progressively able to take advantage of the changed balance of world power. In the process of nation building as a bulwark against the communist bloc, South Korea could take advantage of US foreign policy and Japan’s national interest in expanding the market in mobilizing foreign resources for development.

Aid was effective in many dimensions. US aid in the first phase greatly contributed to agrarian reform that significantly reduced wealth inequality and consequently provided a basis for the equitable growth



of South Korea. Maintaining and improving the education system was another noticeable contribution. It is particularly noteworthy that both practices had strong redistributive and productive investment elements that are crucial to reducing poverty and inequality.

The effectiveness of aid in terms of economic growth, however, was mainly dependent upon the institutions and policies that could make a virtuous circle of the entire process of the mobilization and management of resources and industrialization. The expansion of government policies was possible only when it could establish and manage economic development planning in which both public and private sectors coordinated with each other in a coherent and systematic manner.

The South Korean experience during the Cold War may not be the best case for developing countries in the twenty-first century to draw lessons from due to its unique historical and geopolitical features. Developing countries, however, still must take advantage of the balance of power at the global level to transform economies into more productive ones. It is true that similar tasks under dissimilar circumstances demand new and innovative strategies. It is also true, however, that new and innovative strategies should include institutions and policies to mobilize and manage foreign resources and formulate coherent and systematic economic development planning.

## Notes

1. Fox (2000); Kohli (2004); Easterly (2007).
2. Aid in a broad sense encompasses public and private development assistance. In this study, aid refers only to public assistance, in particular those broadly in line with the definition of ODA as defined by OECD/DAC. Since Korean official statistics do not specify concessional loans (or soft loans) in the figures of public loans, the exact amount of ODA cannot be calculated. Here, we mainly use the Bank of Korea's statistics on grant-in-aid and the official statistics of donor countries and agencies. We have not included any type of military aid or a \$0.3 billion reparation grant from Japan in 1965 since the Japanese government did not include it in its official statistics.
3. Mason (1980); Kreuger et al. (1989); Fox (2000).
4. This is a modified version of the periodization of Adelman (1974). The next phase can be characterized as the period heavily influenced by neoliberal policies of a flexible labor market and the increasing inequality of wealth and income.
5. Alesina and Dollar (2000); Radelet (2006); Reilly (2010).
6. Bloomfield and Jensen (1951); Henderson (1968); Yoo (1975); Miyajima (1978).

7. Ban et al. (1980); Evans (1987); Koo (1987); Amsden (1989); Cumings (1990); Shin (1998).
8. This situation is in stark contrast with the South Vietnamese case whereby, until the 1970s, 'the Americans offered the peasants a constitution; the Viet Cong (the military arm of the communist Liberation Front) offered him his land and with it the right to survive' (Sansom 1970).
9. USAMGIK (1947); Nam (1962); McGuin et al. (1980).
10. Ranis (1981); Krueger (1982); Woo (1991).

# 10

## Learning through Localizing International Transfers: South Korea's Development Experiences

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### Introduction

Many aid-receiving countries have fallen into the dire trap of aid-dependent, despite the increasing scale of international aid transfers. The billions of dollars in aid from wealthy countries to developing African nations have effortlessly become 'dead aid' as they failed to reduce the escalation of poverty levels and increase growth rates (Moyo 2009). Post-conflict countries, such as Cambodia, unable to refuse aid, are now rife with the pernicious effects of aid dependence and its perversion of Cambodian democracy (Ear 2013). William Easterly (2003), in this regard, argued that the white man's burden would be reduced only if the West's donors changed the fundamental identity of development aid from planners to searchers. Indeed, it is a longstanding impasse in the aid industry: the more aid dependent a country, the more distorted its incentive to develop sustainably.

Then, how is an aid-dependent state able to escape this poverty trap? One way to accommodate a broad range of policy solutions is to magnify donors' self-reflection based upon the previous failure of aid disbursements and to place more weight on recipient-oriented aid planning. Another exit strategy from aid dependence relates to the enhancement of the ownership of local partner governments and their proactive initiatives for transforming foreign aid into local contexts. Rather than hoping that donors voluntarily rectify their past faults, finding a way of strengthening the capacity development of local partners is a more critical platform to overcome aid dependency and propel their own national development plans. It is also widely accepted that an effective mode of aid transfers depends upon the institutional capacities and internal conditions of aid-receiving countries: the extent to which recipient

governments are ready for development programs utilizing foreign aid as development financing (Burnside and Dollar 2000; Kim T. 2009).

In responding to the ownership problem, South Korea's modernization process demonstrates a successful path of economic growth and social development via a positive nexus between foreign aid and the country's local capacity to assimilate the aid at its disposal. An in-depth anatomy of the Korean experience thus contributes to identifying which forms of international transfers greatly affected its modernization process as well as how to interpret the role of local partners in dealing with international transfers. This chapter suggests a new constructivist framework of policy translation and nourishes the empirical part by focusing on the fourfold elements of international transfers to post-conflict Korea: (i) aid transfers; (ii) knowledge transfer of development planning strategies; (iii) voluntarism transferred via foreign relief non-governmental organizations (NGOs); and (iv) technological cooperation for establishing development-related institutions. South Korea's secrecy about its successful modernization can be largely condensed as the learning effect through localizing international transfers.

### **Policy transfer, policy translation and the developmental contexts**

A significant level of policy development in many developing countries requires positive impacts of policy transfer from donor countries, which then result in policy change of local partners (Midgley 1984). Given that there are only a few studies attempting to interpret the degree of policy transfer in the developmental context, it is essential to emphasize the importance of heuristic analysis on policy transfer that is grounded in a power-distributional view of institutions and ongoing struggles within but also over prevailing institutional arrangements for development projects (Mahoney and Thelen 2010). It is impossible to explain the path of policy development without recognizing that a significant level of policy transfer is involved and how policy takers interact with senders in the process of policy transfer.

Likewise, it is not viable to understand the evolution of Korean economic development policies without appreciating the policy transfer from the United States (US) and other international aid donors. While past scholarly works have taken it for granted that policy transfer is seen as a linear process generating good results, policy transfer is not always inevitably successful and may also end in implementation failure even if it might promote policy change (James and Lodge 2003; Stone 2004).

It is less likely that policy transfer will be successfully conducted under imperfect transferring environments, which allow only limited time or incomplete transfer that, thereby, leads to a limited search for plausible models and to flawed transfer. Among varying points on a policy transfer continuum that moves along the spectrum from lesson drawing with perfect rationality to coercive transfer by direct imposition, policy failure takes place as policy implementation bends toward coercive transfer that lacks informed, complete and appropriate resources for what is transferred (Dolowitz and Marsh 2000).

Another gap in the literature lies in the contention that policy transfer per se is not a unilateral practice whose success depends only on the senders' intentions, regardless of the takers' reactions (Lendvai and Stubbs 2007). Rather, policy transfer is viewed as a process reflecting how policy takers respond to or even challenge coercive transfer. Accordingly, the meaning of policy transfer needs to be reframed as a mutual constitution of *policy translation* by both actors involved, which entails its contextual localization. Although international transfers are accompanied by uninformed, incomplete and inappropriate components, the real determinant of successful transfers remains about how policy takers are socially able to exercise institutional capacities for localization. If takers have good institutions for localization, then it leads to policy change that contains local translations whether they are countervailing or heterogeneous to senders' intentions.

Now, the analytical framework for policy translation needs to be further elaborated by addressing itself in the developmental contexts. The conceptualization of policy translation of international transfers is predicated upon a dialectical dual process between the international factors and the reaction of local authorities. Contemporary scholarly evaluations on the historical development of international aid come up with severe critiques against donor-driven patterns of international transfers that mean that the suppliers of international aid decide aid-receiving targets, the amount and method of aid transfer without serious consideration of local conditions and domestic politics (Riddell 2007). The international aid community, particularly the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), has responded to calls for the recipient-centered aid effectiveness for ownership and capacity building by organizing a series of the high-level forums on aid effectiveness since 2003. Albeit such endeavors to prioritize local partners' demands are at the international level, enhancing aid effectiveness eventually depends upon the degree of the capacity building of local authorities at the

microscopic level (Birdsall et al. 2005). Either the rampancy of widespread corruption in local partner agencies or the lack of institutional capabilities for transparent implementations has caused aid fatigue from donors. By contrast, aid-receiving governments with a good quality of institutions reassure donors to secure accountability for aid disbursements and reduce the risk of fungibility (Devarajan and Swaroop 1998).<sup>1</sup>

Translating international transfers in the developmental context can be further crystallized by adopting a dialectical perspective of combining the impact of external transfers at the macrolevel and local reactions to them at the microlevel. Policy translation is based on a bidirectional perspective where searching for the micro–macro link entails interactions and mutual constitution between the macroscopic structure and the microscopic agencies (Giddens 1986; Coleman 1987). Such dialectical interactions have been further developed into not only the linkages between national economies and the world economy in international relations theories (Milner and Keohane 1996), but also the symbiotic interfaces between the socialization of international policy transfers and the internationalization of national policies in the global governance studies (Deacon 2007). Varieties of analytical attempts of the micro–macro link have mostly converged on a common essence of the ‘middle-ranged’ solutions that produce institutional arrangements patterning structural relations between local governments and aid donors (Thelen and Steinmo 1992). Therefore, more analytical attention needs to be given to the institutional processes of the social construction of aid politics embedded in the locality of government capacities and the ownership-based commitment of local partners.

This chapter, in this regard, advances the middle-ranged method as a main approach to discover the micro–macro link between international transfers and the institutional capacity for the localization in the four domains of South Korea’s developmental experiences: (i) aid; (ii) the West’s knowledge for developmental planning; (iii) voluntarism; and (iv) technical cooperation for institutional operations, all of which created significant impacts on economic and social development in Korean society.

### **The Korean experiences: the four hidden sources of successful localization**

It is surprising to note that war-devastated South Korea successfully lifted itself from a poverty-stricken nation to an economically and socially developed one in a short period of time (Ringet et al. 2011).

A major contributor to this remarkable transformation is foreign aid, composed of US economic assistance and other United Nations (UN)-based emergency relief assistance, which both played a significant role in supporting the country's economic reconstruction in the aftermath of the Korean War. Along with economic aid, the transfer of knowledge on economic development theories and the sharing of technical cooperation are considered crucial elements with which domestic actors and organizations could employ internationally transferred materials for economic and social development.

The identification of domestic actors interacting with external factors is an important component to evaluate precisely the uniqueness of policy translation in the Korean context. This factor is necessary to uncover the institutional processes of contextualizing international transfers in accordance with the changing conditions of the Korean local politics. Such contextualization processes are not always intended to figure out the successful cases of localizing international factors. Rather, it is also important to recognize that policy translation aims to detect donors' strategic objectives and their coercive mechanism to implant distorted capitalist economic development behind aid projects (Macdonald 1992). Taking heed of both positive and negative impacts of policy transfers, this chapter explores the four domains of international transfers that clarify specific lessons from the Korean developmental experience for developing countries.

### **Aid transfers**

As Yi (Chapter 9) explains, aid in South Korea's early years is well known as a great helper to sustain this war-stricken country. Foreign aid from the international community in the wake of the Korean War was dominated by US foreign aid, with some contribution from UN agencies.<sup>2</sup> The US provided \$5.5 billion in bilateral economic assistance from 1946 to 1973 (United States Department of State 1974); the amount of foreign aid, including bilateral and multilateral economic assistance, totalled \$12.7 billion starting in 1945 upon liberation from Japanese colonial rule until the early 1990s when South Korea graduated from the aid-receiving country group (Kim J. 2011).

The regime of President Rhee Syngman (1948–60) had two major sources of aid economy: (i) US aid agencies delivering bilateral aid in a mixed bag of emergency relief assistance and economic aid for reconstruction; and (ii) the UN-based relief organizations for multilateral assistance, mainly with emergency relief. The US agencies consisted of four key organizations, all of which had distinctive purposes behind

bilateral aid transfers: Government Aid and Relief in Occupied Areas (GARIOA); Economic Cooperation Agency (ECA); US Public Law 480 (PL 480); and the International Cooperation Agency (ICA) (Table 10.1).

GARIOA served as the main source for emergency relief assistance, which was provided under the control of the US Army Military Government in Korea (USMAGIK) in order to stabilize the interim disorder of Korean society between the end of Japanese occupation in 1945 and the establishment of the first Korean Republic in 1948 (Bu 1960). Unlike GARIOA, ECA aimed to promote South Korea's economic reconstruction in the longer term by supporting investment for coal mining, thermal power generation and fertilizer plants. PL 480 was another official channel through which US surplus agricultural commodities had been delivered to developing countries in the bilateral form of aid transfers. The most important channel of bilateral aid delivery to South Korea stemmed from ICA, which was the largest aid provider among US aid agencies (Kim J. 1998). ICA's delivery

Table 10.1 The composition of foreign aid to South Korea, 1945–61<sup>a</sup> (unit: \$1,000)

Year	United States				United Nations		Total
	GARIOA	ECA	PL 480	ICA	CRIK	UNKRA	
1945	4,934	–	–	–	–	–	4,934
1946	49,496	–	–	–	–	–	49,496
1947	175,371	–	–	–	–	–	175,371
1948	179,593	–	–	–	–	–	179,593
1949	–	116,509	–	–	–	–	116,509
1950	–	49,330	–	–	9,376	–	58,706
1951	–	31,972	–	–	74,448	122	106,542
1952	–	3,824	–	–	155,534	1,969	161,327
1953	–	232	–	5,571	158,787	29,580	194,170
1954	–	–	–	82,437	50,191	21,291	153,925
1955	–	–	–	205,815	8,711	22,181	236,707
1956	–	–	32,955	271,049	331	22,370	326,705
1957	–	–	45,522	323,268	–	14,103	382,893
1958	–	–	47,896	265,629	–	7,747	321,272
1959	–	–	11,436	208,297	–	2,471	222,204
1960	–	–	19,913	225,236	–	244	245,393
1961	–	–	44,926	154,319	–	–	199,245
Total	409,394	201,867	202,648	1,743,929	457,378	122,084	3,147,300

Note: <sup>a</sup> Figures show economic aid only, and do not include military aid.

Source: Bank of Korea (1963).



mechanism was strongly affected by the Combined Economic Board, which was launched as an advisory organization to coordinate pending economic issues and the effective management of foreign aid and whose coverage widely ranged from the pricing and distributions of aid through the stabilization of government financing to the operation of the counterpart fund (Kim J. 2011). In fact, US aid items remained primarily consumption goods necessary to meet urgent economic stability in the short run, rather than productive goods to be invested for rapid economic reconstruction.

Along with US aid agencies, two UN agencies began to work with multilateral aid giving in the wake of the Korean War: Civil Relief in Korea (CRIK) and the United Nations Korean Reconstruction Agency (UNKRA). While the aid transfer by CRIK focused largely on emergency relief activities, UNKRA aimed to promote South Korea's economic reconstruction in the longer term by reflecting the prospects and planning of the recipient government as well as US-led multilateral donor coalition. UNKRA, therefore, embarked upon the supply of infrastructure-centered financing, which eventually contributed to constructing some foundational factories in key industries, such as the Mungyŏng Cement Plant in 1957, the Inchŏn Plate Glass Plant in 1957, the innovation of the Changhang Smelting Factory in 1964 and facility financing for small and medium enterprises (SMEs) in textile, chemistry, machinery and mining from 1954 (Bank of Korea 1956: 235).

Meanwhile, the US government in 1957 newly established the Development Loan Fund, which was designed to replace concessional grants and emergency relief assistance with development loans. The weight of US aid modalities had shifted from relief assistance in the late 1940s through a mixed bag of economic and military aid in the wake of the Korean War in 1950 to economic loans after the end of the 1950s. The diminishing concessional transfers from the US impacted Korean society in two ways (Park T.-G. 1999). On the one hand, it engendered the fear of economic crisis in that decreasing aid would be supplanted by increasing loans requiring repayment in due course. On the other hand, it triggered the Korean government to embark upon urgent attempts to achieve its own path of economic development and find an exit strategy from aid economy. Indeed, the biggest concerns in aid economies involved how national authorities responded to the changing amount and nature of aid transfers, particularly how to restructure local economies in accordance with the changing landscapes of aid relations. This situation required the motivation and capacity of the Korean government, embedded in the sense of backwardness that provided

a charter for state action to mobilize resources and to take the initiatives and risks of the catch-up strategy (Gerschenkron 1962; Dore 1990).

However, the actual nature of aid relations came into being in different ways through the varying degrees of local partners' capacity and ownership in dealing with international aid. The Rhee government, despite the aftermath of the Korean War, strengthened institutional capacities through policing and military institutions aimed to augment its developmental institutional capability. Furthermore, the regime of President Park Chung-hee (1961–79) embarked upon legislative mechanisms to regulate foreign assistance effectively and make it serve the state-led economic development plan, with strong commitment and ownership. The patterned relationship between aid givers and the localization of foreign aid at the early stage of South Korea's state building can be explained by comparing the republics of Rhee and Park.

The first notable move of the Korean government's efforts in response to declining US aid came from the Rhee regime's institutional arrangements for enhancing its capacity development (Reeve 1963). In February 1955, the Ministry of Reconstruction was newly set in motion as a governmental agency not only orchestrating public policies regarding economic development, but also managing foreign economic assistance. Until this ministry was replaced with the Ministry of Construction by the military junta in 1961, it had played a decisive role in coordinating and planning economic reconstruction policies by administering the Industrial Development Committee that then launched the Three-Year Economic Development Plan, which had a significant impact on the subsequent governments even though it ended in failure. Mainly using US loans from the Development Loan Fund, the Ministry of Reconstruction planned to build the infrastructure for economic advancements such as construction of the Dongyang Cement Corporation in 1957 and the Choongjoo Hydroelectric Power Plant in 1958 (Song 1996: 196).

The Rhee government also began to centralize the overriding architecture of national reconstruction by shedding light on the domestic consumption of manufactured products rather than exports (Woo 1991). This import substitution industrialization (ISI) strategy aimed to promote the manufacturing sector for production and consumption within the domestic economy and set up government-related organizations to support the national reconstruction policy. It is particularly important to note that Rhee pursued the ISI strategy in the face of the ICA policy advice that South Korea had to promote the export-led industrialization with SMEs. Such a reversed version of development strategy was 'translated'

and conducted by the local government in spite of strong pressure from the US.

One of the negative impacts of this self-reliance strategy was to provide institutional platforms for the emerging monopoly system that enjoyed exclusive rights or cartels sharing them (Kim 1985; Kim J. 1998). This resulted in creating capital-based monopolization that accumulated capital by sponging off foreign aid and produced surplus profits in strategic cooperation with governmental agencies. The so-called ‘Three-White Industries (*Sambaeksanöb*)’, which consisted of milling, sugar refining and cotton textile manufacturing, monopolized financial resources and raw materials, and the cartel working for them created quasi-voluntary associations representing each industry that further consolidated their monopolized rights: the Korea Flour Mills Industrial Association in 1955; the Korea Sugar Association in 1955; and the Spinners and Weavers Association of Korea in 1947. They had been a dominant economic force at the stage of national reconstruction until the Park government advanced HCI as the main strategy for its export-oriented industrialization (EOI) strategy.

The commencement of the Park regime, as a result of the military coup headed by Park on 16 May 1961, is a critical juncture in that the government took the initiative for economic development as the nation’s top priority with strong government ownership and effective commitment for foreign aid, despite undoubtedly wielding dictatorial rule. The Park

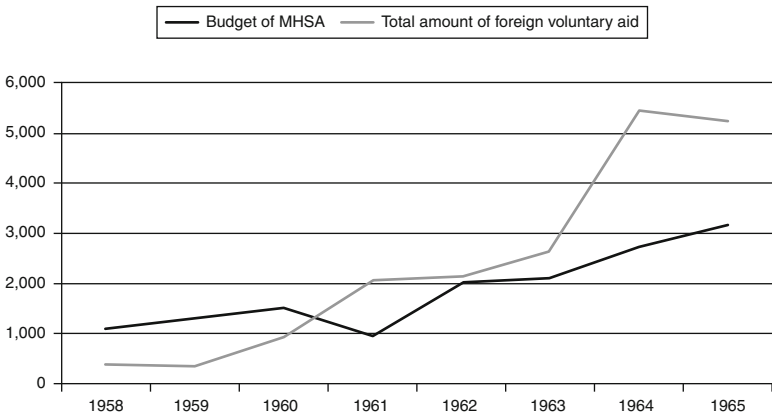


Figure 10.1 Foreign voluntary aid and Ministry of Health and Social Affairs annual budget (unit: million won)

Source: World Vision Korea (1993).

government drew up legal regulations to actively attract foreign capital by passing the Law on the Inducement of Foreign Capital in 1962 in order to counterbalance the sharp reduction of US aid. Through diplomatic normalization with Japan in 1965, the Park government successfully invited economic assistance from Japan, in both loans and grants. After 1966, the inflow of foreign capital into the government was further expanded and diversified beyond Japanese loans by inducing foreign loans from international financial institutions, including the World Bank and the Asian Development Bank (ADB) and key European countries such as West Germany and the United Kingdom.

In contrast to the previous ISI strategies of the Rhee government, anchored in the balanced growth of domestic economies and reconstruction, the Park government's economic development plans primarily aimed to realize a self-sustaining economy via the EOI strategy and various government-initiated growth projects (Kim J. 2011). By advancing the five-year economic development plans, the Korean Economic Planning Board (KEPB) strove for the renovation of South Korea's industrial structure toward manufacturing and heavy chemical industries in the 1970s. This successful process of economic modernization brought about the rise of the developmental state, embedded in strong government leadership and the effective bureaucratic regulations of foreign aid. In fact, Park's thrust of heavy and chemical industries was carried forward by the government's resolute commitments against stern US opposition. The US government warned Park's economic agencies about their export-oriented planning by emphasizing that US assistance was intended to foster private initiative and competition and discourage monopolies, but the US Agency for International Development (USAID), in the end, contributed to developing government-controlled industries in light of Park's EOI strategy (USGAO 1973). USAID loans, originally intended for nurturing SMEs, had been used instead to assist large well-established firms, some capable of obtaining other financing.

### **Knowledge transfers: development paradigms**

The introduction of economic development theories and the entailing applied knowledge into South Korea's academic associations and bureaucracies were critical factors for making a specific development policy more relevant to the Korean context. Such knowledge transfers could serve as theoretical underpinnings for localizing international transfers of aid and technology according to contextual differentiations. The spectrum of economic theories concerning national development

varies in association with different political ideologies, ranging from liberal capitalism through modernization to dependency theory in Latin America. Even a worldwide known theory could be selectively negated by South Korea's elite academic and political circles unless it turned out to be nicely applicable to the Korean context (Park T.-G. 1999). The 'Koreanization' process of knowledge transfers contributed to enhancing the ownership-based localization of the West's economic theories and the bureaucratic responsiveness to the implementation of the transferred knowledge in practice. Nevertheless, it is also important to note that the impact of development paradigms on policy changes in the actual development planning was too episodic to contend those paradigms as an overriding factor to determine general directions of South Korea's economic development.

In the early 1950s, the Colombo Plan and the Economic Commission for Asia and the Far East guided nations in Asia to prepare and introduce national projects for economic growth plans. In 1956, all social leaders, such as mass media, bureaucrats and intelligentsia in South Korea started devising possible scenarios for economic development and the exit strategy from aid dependence, mainly by learning from the successful experiences of Germany and Japan as well as India. Scholarly works on the West's economic growth theories flowed into print through major social science academic journals, especially the *Sa-Sang-Gye* (Park T.-G. 1999). Interestingly, two different economic theories were intensely imported by the Korean elite in different timespans: 'balanced growth theory' in the 1950s when the Rhee government emphasized ISI as a main national strategy; and 'unbalanced growth theory' in the 1960s when the Park government initiated the EOI strategy.

The first bout was made by introducing Ragnar Nurkse's (1955) balanced growth theory into Korean academic society. Nurkse developed a theme of balanced growth, whereby he claimed that trade could no longer serve as an engine of growth in the catch-up strategies of developing countries. He, therefore, proposed an inward-looking, balanced growth that meant ISI, since without the benefit of constant terms of trade the growth would have to reflect internal demands. Paul Rosenstein-Rodan (1963) also agreed with balanced growth, but felt the need to have investments coordinated and interlocked in a balanced growth pattern, which explicitly required a planning framework whereas Nurkse's notion did not. This was because the underdeveloped economy was trapped in a low-level equilibrium with no effective inducement to invest.

Nurkse's balanced growth theory might be a very attractive solution to the Korean malfunctioning economic system because of its unbalanced industrial structure in the wake of Japanese colonial underdevelopment and the Korean War. By increasing the income level of workers in the primary industries who held a large majority of the population in the 1950s, their increased purchasing power could lift the general level of domestic demands and incur spillover effects on further growth of the secondary industries, eventually enabling the Korean unbalanced economy to be reformed with the balanced growth of industrial structure (Lewis 1954). Such a promising theory had been practically completed by a series of government economic development planning efforts: the Nathan Plan in 1952; the Three-Year Economic Development Plan in 1960; and even Park's Five-Year Economic Development Plan in 1962. As those economic development plans aimed to achieve balanced growth across different sectors, from light industries to heavy chemical industries, the ISI strategy served as a main scheme to realize the balanced growth theory by downplaying the role of exports in the outward economic growth.

However, the disapproving evaluations in 1965–66 of the first Five-Year Economic Development Plan made decision makers of the Park government doubtful about the premise of balanced growth, thereby catapulting the unbalanced growth theory to public discussion as a possible alternative solution. A critical momentum for the unbalanced growth theory was W. W. Rostow's visit to Park in 1965 when Rostow set forth his views that South Korea had already passed the take-off stage among the five stages of development (Park T.-G. 1999).<sup>3</sup> The building blocks in the unbalanced growth theory, according to Rostow (1960), contained the modernization-promoting use of science and technology, the sharp increase in the savings and investment rates in order to achieve continual growth and the role of innovative entrepreneurs. Principally, at the core of this theory was the complementary effect of investment that means that investment should be strategically focused upon the sectors whose return effects would be the largest, and then these positive effects stretch out to other sectors.

Accordingly, this take-off strategy became a central economic paradigm for the Park government to pursue the EOI strategy by selecting several specific industrial sectors as national targets that were eligible to receive financial subsidies from the government. Such unbalanced growth strategies allowed the strong intervention of a developmental state and were in full scale reflected by the second Five-Year Economic Development Plan (1967–71). In a nutshell, knowledge transfers for

economic growth and its associated deconstruction or reconstruction of development theory depended upon the different basis of local decisions and endogenous development.

### **Voluntarism transferred**

Another form of international transfers took place in the sector of voluntary agencies in which the organizational formulation of emerging voluntary associations indigenous to South Korea was decisively influenced and shaped by foreign voluntary agencies, particularly US-based agencies (Kim T. 2008). The collapse of South Korea's traditional mutual aid systems based on local communities, due to Japanese colonial rule and the Korean War, inevitably led foreign voluntary agencies to carry out and dominate emergency relief tasks. Indeed, a large number of foreign voluntary agencies played a crucial role in delivering various forms of emergency relief services ranging from hard cash to aid materials such as grain, clothing and medical supplies. Such foreign voluntary involvement was so comprehensive and extensive that it covered all clusters of war victims and refugees, expanding the outreach to local people in poverty (Choi 1996). The ratio of foreign voluntary assistance to the budget of the Ministry of Health and Social Affairs rose rapidly from 36.2 percent in 1958 to 61.6 percent in 1960, eventually exceeding 200 percent in 1961 (World Vision Korea 1993, see Figure 10.1).

The international transfer of voluntarism in post-war South Korea addresses the important processes of transforming aid-receiving countries in three aspects. First, foreign agencies launched centralized peak associations for the purpose of the effective coordination of relief activities, and this move bequeathed the formation of national umbrellas to Korean voluntary associations in later years. In 1952, during the Korean War, seven foreign agencies launched the Korean Association of Voluntary Agencies (KAVA), which established a secretariat in 1955 and expanded its member agencies to 76 in 1970 (KAVA 1995). KAVA was created as a peak association in hopes of enhancing the effective alignment of the various donor relief services. In recognition of its remarkable relief contribution, KAVA was christened 'the Second Ministry of Health and Social Affairs' by the Korean constituencies, which consequently challenged and undermined the legitimacy of the Rhee government due to its weak capability to provide basic welfare services (KAVA 1995). The convention of KAVA-like peak associations left organizational legacies to the Korean civil society organizations that later mainstreamed voluntary national centers for coordinating policy advocacy and service delivery.

Secondly, the developmental paths of the emerging Korean voluntary sector were affected and even shaped by American voluntarism that was characterized as being philanthropic, apolitical, missionary and residual. The presence of philanthropic Christian attitudes for emergency relief resulted in not only reducing the likelihood that voluntary associations would be politicized, but also confining organizational motivations of voluntary associations into secular charities for posthumous salvation. Apolitical and charitable aspects of the voluntary sector led emergency relief to be detached from the public responsibility of the state. Such a fragmental profile of foreign voluntary agencies allowed the Rhee autocratic regime to make use of foreign voluntary contributions by means of legislative control over their relief activities. As a result, foreign voluntary agencies steered and facilitated the residual and fragmental growth of Korean voluntary organizations whose nature had been envisaged as the corresponding target being mobilized by the state. The culture of charity and its associated political apathy have long been perceived as enduring values and properties of South Korea's voluntary sector and civil society in the coming decades (Kim T. 2008).

Thirdly, the Korean government needed to enhance the aid effectiveness of foreign voluntary agencies and, therefore, justified its intervention in foreign voluntary activities via legislative power of strict control and regulation over foreign agencies. Given the urgent need for full-scale emergency relief contributions of foreign agencies, the military junta recognized the immediate call for the regulative reallocation of their relief activities (Choi 1996). By enacting the Foreign Voluntary Relief Agencies Act in 1963, the military government devised legal definitions regarding foreign voluntary activities and required foreign agencies to register at the Ministry of Health and Social Affairs in order to monitor their relief activities in a systematic fashion. In 1962, with the pretext of facilitating the communication with 83 foreign voluntary agencies, the military junta monopolized all channels of policy coordination by installing the National Relief Coordination Committee at the central level and the Provincial Relief Coordination Committee at the local level (Government of the Republic of Korea 1962). By dispatching 40 civil servants to the Provincial Relief Coordination Committee at every local post and 21 to the National Relief Coordination Committee at the central posts, the military junta substantially enhanced its controlling power of foreign voluntary activities at both levels.<sup>4</sup> Consequently, foreign voluntary agencies in the 1960s were coerced into performing their missionary work within institutional constraints set by the local authorities; such strong regulation eventually triggered a large number



of foreign agencies to retreat from South Korea (KAVA 1995). Despite its dictatorial rule, the Park government demonstrated great efforts to consolidate the ownership-based incorporation of voluntarism transferred from the outer world.

### **Institutional transfers for technical cooperation**

South Korea's institutional capacities of core development-related sectors in the period of state building, more often than not, had been developed by US technical cooperation whose objective was to support financially or technically institutional arrangements for South Korea's economic development. The US government changed the economic assistance channels from aid transfers to full-scale technical cooperation in the late 1960s, but even before then some public or pseudo-public institutions had been set up with US financial support or technical guidance (United States National Academy of Sciences 1969). Albeit the technical contributions of international actors, such institutional transfers could not be successfully completed without systematic initiatives of localization entrenched in the autonomous commitment of domestic actors. The corresponding sectors suitable to this technical cooperation can be grouped largely into three categories: (i) higher educational institutions; (ii) quasi-governmental research institutions; and (iii) technical cooperation for public administration of the Korean government.

First, higher educational institutes, including university-level and postgraduate courses, were newly established or further developed by financial supports and technical assistance from US-based universities or US aid agencies (Hahn 2003). Seoul National University (SNU) could be taken as a classic example, in the sense that SNU, since the 1953 armistice of the Korean War, had secured financial and technical assistance through foreign aid, mainly US educational aid, in order to reconstruct the educational facilities devastated by the war. By signing the Seoul National University–University of Minnesota Technical Aid Agreement – in short, the Minnesota Project – in 1954, SNU made the most of this project, financed by ICA, in introducing advanced research skills and technology from the University of Minnesota. In fact, 218 SNU faculty members were invited and trained by the University of Minnesota for the purpose of enhancing their research capacities and improving university facilities, especially the library system (Editorial Committee on the Seoul National University Sixty-Year History 2006). Then, in 1961, with its interim evaluation and project completion proposal, USAID continued to assist the establishment of graduate programs for the School of Public Administration at SNU. Furthermore,

USAID provided \$5 million for the foreign exchange costs of technical assistance, training, research support, instructional materials and equipment to enable the College of Natural Science at SNU in 1975 to create a graduate program in the basic sciences meeting international standards and thereby enhancing the qualifications of its graduate students who would staff South Korea's colleges, research institutes and industry (USAID 1975).

The second pattern of institutional transfer from foreign aid agencies developed into the formation of quasi-governmental research institutes that contributed to directing governmental policies for the take-off strategy in the field of economics and sciences: the Korea Institute of Science and Technology (KIST) in 1966; the Korea Advanced Institute of Science (KAIS) in 1971; and the Korea Development Institute (KDI) in 1971. By financing \$10 million for the establishment of KIST in 1967, USAID contributed to the acceleration of industrial development by channeling science and technology into industrial action in South Korea. While the country had borrowed much industrial technology from abroad, the continuing reliance on this procedure would be costly, essentially uneconomic and not likely to provide the technology most proximate to Korean needs (USAID 1967). USAID strategy in response to this problem called for a competent source of practical assistance in industrial technology through the creation of an independent, non-profit institution of the highest standards, dedicated to bringing to bear on industrial problems the most pertinent and modern technology.<sup>5</sup> KAIS was established in 1971 with financial assistance from USAID; then, in 1981, KIST and KAIS were integrated as the Korea Advanced Institute of Science and Technology (KAIST) for more effective development of industrial technology that directly contributed to the take-off strategy of the second Five-Year Economic Development Plan. In addition, another important USAID project agreement with KDI provided considerable financial assistance – up to 1.31 billion won – to the KEPB of the Park government for the establishment of KDI, which would conduct competent independent research on major public policy issues. For this matter, the KDI Law was promulgated by the Korean government on 31 December 1970, under which the KDI Endowment Fund began long-range financing and the US and Park governments jointly controlled the counterpart funds that would be used for financing the KDI project in 1971 (USAID 1971). In a nutshell, the social origins of the three main research institutions, which made significant contributions to rapid economic growth in the 1970s, were deeply anchored in financial assistance from and administrative guidance by USAID.

The third sector of institutional transfer systematically materialized under the guise of technical assistance for public administration of the Korean government. Considering that the key government officials lacked state management experience, thereby facing considerable challenges on how to improve the administrative machinery, the Public Administration Division of the US Operations Mission to Korea (USOMK) offered advice and assistance to the Korean government in order to enhance its administrative capability for managing human resources and promoting governance functions (USOMK 1959). To supplement insufficient or a lack of skills in governmental administration, USOMK provided key personnel to many public agencies with intensive overseas training under the auspices of its participant programs jointly organized by SNU and the University of Minnesota. With regards to a lack of managerial skills, Washington University, in cooperation with two private schools, Yonsei University and Korea University, provided Summer Institute Seminars for high-ranking Korean business and government leaders, and USOMK provided financial assistance to the business schools of the two host universities. Addressing the lack of long-range economic planning, the University of Oregon sent a team of contract advisors in the various fields of applied economics to South Korea.

Consequently, the main contributions of US-initiated technical cooperation—higher education, quasi-governmental research institutes and technical assistance—enhanced the capacity development of local authorities and societal leaders to the extent that they could orchestrate their own projects for economic development with much stronger ownership and commitment.

## **Conclusion**

The successful exit from the poverty trap and aid dependence becomes more feasible as the ownership of local partners in incorporating international transfers is reinforced by translating international transfers in accordance with local conditions. South Korea's developmental experiences address the critical effects of four international transfers (aid, knowledge, voluntarism and technology) in promoting economic development of local partners, local authorities' efforts to utilize and localize externally transferred aid and technology for its own economic development plans and the ownership-based incorporation of international transfers for the localization. As the term 'good governance' aptly signifies, international transfer is bound to work better when provided in contexts where it is likely to be a more effective system with good

policies and institutions. Indeed, an obvious lesson from the Korean experience is that the bureaucratic responsiveness to aid and technology and institutional regulations of international transfer for the capacity building of local authorities are considered a necessary condition to secure the enhancement of aid effectiveness.

The Korean experience, in terms of policy studies, presents a constructivist pattern of policy translation, rather than a unilateral policy transfer, by integrating foreign aid in the local context with strong ownership and commitment. Characteristically, the Rhee government pressed the ISI strategy forward as its national policy priority for economic development against Washington's strong support for EOI. Likewise, the Park government firmly decided on EOI as the main development plan in the face of Washington's stern opposition and coercive implication of ISI as aid conditionality. Both governments independently produced countervailing commitments contrary to donor intentions when strings were attached to aid transfers. Accordingly, policy translation requires a dialectical process between donors' inputs and recipients' reactions, rather than just a one-sided transfer of donors' aid policies.

In conceptualizing the heuristic lessons from the Korean case, we recognize that local capacities that the Korean governments dynamically pursued can be largely categorized into three domains. The first element of institutional capacity is 'legislative power', which is referred to as lawful measures regulating foreign aid agencies and reinforcing local regulation in the face of its weak negotiating power. Secondly, the Korean government possessed 'designing power', which organized the fabrication of development paradigms, knowledge sharing and national development plans for localizing international transfers in line with contextual differences. Finally, the 'corporatist power' to co-opt and accommodate non-state actors enabled the government agencies not only to share the public burdens of welfare provision with voluntary associations, but also to institutionalize a unique pattern of 'mixed governance' characterized as state corporatism via non-state aid delivery (Kim et al. 2011; Ringen et al. 2011).

In particular, the notion of corporatist power is viewed similarly to the dynamics of the 'capability-enhancing developmental state' that Evans (chapter 3) suggests as an adapted mode of the developmental state for the twenty-first century. This is because the Korean government, even at the early stage of state building, engaged in capability-expanding projects financed mostly by foreign aid and aimed to promote state-society coalitions for the purpose of further enhancement of capacity and ownership in dealing with international transfers. In other words,

South Korea's embedded autonomy of institutional capabilities led local authorities not only to transform coercively imposed conditions of international transfers into more cooperative forms of partnership with donors, but also to promote other cooperative endeavors with non-state actors for economic development.

## Notes

1. The relationship between good governance and aid is understood more or less tautologically since it is argued that 'aid is bound to work better when provided in contexts where it is likely to be more effective and to work less well in more difficult or inhospitable environments' (Riddell 2007: 231). The logic of good governance in this argument is primarily recursive and unrealistic, in the sense that developing countries, which need to use international aid to attain the development of good policies and institutions, are rather asked to qualify good policies and institutions prior to international transfers.
2. By the end of 1948, American foreign policy was in ferment as it was compelled to face major conflicts with the Soviet-led communist regimes in every corner of the world. The 'Point Four' that US President Truman declared in his Inaugural Address on 20 January 1949 defined the four clear points that could structure the general contours of American foreign policy anchored in military support and economic assistance to allies. Including the Marshall Plan for the reconstruction of West Germany and other European allies, the Point Four stressed that the US must embark upon a bold new program to make the benefits of its scientific advances and industrial progress available for economic development of the underdeveloped countries that were geopolitically critical to US grand strategies. This historical context is relevant to the case of US foreign aid to South Korea in that it was one of the strategic buffer zones in containing the expansive influences of communist power in East Asia.
3. Rostow (1960) distinguished five stages through which all countries must pass: traditional society; preconditions for take off; take off; drive to maturity (self-sustained growth); and age of high mass consumption.
4. Foreign voluntary agencies were required to present quarterly work plans to both committees three months in advance, while the Minister of the Ministry of Health and Social Affairs allocated welfare tasks to individual foreign voluntary agencies (Editorial Committee for the History of Korean Military Revolution 1963).
5. KIST came into being as a consequence of discussions between President Park of South Korea and President Johnson of the US in May 1965. In July 1965, a US team of science and research administrators headed by Donald F Hornig, Assistant of Science and Technology, examined the technological needs of South Korea and designed the overall program for the establishment of KIST in 1966 (USAID 1967).

# 11

## The South Korean Developmental Alliance between Business, Labor and Government

*Eun Mee Kim*

### Introduction

The remarkable story of South Korea's economic development and poverty reduction has been a shining example for developing countries. The South Korean government has taken on, as its new global role, promoting the country's experience of economic development that is distinct from early developers as well as other latecomers. It is noteworthy, however, when developing countries in the twenty-first century seek a South Korean-type development, that they are often looking at twentieth-century South Korean rapid industrialization and poverty reduction. Without raising the following questions in the process of learning from South Korea, the lessons would lose their due value.

- What was the developmental alliance that was critical for South Korea's economic and social development in the twentieth century?
- What has changed in the twenty-first-century's global and domestic political economy that has affected South Korea's developmental alliance, and what is the new twenty-first-century developmental alliance?
- What are the lessons that twenty-first-century developing countries can take away from the South Korean developmental alliance?

Furthermore, it should be noted that South Korea's rapid economic growth and democratization took place in the context of war, post-war reconstruction and continuing security tensions with North Korea after the Korean War (1950–53). Thus, this chapter: (i) re-examines South Korea's developmental alliance in the twentieth century that enabled its phenomenal economic, social and political development, focusing on

the decades of the most rapid development; (ii) examines the changing global and domestic political economic context that has affected the developmental alliance in the twenty-first century; and (iii) examines the twenty-first-century developmental alliance in South Korea. Finally, it concludes with lessons that developing countries can take away from the South Korean developmental alliance within the constraints of the twenty-first-century global political economy.

### **South Korea's developmental alliance and economic development, 1960s–1980s**

Capitalism, development and underdevelopment have been among the most discussed issues in the social sciences. Since the end of World War II, social science research has broadened from capitalist development to economic development with multiple paths. Two questions, in particular, were addressed: Why are some nations underdeveloped? How do nations attain development? Although related, these questions led to different research and policy recommendations. Modernization theory during the 1950s and 1960s and dependency theory during the 1970s and 1980s dealt with these two questions in radically different ways.

The economic development of latecomers, including Japan, the Four Asian Tigers (South Korea, Taiwan, Hong Kong and Singapore) and later China, provided scholars in these theoretical traditions with interesting, but very challenging empirical cases. These cases questioned the validity of both modernization and dependency theories. Modernization theory could not cope with how development could be attained when Japan and the Four Asian Tigers still retained many of their 'traditional' social and cultural traits. Dependency theory also did not incorporate East Asian cases due to their view that development, or long-term development, could not occur if a nation is dependent on foreign capital and technology.

The institutionalist theorists that have examined East Asian development from the late 1980s provided a significant shift in both development studies and institutionalist studies. Chalmers Johnson's (1982) seminal work on Japan's developmental state opened the door for many developmental state-focused studies. The East Asian cases of successful economic development since the Second World War, with Japan in the lead followed by the East Asian newly industrializing economies (NIEs) or Four Asian Tigers, were finally recognized as primary cases of economic development from the institutionalist studies focused on the developmental state.<sup>1</sup> Evans, Rueschemeyer and Skocpol helped

usher in many studies that have focused squarely on the role of the state and, in particular, the developmental state in the analysis of East Asian success in economic development (Evans et al. 1985). East Asian cases were critical not only for understanding how development may be attained, but also in redressing the limits of the earlier theories on economic development. It was the state and not the market that drove this process.

South Korea's economic development occurred when these debates in social sciences were at their height with many Latin American cases and turned the United States (US)- and Western European-centered theories on their heads (Cardoso et al. 1979; Evans 1979). Although these three perspectives had very different explanations about how nations achieve development and what the impediments might be, they all seemed to have found some element in South Korea's successful economic development that supported their respective arguments. Their explanations were sometimes contradictory to each other's arguments, and none seemed to have understood the whole picture of South Korea's economic development. Their studies were colored by the primary cases that shaped their arguments, and thus the South Korean case was understood as a comparative foil, and not as an important case on its own merits. For example, the modernization theory-inspired studies focused on domestic institutions and, in particular, the role of culture and religion in its development, while the Latin American case-inspired studies from the dependency perspective marveled at how South Korea was able to attain economic development in spite of its heavy reliance on foreign trade and foreign capital input.<sup>2</sup>

In South Korea, studies on its economic development focused on a different set of issues. While recognizing that South Korea's economic development may have been rapid and successful, many social scientists since the late 1970s have focused on the serious problems associated with its development. The authoritarian and dictatorial rule of the military regime, suppression of democracy, exploitation of labor, unequal development between urban and rural areas and between big business groups and small and medium-sized enterprises (SMEs) as well as the relationship between capitalist development and democracy were hotly debated. The Industrial Sociology Group was at the forefront of these discussions and produced many critical studies on South Korean development (Kim 1997). These studies did not share the rosy sentiment found in overseas studies and were much more focused on highlighting the costs associated with South Korean development. Hence, although these studies were valuable in their own right, they did not



produce many arguments for the South Korean developmental 'model', although they clearly highlighted some of the problems that should be avoided in pursuing a South Korean-style development. It was only from a developmental state perspective that both within and outside South Korea, the East Asian cases and, in particular, the South Korean case was treated as an important case for theory building.

Table 11.1 shows the key institutions of the alliance between the state, business and labor that was critical for South Korea's initial phase of economic development from the 1960s to the 1980s.

The developmental state included three institutions – the Economic Planning Board (EPB) as the leading government ministry, the Ministry of Finance and the Ministry of Commerce and Industry – as its partners in the troika of the developmental state. The EPB played a critical role in developing the long-term development plans and providing the necessary budgetary support for these plans (see Chapter 9). The head of the EPB was for some years also the Deputy Prime Minister, giving it supreme power over other ministries. The developmental state was also an authoritarian state, which needs to be separated in theory,<sup>3</sup> but in the South Korean case, these two went hand in hand.

In the initial phase of development, large family-owned and managed business conglomerates (*chaebol*) became strong partners with the developmental state in pursuit of HCI. Unlike in many other developing countries in need of foreign capital, the South Korean government was unable and unwilling to utilize foreign direct investment (FDI) (Kim 1997). On the other hand, South Korea became a large recipient of foreign aid following its independence from the colonial rule of Japan in 1945 and, in particular, in the post-war reconstruction following the devastating Korean War from 1950 to 1953 (Kim E. M. 1997). In total, \$12.78 billion was provided to South Korea in foreign aid between 1945 and 1995 (Official Development Assistance Korea 2012).

Labor played a vital role in South Korea's labor-intensive export-oriented industrialization (EOI) of the 1960s. In the earlier phase of economic development, labor was a silent partner that acquiesced to the authoritarian manner in which the state suppressed labor rights and also kept the wages low in collusion with the domestic capitalists. The large numbers of young women employed in the low-paying textile and garment industries were not very well organized into labor unions and were unable to demand better pay or better working conditions. Thus, the developmental alliance was a lop-sided one with two giant partners – that is, the developmental state and the large *chaebol* – with labor having little voice in the alliance.

Table 11.1 South Korea's development: Key institutions, 1960s–1980s

Key institutions	Policies/instruments	Distinct features
<i>Developmental state</i> <sup>a</sup> • EPB • Ministry of Finance • Ministry of Commerce and Industry	• Long-term comprehensive planning and projection • Provider and intermediary for capital and technology • Provider of indirect assistance and subsidies • EOI	• Sustained economic development • Low-income inequality • Low inflation • High employment
<i>Authoritarian state</i>	• Military, police, tax and intelligence used; limited civil liberties • Labor oppression	• Collusion with <i>chaebol</i> for HCI
<i>Local capital</i> • Big business groups ( <i>chaebol</i> <sup>b</sup> )	• HCI • Trading company ( <i>Jong-Hap Sangsa</i> )	• Large <i>chaebol</i> as state's partner for development versus MNCs, SOEs or SMEs
<i>Foreign capital</i> • ODA	• ODA: grants and loans • State guarantees for repayment for loans • Low FDI and MNCs	• Foreign capital (grants/loans) behaving like domestic capital
<i>Labor</i>	• Labor laws in place, but were not implemented • Suppression of labor rights including the right to assembly • Suppression of wages due to collusion between the state and businesses	• Labor as an acquiescent partner • Slow but steady growth of underground labor movement

Notes: <sup>a</sup> There is disagreement within the developmental state studies of South Korean development. One group of studies argues that the developmental state is necessarily authoritarian, or at least it can attain rapid economic development if it is also authoritarian. Another group of studies separates the concepts of the developmental versus authoritarian states and thus argue that there could be different combinations of the developmental state.

<sup>b</sup> Family-owned and -managed private business groups in South Korea (Kim 1997).

Source: Kim (1997: 27–94).

### Developmental alliance in the 1960s: state dominance<sup>4</sup>

The developmental state can be found on a continuum of a 'comprehensive' to a 'limited' developmental state. A comprehensive developmental state focuses on economic development as the primary goal of

the state and invests capital and human resources in pursuit of this goal. The state performs the following three major functions:

- *Provider of long-term goals for the economy.* The state provides comprehensive economic development plans, long-term goals and projections for the entire economy.
- *Provider of capital and technology.* The state provides capital for investment through domestic and foreign capital loans, capital assistance for research and development and technology and technical assistance through national and regional research facilities.
- *Provider of indirect assistance.* The state acts as a mediator with multinational companies (MNCs) for FDI and technology transfers, establishes trade offices of expertise on exports and imports, provides tax breaks and tariff exemptions and eases regulations.

These services, and in particular the last two, are designed to support the private sector in its infancy, when it cannot provide the services itself due to lack of resources, information and know-how. The developmental state was the key institution in South Korea's economic development. A comprehensive developmental state was established when President Park Chung-hee came to power in May 1961 through a military coup. Park defined economic development as the most important goal of his regime; other goals, such as national security, took second place. To help implement Park's goal for economic development, the EPB was founded on 22 July 1961, just two months after the coup. It became an elite government ministry, and the brightest college graduates aspired to have positions within it.

The establishment of a comprehensive developmental state clearly differentiated the Park regime from its predecessors. The founding of the EPB and other government offices geared toward economic development, the creation of comprehensive five-year economic development plans and the nationalization of banks are evidence of the increased capacity of the state under Park. This developmental state was also an authoritarian state, which suppressed labor and civil liberties in general. The authoritarian state apparatus was used in particular against labor to keep the wages low and labor strikes at bay. The Park regime justified the authoritarian rule by arguing that political stability was a precondition for attaining economic development, and even blamed the political instability of the late 1940s as a cause for North Korea's invasion of South Korea in 1950. Thus, any instability was seen as a major obstacle to both political stability and economic prosperity in South Korean society.

The South Korean state used its authoritarian muscle to enforce economic policies, including discipline and punishment with the *chaebol* (Amsden 1989). In the early 1960s, the state was clearly the dominant partner when it formed a loose alliance with big businesses. The military government forced cooperation from the business leaders who were indicted on charges of having illicitly accumulated wealth under the regimes of President Rhee Syngman and President Chang Myon. The state's policies were intended to keep wages low and to limit and prohibit labor movements (Choi 1989; Cho 1993). The lack of minimum wage legislation prior to 1988 and the poor enforcement of laws relating to working conditions resulted in worker exploitation (Song 1991). The police and the Korean Central Intelligence Agency were ordered to monitor and report labor activities and extensive force was used to prevent and control labor strikes (Ogle 1990). During the 1960s and 1970s, there were several prominent cases in which underground labor leaders were prosecuted as pro-North Korean communist agitators (Ogle 1990). Conviction carried a maximum penalty of death.

The developmental alliance of the 1960s was clearly dominated by the developmental state with the big businesses (which later became *chaebol*) as a second partner, and labor as a silent and suppressed partner. The tools, which were used to work with businesses and labor, were authoritarian in nature and sometimes involved the use of brute force to suppress labor in particular. Thus, the 1960s marked a period in the developmental alliance that was unequal and exploitative.

### **Developmental alliance in the 1970s: symbiosis between the state and businesses at the exclusion of labor<sup>5</sup>**

The 1970s witnessed a deepening of the industrialization process with the development of the heavy and chemical industries dominating economic growth. This development was clearly initiated by the government and, more specifically, by Park's staff at the Blue House, with little consultation with other economic ministries. It was pushed vigorously, despite the objections of domestic and international experts. The state promoted heavy and chemical industrialization (HCI) to develop its own defense industry, which consequently resulted in a closer alliance with a few *chaebol*.

However, the story of the 1970s is not completely as clear-cut as state-centrists would argue. They tend to assume that the state was always in charge of the economic development process and that the private sector merely followed orders. Quite contrary to that assumption, in the 1970s, the relationship between the state and the largest *chaebol*

became more interdependent. The *chaebol* had increased their leverage because they had grown so successfully in the 1960s and because they were the only entrepreneurs who could afford to invest in the heavy and chemical industries, which were both capital and technology intensive.

The Park government announced that the goal of the Third Five-Year Economic Development Plan (1972–76) was a ‘balanced economy’: a balance was to be achieved between light and heavy industries and between urban and rural areas (Federation of Korean Industries 1987; KEPB 1972).<sup>6</sup> HCI received the strongest possible endorsement from the government, with Park making the Pronouncement for the Development of the Heavy and Chemical Industries during his State of the Nation message on 13 January 1973. In the early 1970s, HCI was seen as premature for an economy with only a decade of growth based on light manufacturing and with few natural resources. Government officials knew that this was based on military and not on economic grounds. Establishing some key heavy industries was seen as crucial to building a more self-reliant military in the face of an aggressive North Korea that was engaging in provocations in South Korea in the midst of a war that was not officially over. Furthermore, the private sector was not capable of investing in the heavy and chemical industries and the developmental state selected partners for HCI only among the big businesses. They later became the large *chaebol* due to the gross amounts of foreign capital they received (which was largely foreign aid that the South Korean government received) and their entrepreneurship.

In order to pursue HCI, the developmental state was reorganized. Within the EPB, the Department of Foreign Capital Management and the Department for Promoting Investment were both formed in 1973 to assist with attracting foreign capital (for example, public and commercial loans and FDI). Similar departments within the Ministry of Finance were also expanded and the Department of Industrial Plants was created in the Ministry of Construction in 1973. The Ministry of Trade and Industry underwent the greatest changes. Many new defense-related departments and heavy and chemical industries-related departments were created, and old ones were expanded to give them more prominence within the ministry. In addition, a new Bureau of Science and Technology was established in 1973 to consolidate and expand the research and development efforts for the heavy and chemical industries.

With the comprehensive developmental state restructured and strengthened for the promotion of HCI, the state set new targets for the economy to assure that the South Korean economy would complete the transformation of the industrial structure toward heavy and chemical industries by

the beginning of the 1980s. The goals for the industrial restructuring to be attained by 1981 were:

- the primary sector was to decrease from 25.5 percent in 1972 to 15.9 percent;
- the secondary sector was to increase from 26.3 percent in 1972 to 42.9 percent;
- the tertiary sector was to decrease from 48.2 percent in 1972 to 41.2 percent.

In terms of manufacturing alone, the share of heavy manufacturing within it was to increase from 35.2 percent in 1972 to 51.0 percent by 1981. The export structure would change toward exports of more heavy manufactured products. Other more general economic goals included increasing gross national product (GNP) per capita to \$983 by 1981 and increasing foreign capital holdings to \$2.7 billion (Pak 1980; Chǒng 1985). Specific plans for the development of the heavy and chemical industries were to select a few target industries and provide them with generous government support. Six target industries – iron and steel, nonferrous metal, machinery, shipbuilding, electrical appliances and electronics, and petrochemicals – were selected based on the following factors:

- forward and backward linkages;
- contribution for the countrywide economic development;
- possibility of foreign capital earnings through exports and foreign capital savings through import substitution;
- usage of natural resources;
- inducement effect of foreign capital.

The private sector also received preferential treatment from various economic ministries. It received financial assistance through foreign capital loans, the newly created national funds, domestic loans, tax cuts, technology and infrastructure. An annual average of 14.5 percent of total development financing was used for development of the heavy and chemical industries between 1971 and 1981 (Chǒng 1985). The law for tax cuts for the heavy and chemical industries was passed in 1974, and 40.1 percent of tax cuts were subsequently given to the heavy and chemical firms. Other protective measures were provided such as removing tariff barriers and banning imports of certain heavy and chemical products. Of the six industries targeted, electrical appliances and electronics received the least financial assistance from the

government since the state claimed that the industry had already reached a satisfactory level of international competitiveness (Korea Yearbook 1961–90). In addition, heavy and chemical firms received preferential treatment for FDI. Before other manufacturing firms were allowed to receive 100 percent foreign ownership, which would have made a firm a wholly owned subsidiary of an MNC, many heavy and chemical firms were allowed by law to do so. By 1974, metal, machinery and electronics firms were allowed to accept 100 percent, and by 1978 all six target industries were allowed to acquire 100 percent. However, as discussed by Amsden (Chapter 4), not many foreign firms invested in South Korea during this period. In fact, domestic corporations were by far the most active in these industries (Kim 1997).

In order to promote HCI, the EPB and the Ministry of Trade and Industry specifically sought the support and cooperation of the large *chaebol*, which were capable of financing, at least partially, the capital- and technology-intensive industries and had a proven track record of growth during the 1960s. Many large enterprises grew and became *chaebol* during the 1970s. The *chaebol* acquired and founded many subsidiaries and diversified businesses into related as well as unrelated sectors. Specifically, the ten largest *chaebol* grew very rapidly during the 1970s, at a rate five to nine times faster than the economy as a whole. The list of the ten largest *chaebol* changed significantly after the early 1960s when Park came to power and promoted rapid economic development. By the end of the 1960s, a new group of Park regime *chaebol* had appeared, and this group has remained fairly stable ever since. HCI and domestic political needs to garner support from the large *chaebol* prompted the state to forge a tight alliance with the leading *chaebol*. In return for the *chaebol's* compliance, the state provided them with low-interest-rate loans and other protective measures. Those *chaebol* that invested heavily in state-targeted heavy and chemical industries grew at a phenomenal rate during the 1970s, while the other industries sought other sources of capital, especially from MNCs. Variations in the trajectory of the growth in the largest *chaebol* in the 1970s indicate that we need to seriously examine their role apart from the state's economic development plans and industrial policies. The growth of the largest *chaebol* parallels the South Korean state's drive for HCI: those that conformed to HCI seemed to have grown faster than those that did not. Most of the successful large *chaebol* received generous support from the state, but they also were led by entrepreneurs who were aggressive risk takers.

During the 1960s and 1970s, the relationship between the government and the labor union can be described as 'predatory patronism'

(Kim 1996). Although union density was high, the autonomy of unions was low because the government regulation was strict and some of the unions became state-controlled organizations (Kim 1996; Kim Y T 1998). In particular, the Park regime attempted to depoliticize the labor unions in collusion with the *chaebol* and prevented the expansion of labor unions. In 1961, the new Park administration restructured labor politics by dissolving the existing labor unions and established the Federation of Korean Trade Unions with 16 affiliated industrial federations not only to prevent labor union's resistance, but also to cooperate with other prominent labor leaders (Shin 2008). However, since it had been created by the state, the Federation of Korean Trade Unions was used as a tool to strategically control labor, while the state pursued economic development. Additionally, the state revised the Labor Act in 1963 to legally intervene in the labor union and its activity. The state and businesses colluded to restrict labor's active participation in the developmental alliance, keeping wages low and working hours long. The *chaebol* treated labor as a production tool rather than a key agent in the production process (Shin 2008). Although wage and employment were mainly determined by the market, government policies intended to cap wage growth in the 1970s with legal restrictions on collective bargaining in industrial policies, followed by limited union participation (Kim and Topel 1995).

### **Developmental alliance in the 1980s: Democratization and challenges to the developmental alliance<sup>7</sup>**

The 1980s were a time of great social, economic and political upheaval in South Korea. The regime of President Chun Doo-hwan (1980–88) faced pressures from the large *chaebol* and labor to restructure the comprehensive developmental state. The South Korean formula for economic growth – that is, a strong, comprehensive developmental state, a tight alliance between the state and the *chaebol* and the exclusion and repression of labor – had worked well during the 1960s and 1970s, but came under fire as the strength and influence of *chaebol* and labor grew. The *chaebol*, in particular, flourished during the 1980s in spite of reduced state support. By the end of the 1980s, South Korean media and publications referred to the increasing dominance of the *chaebol* in the nation's political, social and economic arenas as the 'Chaebol Republic' (Wolgan Chosun 1989; Yu 1991). Labor, which had hitherto been relatively obsequious, exploded with discontent toward the end of the 1980s. Despite one of the most repressive regimes with regard to labor, South Korea had developed one of the most militant labor movements in Asia's history (Deyo 1987). In response to these pressures,



the comprehensive developmental state was restructured to become a limited developmental state, which is also able to perform the same functions, but in limited degrees. Some sectors became more market-oriented, while others remained under the state's close supervision and control. Goals other than economic development were included as priorities of the state. Changes in the government's economic policies from 'developmental' to 'regulatory' were significant in this transformation since they indicated not only a shift in policies but also, more importantly, qualitative change in state-business relationships. Finally, the change from a comprehensive to a limited developmental state often signaled a qualitative change in the state-business-labor relationship.

On the political front, a more dramatic change occurred. The Chun regime faced increasingly active democratization movements in 1986 and 1987. As a result, the authoritarian state broke down and democratic consolidation began. In December 1987, a direct presidential election was held for the first time in almost two decades. The newly elected President Roh Tae-woo (1987-93) continued the restructuring of the comprehensive developmental state amid some confusion as democratization presented additional challenges to the process of state restructuring.

Changes in the world and in South Korea also made the latter more connected to the changes abroad compared to the earlier two decades of growth. First, the world in general had become much more tightly knit as a result of improved communications and technology. This phenomenon affected nations worldwide. Globalization, coupled with the fact that many families in South Korea could now afford television sets compared to the 1960s, when there was less than one television set per ten households, made the impact of the shrinking world quite palpable to the South Koreans. Secondly, South Korea became more intricately integrated into the world economy with exports, MNC investments in the country and South Korea's investments overseas. Perhaps more so than in other developing nations, which pursued inward-looking industrialization strategies, South Korea had quickly and inexorably become linked to the world economy. Third, South Korea's remarkable economic success made it a target of the US trade war. Unlike before, South Korea's increased visibility in the international economy prompted a closer scrutiny by its trading partners. The US increased its pressure on Japan and other newly industrializing countries in East Asia, driven primarily by the continued trade deficit with Japan. One of the US demands was that South Korea open its economy to US investments, products and services. Although the US did not pressure South Korea to restructure its economy, as it did Japan, the pressure to open the South

Korean economy had indirectly implied that the South Korean state should reduce the protection of domestic businesses.

These changes were felt and crystallized within the state. The comprehensive developmental state was forced to reevaluate its *raison d'être*: since the main goal of the state – economic development – was attained, the rationale for the comprehensive developmental state no longer existed. In particular, the EPB and the Ministry of Trade and Industry faced the greatest challenges to reestablish their institutional goals and functions.

A developmental state changes over time. If the developmental state fails to deliver its primary objective – economic growth – those in charge of development policies will not be re-elected or will be forced to resign, and the economic policies and the way in which they are implemented will have to change. Unless the political system is completely closed, it is reasonable to expect such outcomes. The irony of the South Korean case lies in the fact that the state was forced to re-evaluate its *raison d'être* for its success in attaining economic growth. After nearly two decades of outstanding economic development, the South Korean state, which had been largely responsible for that development, had to loosen its tight control of the economy. Moon (1988) argued that the neoconservative economic reforms undertaken by the Chun government resulted in the demise of the developmental state in South Korea. This is different from the argument that I am making here, which is that economic reforms are the likely outcome of the success of a developmental state. These reforms are not arbitrary political choices, rather they are attempts to deal with the fundamental contradictions and inherent limits of a developmental state. They are, therefore, not the cause of the decline of a developmental state, but rather symptoms of a declining developmental state.

Several domestic and international conditions came together during the late 1970s and early 1980s that prompted the state to restructure. The formula based on a comprehensive developmental state, a tight alliance between the state and the *chaebol* and repressive state policies toward labor, which brought two decades of phenomenal economic growth, came under fire. In particular, the state's HCI strategy of the 1970s helped produce a small group of super-wealthy *chaebol*. They became an important voice demanding that the state reduce its control in the economy, in spite of the fact that they owed much of their earlier prosperity to the state's subsidies and protection.

Labor, on the other hand, was repressed during the 1960s and 1970s. However, labor mobilized, first underground and later legally with changes in the labor law. The HCI of the 1970s brought relatively

well-educated workers into large factories, providing fertile ground for labor union mobilization. Unlike labor unions in other nations, those in South Korea clearly saw that both the state and capitalists were culprits in keeping wages low and working conditions poor in the preceding decades. Thus, labor's two enemies became the state and the capitalists. And as soon as the labor union law was changed in 1987, labor unrest skyrocketed. In 1987, after years of repressive labor policies and relatively dormant labor activities, the number of labor strikes reached a record high of more than 3,600 incidents (Kim 1997).

Although the demands of capitalists and labor differed significantly, they both wanted the state to alter its old methods and become a protectionist government: one that continued to provide protection to, but cease the heavy-handed control of, the private sector. Selective control, especially control of the labor movement and of wages, continued to be favored by the large capitalists as they lamented that labor uprisings since the mid-1980s had caused decreased production. On the other hand, labor pressed the state to become a welfare state, one that would protect the rights of workers and provide social services to citizens. Labor also wanted the state to control and limit the increasing power of the *chaebol*. The state was obligated to listen to the demands of both groups, since the political environment was one of democracy and not of autocracy by the end of the 1980s.

The developmental alliance changed fundamentally: (i) the developmental state was no longer a comprehensive developmental state that led the alliance and instead became one of its members; (ii) the businesses grew in terms of their economic power and political leverage; and (iii) labor had also become a much more important actor in this new alliance. Forces for democracy and successful economic development resulted in changes in the developmental alliance with changes in the power relationships among the three partners. Since the end of the 1980s, the South Korean developmental alliance has changed to a more corporatist system in which negotiations among the three parties became much more important in future dealings.

### **Developmental alliance in the 1990s: Globalization, economic liberalization and the changing developmental alliance**

The 1990s continued to bring about important changes in the South Korean society. The democratization movement that culminated in the 1987 declaration for democracy finally ushered in a democratically elected president from the opposition party. President Kim Young-sam was elected and many considered this as the real sign of the new

democratic era since Roh was viewed as a holdout of the old military regime, even though he was democratically elected. Thus, when Kim Young-sam was elected (even though he had to merge with the incumbent party to be elected), his administration was eager to draw sharp distinctions from his predecessors. Globalization, economic liberalization and substantive democratic rights of people, including workers, were among the important changes that took place.

The transition of the developmental state to a limited developmental state that had already begun in the 1980s was under pressure to liberalize further, which included not only the opening up of the market, but also a reduction of the level of state intervention in the market. This pressure was exerted from within South Korea, as embodied by the respective demands of the *chaebol* and labor, to the state as well as from abroad with US trade envoys to South Korea and rising trade deficits. To make matters worse, the South Korean economy was one of the worst hit during the Asian financial crisis (1997–99) with the limited developmental state losing its control of the economy and the encroaching global market. Some of South Korea's leading *chaebol* went bankrupt as early as the end of 1996 and many were dissolved in 1997, thereby causing a reshaping of the map of the largest *chaebol* that had remained relatively stable since the 1970s. The economy was in great disarray and many feared that South Korea's phenomenal economic development that had continued since the 1960s was coming to an abrupt end.

South Korea's imminent bankruptcy brought two strikingly different views from the pundits: (i) South Korea's fall was the result of the developmental state's strong hold of the economy and not letting the market do its job; and (ii) South Korea's vulnerability in the foreign capital market and all its problems were the direct result of the developmental state's abrupt devolution without a clear alternative to deal with the forces of the domestic and global market. Between these two extremes, the International Monetary Fund (IMF) aligned itself with the first assumption and provided guidelines for structural reform when it provided a bail-out loan to South Korea in late 1997 (Kim and Kim 2005). The IMF requested reforms in four key areas in the South Korean economy in order to assist with recovery from the Asian financial crisis (IMF 1999; Kim and Kim 2005):

- financial sector: since the banking institutions were seen as key players in having mismanaged the foreign capital flows;
- corporate sector: since the *chaebol* were regarded as having played a major role in using foreign capital for business expansion without sound management;

- labor: since its demand for improved working conditions and higher wages was seen as another area of pressure on the South Korean economy;
- developmental state: to reduce its heavy-handed control of the economy.

Thus, the state was put in an awkward position after the IMF intervention. It was supposed to supervise and monitor the restructuring of the financial, corporate and labor sectors, while at the same time downsize and restructure itself. As a result of these demands, efforts were taken to restructure all four areas, albeit with different degrees of success. The limited developmental state was losing its mandate to intervene in the market, but with its role at the helm of restructuring other sectors, it regained its influence and it appeared that it was moving toward a regulatory state.

The largest *chaebol* also went through restructuring at two levels. On the one hand, the financial viability of many the *chaebol* was in jeopardy of bankruptcy, and they had to restructure and downsize in order to survive the economic downturn. On the other hand, the *chaebol* were also under pressure to streamline business sectors to fewer than five core areas, adopt more transparent business practices – including a clearer legal role for the chairperson – and agree to the state’s ‘Big Deals’ to help swap businesses with other *chaebol* in an effort to streamline businesses (Kim et al. 2005; Kim and Kim 2005). Many of the largest *chaebol* went bankrupt, and the surviving ones had to conform to global business standards pushed by the IMF. Thus, it appears that the ones that survived the Asian financial crisis and the subsequent restructuring became much more resilient to global competitiveness, while many of their domestic competitors were now out of competition (Kim et al. 2005). Labor was also under pressure to restructure: this was an important aspect of the IMF mandate and the administration of President Kim Dae-jung formed a tripartite commission between government, business and labor to agree on labor restructuring. Many saw that the pro-labor stance of Kim Dae-jung, prior to taking office as a long-suffering opposition leader, helped appease labor in the tripartite commission. In other words, there was a common perception in South Korea at the time that under a more pro-business president, labor would have gone for an all-out confrontation with the government’s policies for labor restructuring. As a result, at the end of the 1990s, we witnessed a very different type of state that was more regulatory than developmental, businesses (*chaebol*) that had become globally more competitive (although many also went bankrupt) and a weakened labor sector.

## **The changing global political economy, South Korea's new developmental alliance and lessons for developing countries in the twenty-first century**

The South Korean experience of economic development in the twentieth century cannot be directly relevant for developing countries in the twenty-first century. It is not only that the domestic contexts of developing nations may be significantly different, but also that the global political economic context is very different from the twentieth-century contexts that were critical for South Korea's development because of: (i) the Cold War as well as military and economic aid that provided a security umbrella for South Korea; (ii) the favorable global market for inexpensive manufactured products and, in particular, the open US market for such goods; (iii) the relatively less intense global competition for inexpensive manufactured products; and (iv) the tolerance for trade protectionism.

In the twenty-first century, developing countries are faced with a very different global political economy: (i) the end of the Cold War has meant relatively little foreign aid to former allies of the two 'Super Powers' (the US and the USSR); (ii) more competition among developing countries with relatively inexpensive manufactured products vying for the global market, that is, a fairly saturated world market for such products; (iii) less tolerance for trade protectionism under the World Trade Organization (WTO) regime; and (iv) more widespread effects of the global and regional economic crises than ever before. Furthermore, international organizations such as the United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) have provided global norms for economic and social development and development cooperation with foreign aid. The latter, in particular, has provided guidelines about how more advanced industrialized nations can assist developing countries in addressing the ownership of the recipient nation and poverty-reducing development programs. Developing countries of the twenty-first century are also faced with growing pressures for democratization, which make an authoritarian regime more difficult. As the Arab Spring of 2011 shows, there are relatively few countries in the world that can pursue an outright undemocratic authoritarian rule compared with the Cold War era. The forces of globalization and the end of the Cold War have made democracy a clear choice for a political system, albeit practiced differently in different countries.

There are at least three broad elements that we need to consider in order for the South Korean experience of development to become relevant to

developing countries in the twenty-first century: (i) global standards and norms for development cooperation as exemplified by OECD/DAC guidelines on ownership, alignment, harmonization, managing for results and mutual accountability; (ii) South Korea's own development experience of developmental alliances from the twentieth century; and (iii) global political economy context that the current developing countries face.

Let us briefly examine how South Korea has adapted to the changing global political economy in the twenty-first century. First, the developmental state of the twentieth century has become a more regulatory and democratic state and a limited developmental state. While the Asian financial crisis curtailed the power of the developmental state, its pro-growth and pro-business stance regained popularity with the 2007 election of President Lee Myung-bak. Following the administration of President Roh Moo-Hyun, which was a more progressive regime with stronger policies and programs geared toward social distribution and welfare, the public voted for a more pro-business president in the hopes of revising the economy and for businesses to resume investments within South Korea without seeking cheaper labor costs, among other factors, in countries such as China. Thus, since 2008, the South Korean limited developmental state has begun to gain momentum compared to the previous ten years under Kim Dae-jung and Roh Moo-Hyun when the developmental state, albeit limited, was losing its power. In particular, we note with great interest that in 2008 the Ministry of Finance and Economy merged with the Ministry of Planning and Budget to become the Ministry of Strategy and Finance. This new ministry combined the functions of planning, strategy, budgeting and finance, and became a super ministry among ministries in the Lee administration. The new combined ministry dwarfed all of the others since it holds the key to their budgets. Although its minister is not the Deputy Prime Minister as it was during the developmental era, the de facto power of the ministry is considerable, signaling a return to a more influential developmental state, although it is not combined with the authoritarian state apparatus as in earlier years.

In the pro-business atmosphere of the Lee administration as well as the creation of the Ministry of Strategy and Finance, businesses and, in particular, the leading *chaebol* have thrived. In fact, the decreased influence of the *chaebol* in the immediate aftermath of the Asian financial crisis and recovery seemed all but history. The leading *chaebol*, in particular the largest Samsung *chaebol*, have done very well in both the global and domestic markets. After restructuring, Samsung became a much stronger global business group and has done exceedingly well in the global electronics market (Kim et al. 2005). Another business group, Hyundai, split into

three major *chaebol*, with all three doing very well in the domestic market. In particular, the Hyundai Motor Company group has become a leading global automobile conglomerate. These are examples of a hybrid business group that combines strong family control and globally competitive professional management. While these two traits were seen as opposite extremes to business group culture, we now see that globally competitive business groups can strategically utilize family control as an effective means of business management. These South Korean *chaebol* are no longer backwater companies with the backward business practices of a small developing country. Quite to the contrary, they are leading global businesses.

Labor, on the other hand, has retrenched during the Lee administration when faced with a pro-business government. Labor unionization and movements have both decreased. The global economic downturn after the global financial crisis, which began in the US in 2008 and led to rising unemployment, hardline policies on labor movements and the onset of the knowledge-based economy have all contributed to a slowdown in labor unionization and movements.

The twenty-first-century developmental alliance in South Korea is a very different one from that of the twentieth century. While the latter was clearly led by the developmental state, with the *chaebol* growing in its influence over time, the former shows a clear domination by the *chaebol*. The developmental state is a limited one with a more democratic developmental alliance, more loosely aligned, since the three key actors no longer share a single-minded drive that led to the rapid economic development of the twentieth century. All three actors in the developmental alliance have grown in their capability, and their alliance evolved over time with each actor exercising their negotiating role in the changing alliance. It should be noted, however, that the developmental alliance where business, in particular the *chaebol*, is dominant has had a positive impact on growth but a negative impact on employment, income equality and the strength of the union movement (see Chapter 6). Finally, the developmental alliance that would be feasible in the twenty-first century based on what can be learned from the South Korean developmental alliance and the changing global political economy shows that: (i) country ownership – that is, the developmental state should take ownership in the process of its economic development vis-à-vis foreign donors; (ii) the democratic developmental alliance among the state, businesses and labor is more in line with the changing global political dynamics; and (ii) capacity building for the alliance partners allows each to perform its requisite role in economic and social development.



## Conclusion

South Korea's successful economic and social development in the latter half of the twentieth century was very impressive among developing countries. First, its economic development has been rapid – it reached industrial transformation from an agrarian to an industrial economy within about two decades, which is faster than Latin American and Western European nations and the US. South Korea's rapid industrialization was characterized by two-digit growth rates during this period. Secondly, its development was attained by the developmental state, with strong interventionist industrial policies that were opposed in the Washington Consensus. This developmental state was also authoritarian, including the suppression of labor rights and wages, and the monitoring and disciplining of the private sector through auditing, tax, intelligence and the police were important instruments of the developmental-authoritarian state. Thirdly, the developmental alliance among the state, business and labor began in a lop-sided manner in the 1960s with the developmental state clearly in charge and businesses secondary partners and labor a silent one; however, this began to change in the 1970s with the businesses gaining more influence, leading to a symbiosis between the state and the *chaebol* at the exclusion of labor into underground labor movements. By the 1980s, the three actors were becoming more like partners with the onset of the democratization movement. The predominance of the developmental state waned and the *chaebol* and labor became much more influential than in the past, signaling a shift toward a more corporatist alliance in the 1990s. This developmental alliance continued to change in the twenty-first century toward a revival of a developmental state, albeit much more limited than its twentieth-century cousin. The *chaebol* clearly took the lead in the context of changing global and domestic political economy.

Due to South Korea's successful economic development in the twentieth century and its recently acclaimed global role as a donor of foreign aid, it is unsurprising that many developing countries of the twenty-first century are looking to draw lessons from its experience. However, it is critical that we examine how the global political-economy contexts have changed in the twenty-first century and that we have a deeper understanding of the divergent domestic political economic contexts faced by each nation. This will help to avoid using the South Korean case as a 'model'. The old South Korean developmental alliance that worked in twentieth-century South Korea may not work in the developing countries of the twenty-first century if the former is directly transplanted to the latter without any

modifications. Thus, this chapter argues that the revised developmental alliance based on both the merits and mistakes of the South Korean experience should be a democratic developmental alliance that is inclusive and sustainable over time. Country ownership in which a development partner can exercise its decisions for its own path of economic and social development also comes out of the South Korean experience. Finally, the capacity of all three domestic actors in the developmental alliance must be strengthened in order to exercise country ownership. These are important, but not easy recommendations for the developing countries and development cooperation partners alike, but the South Korean experience should give hope that development can be attained.

## Notes

1. Lim (1987); Amsden (1989); Wade (1990); Woo (1991); Kim (1997); Ahn (2002).
2. Tu (1984); Deyo (1987); Gereffi and Wyman (1990).
3. Some argue that the developmental state and the authoritarian state are two sides of the same coin, and/or the combination is crucial for successful economic development. However, since there are probably more authoritarian states that do not necessarily succeed in economic development, and authoritarian states that are developmental and vice versa, I argue that we need to separate these two concepts analytically (Kim E. M. 1997).
4. This section is excerpted from Kim (1997: 31–8, 97–135).
5. This section is excerpted from Kim (1997: 135–66).
6. For the balance between urban and rural areas, see Chapter 7.
7. This section is excerpted from Kim (1997: 167–211).

## Part IV

# 12

## Change and Continuity in Social Policy Responses to Economic Crises in South Korea: 1979–81 versus 1997–98

*Jae-jin Yang*

### **Introduction**

Successful industrialization since the early 1960s has changed South Korea from an agrarian economy to a highly industrialized one. As a result, in 2010, South Korea was ranked the 15th-largest economy in the world with a per capita income of \$29,997, surpassing Italy and New Zealand (IMF 2011). Moreover, since it entered democratic transition in the mid-1980s, South Korea has become a ‘fully functioning modern democracy’ (CIA 2008). Based on these economic and political resources, South Korea is now regarded as entering the club of advanced countries and has been touted as a model case of successful economic development. But contrary to the popular image of sustained rapid economic growth, South Korea has suffered economic crises, not to mention cyclical downturns. Among others, the 1979–81 and the 1997–98 economic crises were the most acute. Gross domestic product (GDP) shrank, while inflation and unemployment soared. Income distribution deteriorated and poverty increased, but South Korea has successfully overcome them through a combination of swift economic reforms and social protection measures.

In the 1979–81 crisis, the Korean government pushed forward with neoconservative reforms of relentless stabilization and structural adjustment. The economic reforms were regarded as successful in that they stabilized the inflation-ridden Korean economy and paved the way for market-driven economic development. The 1997–98 crisis also witnessed similar successful government actions. Neoliberal economic reforms upgraded the Korean economy to the extent that Korean firms could easily shed the external shocks of the current global financial crisis and they are even outperforming Japanese counterparts for the

first time in the history of modern South Korea. Although much of the literature contributes to elucidating the successful story of the Korean economy and the role of government in economic hard times, it falls short of exploring the social policy responses to economic crisis in South Korea. This chapter explores this neglected dimension through a comparative case study of the two worst economic crises in South Korea in 1979–81 and 1997–98. First, it presents and compares the policy responses to the similar shock of economic crisis of the conservative government of President Chun Doo-hwan (1980–88) under an authoritarian regime and the progressive government of President Kim Dae-jung (1998–2002) of democratized South Korea. Secondly, it seeks to understand the change and continuity of the social policy choices made by these governments. It asks why the great expansion of the social security system was carried out under the rule of Kim Dae-jung and why it could not solve the social problems associated with the economic crisis. The main argument is that democracy opened a new window of opportunity for pro-welfare political forces during the 1997 Asian financial crisis, but that path dependency of strong principles of social insurance and fiscal conservatism that were espoused and firmly entrenched during the Chun period constrained the Kim Dae-jung government's pro-welfare movement.

The first part presents and analyzes the Chun government's social policy response to the 1979–81 economic crisis, highlighting the fiscal conservatism and strong self-help and insurance principle. The second section discusses the Kim Dae-jung government's response to the 1997–98 economic crisis, focusing on the rapid expansion of social insurance programs and the introduction of the new comprehensive public assistance program; it also analyzes the performance of the social security system. The third section addresses the factors behind the change and continuity of the Korean welfare state and presents some policy implications for developing countries.

## **Social policy responses by the Chun government**

### **The rise of the 1979–81 economic crisis and economic reforms**

After a relatively long period of sustained economic growth, the Korean economy began to falter in 1979. Annual growth rates, which had averaged 9.9 percent in 1962–78, fell to 2.2 percent in 1979–81. Even in 1980, the Korean economy experienced the first GDP contraction by 3.3 percent. Inflation soared to 26.4 percent from an annual average of

16.1 percent in 1962–78. Real growth in exports fell from a 27.4 percent annual average in 1962–78 to 7.5 percent in 1979–82. The current account deficit grew from \$1.1 billion in 1978 to \$4.4 billion in 1981. The unemployment rate increased from a previous norm of 3 or 4 percent to over 5 percent in 1980 (Moon 1988: 68–9).

Exogenous shocks including the second oil shock in 1978–9 contributed to the outbreak of economic crisis, but there was a broad consensus that economic mismanagement during the 1970s was also to blame. From the mid-1970s, South Korea pushed forward with an ambitious heavy and chemical industrialization (HCI) drive. Disregarding the inflationary consequences, from 1977 to 1979, the government of President Park Chung-hee (1961–79) allocated 80 percent of total investment in manufacturing to heavy industries through the state-owned banking sector via so-called ‘policy loans’. Excessive credit expansion created inflationary pressure. It also aggravated labor shortages. Wage increases outstripped gains in productivity. In 1975–80, real wages rose by 13.4 percent, while productivity increased by 11.2 percent. The sharp surge in wage rates in the latter part of the 1970s was later blamed for inflation and a weakening of South Korea’s international competitiveness. Moreover, the HCI drive fostered *chaebol* (family-owned business

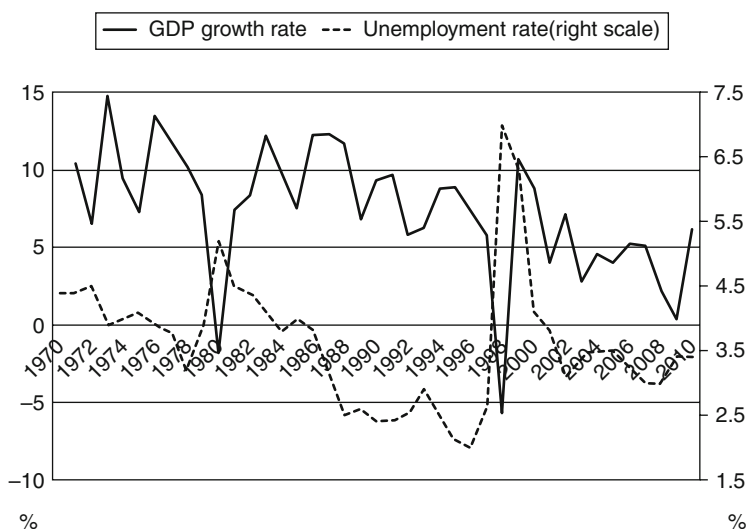


Figure 12.1 GDP growth rate and unemployment rate, 1970–2010

Source: Yang J.-j. (2012).

conglomerates in South Korea) that enjoyed heavily subsidized credit, monopoly or oligopoly market positions and extensive protection. By the end of the 1970s, a handful of the largest *chaebol* dominated the economy. Since small and medium-sized enterprises (SMEs) were victimized as a result of industrial concentration, the issue of trade-off between growth and equity became a source of heated political debate (Moon 1988).

On 17 April 1979, the Park government announced the Comprehensive Measures for Economic Stabilization, which included not only traditional means of slowing credit growth and cutting expenditures, but also a wide-ranging set of structural reforms (Haggard and Kaufman 1995). The measures, however, could not be implemented fully because of a series of traumatic political changes: the assassination of Park in October 1979 and a brief democratic opening, followed by the seizure of political power by General Chun in 1980.<sup>1</sup>

Following a brief period of counter-cyclical policy in its first six months, the Chun government picked up Park's stabilization and adjustment plan and pushed it vigorously. Fiscal austerity was a central component of the program. The increase in government expenditure dropped from 21.9 percent in 1981 to zero in 1984. These figures are quite impressive when compared to average annual growth rates of government spending of 28.9 percent between 1962 and 1969 and 28.1 percent between 1970 and 1979. Fiscal discipline involved severe reductions in expenditures for social and economic services. Substantial fiscal cuts were also made in the Grain Management Fund, through which farmers received average annual grain price increases of 20 percent during the 1970s; increases were cut to 14 percent in 1981 and frozen in 1982. A similar cut was also made in the Fertilizer Account and 30 other public funds. Even the 'untouchable' defense budget was subject to incremental trimming. Fiscal restraint was accompanied by tight monetary and credit controls.<sup>2</sup>

The Chun government also reorganized the industrial policy associated with the HCI drive. Two principles guided the government's effort: the rationalization of six problem sectors and a reduction of economic concentration. The first task included automobiles and power-generating equipment in which problems of excess capacity had emerged. Business lines were consolidated by mergers, particular products were assigned to specific firms and foreign participation was invited. As for the reduction of economic concentration, the government enacted the Monopoly Regulation and Fair Trade Law in April 1981 (Haggard and Moon 1993: 83-4).<sup>3</sup>

## **The consequences of fiscal conservatism and social policy responses**

The economic crisis and fiscal stabilization had negative impacts on social spending. Although the Chun government provided emergency relief for vulnerable populations, including 200 billion won (2.5 percent of the national budget), there was no noticeable program development. Even employment policy was limited and indirect. For instance, the government financially supported only 652 unemployed trainees in 1980, while encouraging employment abroad, especially in the oil-producing Middle East countries, to the extent that the number reached 591,000 in 1980 (KEPB 1981: 79). Even worse, the acute necessity of economic stabilization and experiences of successful fiscal austerity reinforced state elites' fiscal conservatism regarding social expenditure. Sakong Il, then Chief Economic Secretariat at the Blue House,<sup>4</sup> recalled:

President Chun was determined to keep inflation low, since he was very proud of the successful economic stabilization. Against all pessimism and political resistance, inflation was brought down to 3 percent from near 30 percent in a short period of time. He regarded it as the greatest achievement of his government. Therefore, Chun had inbred reservations about social expenditure.

Under such conditions, it is hard to expect any noticeable development in social policy. Although the early years of the Chun regime witnessed a series of new welfare laws, including the Senior's Welfare Act (1981), the Welfare Law for the Handicapped (1981) and the Social Work Act (1983) as he sought to establish his legitimacy, these changes were cosmetic and at best peripheral since they enjoyed no budgetary support. In short, despite increasing social risks associated with the acute economic crisis, the early Chun period was the 'off-season' for the development of social welfare in South Korea (Lee 1993: 73). However, it does not mean that the Chun government did nothing at all: it sought to escape the dilemma posed by its commitment to fiscal conservatism, and the political necessity of providing social welfare, by expanding contributory social insurance programs and promoting corporate welfare. The National Health Insurance Service (NHIS), the most popular program of social insurances, was extended rapidly to firms with 100 or more employees in 1981 and finally to firms with five employees or more in 1986, covering 47.4 percent of the entire population (Yang 2007; Cho 2008).<sup>5</sup> Also, in close cooperation with business,



the Chun government expanded the Industrial Accident Insurance program and promoted corporate welfare. In 1982, it extended coverage to include workplaces with ten employees or more and increased work injury benefits to head off civil suits by undercompensated injured workers, following the policy recommendations made by the Korea Employers Federation (KEF).

The Chun government also encouraged firms to increase voluntary corporate welfare through tax incentives and policy loans. In 1983, the Ministry of Labor set a guideline for the introduction and management of intra-firm welfare funds. In addition, the government announced comprehensive policy recommendations, differentiated by company size, in 1984. For small firms with 30–49 employees, working clothes and workers' asset-building savings programs were recommended as a minimum standard for corporate welfare. In addition, a dining hall, rest rooms and shower rooms were recommended for firms with 50 employees or more. A fitness center, reading room, dispensary and scholarships for workers' children were added to the list of corporate welfare for firms with 100 or more employees. For big companies with 300 employees or more, the list expanded to include a co-op store, a 'friendly' society and commuter buses. Larger companies with more than 1,000 employees were encouraged to offer employee stock ownership and housing loans. The tax incentive was not only available to employers as employees also benefitted from it. For example, the workers' asset-building savings programs were tax-free and 15 percent of the cost of purchasing corporate stocks was eligible for tax exemption (Yang 2004).

Employers' response to the Chun government's initiatives for voluntary corporate welfare was quick and positive. Company-specific welfare was not only a compensation for improved labor productivity, but also an effective attraction to lure skilled workers, given that the government had imposed wage restraints that levelled wages among competing companies. According to Choi (1992), recruitment of workers (59.5 percent) and improvements in labor productivity (19.9 percent) were the two biggest reasons for the voluntary provision of company welfare. Accordingly, the labor cost associated with voluntary corporate welfare grew to account for 6.9 percent of the total labor cost in 1988 (Song 1995). No doubt, the greatest benefits accrued to relatively affluent large company employees. Along with the state's sponsorship, corporate welfarism began to be rooted in the Chun period, signalling a widening gap between workers in large and small businesses in the future.

## Social policy responses by the Kim Dae-jung government<sup>6</sup>

### The 1997–98 economic crisis and social consequences

On 21 November 1997, at the height of the Asian financial crisis, admitting its inability to service its debt payments, the government of President Kim Young-sam (1993–97) requested stand-by loans from the International Monetary Fund (IMF). Foreign reserves held by the Central Bank had dwindled to less than \$8 billion, and the Korean currency rapidly depreciated from 808 won to the US dollar in 1993 to a record low of 2,000 won at its peak in late 1997. As Figure 12.1 vividly demonstrates, the shock of this devaluation caused the economy to contract by –5.8 percent in 1998. The unemployment rate soared from a previous norm of 2 or 3 percent to a record high of over 8 percent in 1998. The government budget balance plunged to –4.4 percent of GDP in 1998 from a string of balanced budgets in previous years. By any account, it was a more serious economic crisis than the 1979–81 crisis. The Korean economy had collapsed again after a decades-long economic miracle (Mo and Moon 1998).

The economic crisis not only undermined economic performance, but also was accompanied by serious consequences for social equality

*Table 12.1* Poverty and inequality pre- and post-economic crisis in South Korea, 1996–99

Poverty/inequality indicator	1996	1997	1998	1999 (first quarter)	1999 (second quarter)	1999 (third quarter)
Headcount poverty index (urban) <sup>a</sup>	9.6	8.6	19.2	–	–	–
Wage income share						
highest 20%	37.9	37.2	39.8	41.3	39.5	39.0
middle 60%	53.9	54.5	52.8	51.6	53.0	53.6
lowest 20%	8.2	8.3	7.4	7.1	7.5	7.4
Wage income ratio <sup>b</sup>	4.63	4.49	5.41	5.85	5.24	5.29
Asset income ratio <sup>c</sup>	–	17.1	–	–	–	38.6
Gini coefficient	0.291	0.283	0.316	0.333	0.311	0.310

*Notes:* <sup>a</sup> Headcount poverty index (urban) is based on consumption expenditure, with a national line equivalent to about 4 International Purchasing Power Parity (IPPP) dollars per day in 1985.

<sup>b</sup> Wage income ratio = share of the highest 20% / share of the lowest 20%.

<sup>c</sup> Asset income ratio = share of the highest 10% / share of the lowest 10%.

– indicates data not available.

*Source:* Moon and Yang (2002: 142).

and welfare. Table 12.1 shows the growing poverty and inequality: while the headcount urban poverty index rose from 9.6 in 1996 to 19.2 in 1998, the levels of overall inequality worsened. The Gini coefficient, a relatively reliable indicator of income distribution, increased from 0.291 in 1996 to 0.316 in 1998 and 0.333 in the first quarter of 1999. Likewise, the income ratio of the top 20 percent to the bottom 20 percent rose from 4.63 in 1996 to 5.41 in 1998 and 5.85 in the first quarter of 1999. The income share of the bottom quintile decreased from 8.2 percent in 1996 to 7.4 percent in 1998 and 7.1 percent in the first quarter of 1999. The economic crisis also increased inequality of wealth. The asset income ratio, which is measured by dividing the highest 10 percent share by the lowest 10 percent share in earning from interest, rent and stock investment, shows a sharp increase from 17.1 in 1997 to 38.6 in the third quarter of 1999.

### **Social policy responses by the Kim Dae-jung government**

Amid the mood of national despair and humiliation generated by the economic crisis, veteran democratic dissident Kim Dae-jung of the Center-Left National Congress for New Politics won the December 1997 presidential election. This election was more than a power shift; it was a landmark event that ushered in a new political landscape, representing the completion of South Korea's long transition from conservative one-party dominance to a pluralist democracy. It also signified the dismantling of the developmental coalition, which was cracking, but remained intact under the conservative Kim Young-sam presidency.

The Kim Dae-jung government undertook drastic reform measures to deregulate and liberalize the economy as agreed with the IMF and World Bank. These reforms are basically threefold. First, restrictions on capital movement and foreign ownership were lifted in an effort to induce foreign investment in Korean assets. Secondly, the government legalized the laying off of workers in order to facilitate corporate restructuring and eventually increase labor market flexibility. Thirdly, the government adopted a series of measures to make the economic system more transparent and accountable, including the introduction of consolidated financial statements and a ban on mutual payment guarantees between the sister companies of the *chaebol*. In short, the core of these policies may be best understood as the rejuvenation of the Korean economy by means of neoliberal reforms (Mo and Moon 1998). But at the same time, the Center-Left Kim Dae-jung government sought to complement the liberalization measures with compensation for those groups that were most at risk. It tightened the nation's loose

social safety net by expanding the coverage and benefits of the four major state-administered social insurance schemes (pension, health, unemployment, industrial accident) and by thoroughly overhauling the public assistance program.

Due to mass unemployment and related social problems, programs protecting individuals against unemployment grew the quickest. The government poured more than 13.4 trillion won (equivalent to 8.6 percent of the government budgets for fiscal years 1998 and 1999 or \$12 billion) into unemployment-related emergency programs, including unemployment benefits, public works, training, employment subsidies, loans and tuition support and food assistance for the children of the unemployed (Office of the National Budget 1999). Most striking is the rapid expansion of the unemployment insurance program, launched in 1995 to cover full-time workers in firms with more than 30 employees. After the crisis, the coverage was extended in January 1998 to those in companies with ten or more employees, and then in March to workplaces with five or more workers, and finally in October to all employees, including part-time and temporary workers. The duration of benefits was gradually extended from two months to one year, while the qualifying period was shortened from one year to three months of work history (Yang 1999).

This pattern was followed by injury insurance at work, which is one of the oldest and most mature social insurance schemes in South Korea. Industrial accident insurance law covering 7.5 million workers in industrial firms with five or more employees was amended to include an additional 1.6 million workers in small businesses with four or fewer employees from July 2000, and with this amendment small business employers were also eligible to be covered (Office of the National Budget 1999). The state-administered pension and health insurance schemes made other impressive expansions. The National Pension Program, which began by covering private sector employees in 1988 and then expanded to cover rural residents in 1995, was extended to provide financial security for old age, disability and survivors for all urban residents aged between 18 and 59 in a single pillar in April 1999 (National Pension Corporation 1999).

A series of reforms of the NHIS also contributed to the tightening of the nation's social safety net. The NHIS, which already covered the entire population in 1989, was unified into a single integrated system. Formerly, it was enforced by 142 insurance associations serving company employees and 227 regional insurance societies for general citizens, including the self-employed, not to mention separate administrations

for public employees and private teachers. Along with the unification measures, the government enhanced the quality of benefits, including a gradual extension of the duration of benefits from 270 to 300 days a year in 1998 to 330 days in 1999 and then to 365 days from 1 January 2000 (Yang 2000). The four major social insurance schemes generally base eligibility on regular contributions. The social safety nets were, therefore, insufficient and inefficient for urban and rural marginals who usually did not have a contribution history. For these poor groups, the Kim Dae-Jung government rejuvenated public assistance programs with fresh legislation to guarantee a minimum standard of living regardless of age or work capacity. Under the old scheme, these allowances were not available to households that included at least one person aged between 18 and 64 deemed capable of working, even if their income was less than the minimum cost of living. Although the new public assistance program, the National Basic Livelihood Security System (NBLSS), required a strict 'means test' and that recipients continue to seek or train for jobs, it marked a turning point from the Elizabethan Poor Law-style of public assistance, in which the state distinguishes the deserving from the non-deserving poor and protected only the former (Office of the National Budget 1999).

## **Discussions**

### **Democracy and change in social policy response**

The Korean cases verify that the impact of economic crises on social policy responses is neither uniform nor unidirectional. In the 1979–81 economic crisis, the Chun government was passive in weaving comprehensive social safety nets. Unprecedented harsh austerity measures were not compensated with social protection for the victims of economic reforms. The government did implement emergency measures such as public works and temporary increases in social assistance and looked to expanded job opportunities in the Middle East. The Kim Dae-jung government also relied on a wide range of emergency measures, including public works into which the government poured 2.5 trillion won (or \$2 billion) to create 400,000 jobs in 1999 (Lee 2001). Unlike the Chun government, however, the Kim Dae-jung government made a considerable stride toward establishing a welfare state in economic hard times.<sup>7</sup> Social insurance coverage was expanded to cover the entire working population, public assistance programs were beefed up and fragmented health associations were unified. These measures went beyond precedential emergency social welfare responses to economic crisis.

Economic logic can explain the different social policy responses to the similar economic crises. South Korea's economic development in the early 1980s was far behind that of the late 1990s. For instance, per capita income in the early 1980s was around \$3,000, whereas it was more than \$10,000 in 1997. Financial resources for new social welfare initiatives were more abundant in the Kim Dae-jung government. However, the causes of the economic crisis were different. The 1979–81 economic crisis stemmed from government overinvestment in the HCI projects. Fiscal austerity was the inevitable policy choice, severely constraining social spending by the government. In contrast, the 1997–98 economic crisis was caused by heavy debt in the financial and corporate sectors and thus government financial capacity was still healthy. The Kim Dae-jung government had more leeway for new social welfare initiatives than did the Chun government. However, economic logic cannot provide direct causality. Politics matter. The pro-welfare turn was associated with a power shift to progressive political forces for the first time in Korean history. The 1997–98 crisis brought about a new landscape for welfare politics. Amid the mood of national despair and humiliation generated by the economic crisis, the progressive political forces of veteran democratic leader Kim Dae-jung took office. His presidency marked a substantial power shift; it was a landmark event that ushered in a new political landscape, representing the completion of South Korea's long transition from conservative one-party dominance to a pluralist democracy. It also signified the dismantling of the developmental state coalition, which was cracking but remained intact under President Rho Tae-woo (1987–93) and President Kim Young-sam (1993–97) after the 1987 democratic opening (Yang 2012).

Under the auspices of the Center-Left presidency, progressive social forces came to the fore in social policy making with the emergence of a pro-welfare social policy network among the Center-Left ruling party, civic movement groups including the most outspoken and influential People's Solidarity for Participatory Democracy (PSPD), and the Korean Confederation of Trade Unions, a democratic peak labor organization. Core members of the policy network shared a basic vision of social welfare and were closely interconnected through an informal web of personal ties since they were all 'comrades' in the democratization movement of the 1980s, a group collectively termed *Undongkwon* (Song 1998). In a word, democracy brought about a new playing ground for pro-welfare political forces. In democracies, as Garrett's (1998) work strongly implied, there is no alternative for politicians but to respond to growing demands on social policies, and electoral competition induces

greater government spending to reduce crisis-generated inequalities of risk and income. These tendencies were stronger where leftist political forces hold onto power (Hicks 1999). South Korea in the late 1990s is a good case in point. Without democracy and a power shift to progressive political forces, continuity rather than change would have dominated social policy responses to economic crisis.

**Strong principle of contributory social insurance, fiscal conservatism and continuity of social policies**

As discussed above, substantial improvement was made during and after the 1997–98 economic crisis under the leadership of Kim Dae-jung. But this change was also accompanied by a path-dependent continuity. Among others, it should be noted that the Kim Dae-jung government's social security system was built on a strong social insurance principle. Although the coverage was legally expanded to cover all workers; without a contribution history nobody could claim benefits. In fact, coverage remained restricted to those regularly employed in the formal sector despite compulsory inclusion of all workers. Since the principle of self-financing was strictly enforced, contribution evasion of payroll taxes was the norm rather than the exception among workers in marginal sectors, who were initially expected to be the beneficiaries of the social security system. According to an OECD report on the Employment Insurance Program, the rate of contribution compliance among eligible workers remained at about three-quarters, and even fell in 2004 when eligibility was extended to daily workers. According to the Ministry of Labor, the compliance rate (not counting daily workers) in 2004 was around 80 percent in workplaces with five or more workers, and 64 percent in workplaces with fewer than five employees. For daily workers, the average compliance rate in 2004 was less than one-quarter. Given these factors, the proportion of all wage and salary earners who were actually insured remained at around half of all workers.

This emphasis on contributory social insurance stems from the developmental state period when the state channeled the government's financial resources into economic development. Social welfare should be provided on a self-financing principle. Contributory social insurance was the solution. Without state funding, the social security system could be launched and run by contributions paid by employers and employees. This reliance on contributory social insurance was reinforced by strong fiscal conservatism firmly rooted in Chun's austerity period. In response to distributive demands, the Chun government gradually but

Table 12.2 Effective coverage rate of social insurances and retirement allowance, August 2008 (percent)

Coverage		Pension	Health	Employment	Retirement allowance
Large firms	Regular workers	99.1	99.7	78.7	98.3
	Non-regular workers	83.7	96.5	74.5	71.5
SMEs	Regular workers	78.3	95.7	63.6	70.5
	Non-regular workers	47.6	88.9	37.0	33.4

Notes: Large firms: 300 or more employees.

SMEs: fewer than 300 employees.

Source: Calculation by author based on Korean Statistical Information System ([www.kosis.kr](http://www.kosis.kr)).

steadily expanded social insurance coverage without any state funding. These tendencies were reiterated in the Kim Dae-jung government although coverage expansion was rapid and the government did not provide any financial subsidy to the target contributors in the marginal sector. Thus, there remained a large loophole in the social safety nets. Such strong fiscal conservatism can also be found in the strict criteria of a tax-based cash transfer program. The introduction of the NBLSS was a remarkable achievement. Upon implementation, the number of recipients and budget tripled. Nonetheless, it was tarnished by a strict means test and a family responsibility rule by which the applicant's children or parents should fall below a certain income threshold.<sup>8</sup> Due to this 'family responsibility' criteria, about 0.6 million households or one million poor people, most of whom were elderly, were not permitted to receive social assistance benefits. The strict means test and benefit criteria of the NBLSS left 70.1 percent of those below the government-set official poverty line unprotected (PSPD 2009).

### Policy implications for developing countries

Clearly, some lessons can be drawn from the two Korean cases. The first is the utility of public works. Not only in the 1979–81 crisis, but also in the 1997–98 crisis, the Korean government relied heavily on public works, which have been an effective counter-cyclical measure for income assistance and employment creation, to stabilize employment. Even in the Kim Dae-jung government, public works functioned as a core safety net for marginal workers due to the limited coverage of unemployment insurance and public assistance. For example, the



government poured 2.5 trillion won (or \$2 billion) into the creation of 400,000 jobs in 1999, while a mere 1.95 trillion won was spent on public assistance programs in the same year (Lee J. h. 2001). Even in the recent global economic crisis in 2009, the government of President Lee Myung-bak generated 400,000 jobs through public works and stabilized employment. But it should be noted that public works were used as an emergency measure to provide unskilled and semi-skilled workers with short-term employment at lower wages than the statutory minimum wage. In order to provide protection for the entire working class, comprehensive measures such as universal social insurances remain indispensable.

The second lesson is the necessity of pre-emptive introduction of social security schemes, especially unemployment insurance and pension programs. In South Korea, they were in place at the time of economic crisis in the late 1990s. Moreover, the Kim Dae-jung government vigorously expanded the social insurance programs, but they could not provide effective income protection for the poor simply because of immaturity. For example, the Employment Insurance Program was designed to provide full benefits (that is, 50 percent of former wages) for a maximum duration of seven months to an unemployed worker with a 22-year contribution record. However, given that it was introduced in 1995, no one could actually claim full unemployment benefits. The National Pension Program was also futile: although it could provide early-retirement pension benefits, it required at least a 20-year contribution record, and since it was introduced in 1988, it could not function as a social safety net for retirees. In short, the introduction and expansion of social security schemes were belated in South Korea, and surely pre-emptive early introduction of income maintenance schemes is recommended for developing countries.

The third lesson is to combine tax-based schemes with statutory social insurance programs. As Table 12.2 clearly demonstrates, the actual coverage of statutory social insurance programs for workers at SMEs was significantly lower than at larger firms. Especially non-regular workers, including short-term contract, part-time, daily and on-call employees, were the least covered by contributory social insurance schemes. Yet since they were at the bottom of the welfare ladder, they should have been the main beneficiaries of the Korean welfare state. Given the general tendency that unskilled marginal workers are the usual victims of economic hard times, constructing social safety nets for the so-called informal sector must become a central priority of the social security system.

As Ginneken (1999) argued persuasively, informal sector workers constitute a large and increasing part of the labor force in most developing countries. Many of them are not able or willing to contribute a significant percentage of their incomes to finance formal sector social insurance benefits that do not meet their priority needs. Therefore, informal sector workers themselves need to set up health and other social insurance schemes that better meet their needs and contributory capacity. There are many policy options from contribution matching to tax-based supplementary social assistance programs that would make up for the gap between the national minimum and disposable income of the victims of economic crisis. I would strongly suggest a government-sponsored matching contribution plan because it is a cost-effective alternative for financially weak developing countries. The matching plan would increase compliance with contributory social insurance programs and by doing so would increase forced savings for a rainy day. Actually, the Korean government introduced matching contribution for social insurances in 2012. The government will provide one-third of total social insurance premiums for low-paid workers and their employers; to date, social insurance contributions have been split evenly between employers and employees. From 2012, for those who earn less than 120 percent of the minimum wage, their contributions will be split evenly between the government, employers and employees. Through this matching scheme, the government expects an approximate 25 percent increase in contribution compliance. It is not a perfect solution, but it is much better than nothing. And with the introduction of matching contributions, the government can strengthen law enforcement to overcome employers' reluctance to pay contributions. Thus, an ideal situation would be a dramatic increase in coverage and forced savings, in turn lessening the financial burden of future governments in times of economic hardship.

## **Conclusion**

This chapter analyzes the social policy responses of two Korean governments to similar economic crises. The responses of the authoritarian Chun government concentrated on emergency measures and no further systemic development followed. Preoccupied with fiscal austerity, the state restrained itself from funding social security schemes, not to mention introducing new programs. Gradual expansion of the existing social insurance schemes and encouraging corporate welfare were the remaining policy options for the Chun government. In contrast, as the

progressive Kim Dae-jung seized power in 1998, pro-welfare forces used the newly opened window of opportunity to push forward with significant welfare reforms. These reforms went beyond functional necessities to compensate the victims of neoliberal economic and labor market reforms. The welfare reform agenda conceived and initiated during and after the transition to democracy was re-energized by the pro-welfare forces that emerged during the Kim Dae-jung years. In short, democracy and partisanship helped to expand the Korean welfare state in economic hard times.

Nevertheless, the government's pro-welfare policies could not break the 'old mold' based on strong contributory social insurance principles. Thus, the great coverage expansion was tarnished by high levels of contribution evasion among the underprivileged and further by immaturity itself. However, this does not mean that the social welfare initiatives by the Kim Dae-jung government were useless. In fact, fighting against the current global economic crisis, the subsequent Lee government could enjoy a larger reservoir of policy tools such as the Employment Insurance Program, which was expanded rapidly under Kim Dae-jung's presidency. The Lee government was swifter and more effective in social policy responses in stabilizing the labor market (ILO 2010/2011). Still, it is criticized for its inability to tackle a growing gap between regular workers in large firms and non-regular workers in small companies. South Korea's recent experiences suggest strongly that pre-emptive actions to construct the social security system are desirable, and must be complemented with tax-based schemes in the liberalized labor market. Social insurances alone will end up with a large loophole in the social security system, especially in the developing countries where a large informal sector and an unregulated labor market coexist. However, institutional redesign is not feasible in most cases. Thus, this analysis suggests a government-sponsored matching contribution plan for low-paid workers to induce increased compliance and to provide grounds to strengthen law enforcement to tackle contribution evasion by employers in the informal sector.

## Notes

1. Chun came to power first by undertaking a mutiny within the military in December 1979, and then through a quasi-military coup in May 1980.
2. Moon (1987); Haggard (1990); Haggard and Moon (1993); Haggard and Kaufman (1995).

3. Special emphasis was placed on attempting to curb conglomerate concentration through practices such as cross-investment, reciprocal buying and cross-subsidization among *chaebol* subsidiaries. Other significant measures included liberalization of the financial sector and trade. The state-owned commercial banks were privatized and restrictions eased on imports and foreign investment.
4. Personal interview, 17 August 2007, Yang et al. (2008:126).
5. Several pilot programs were also conducted to extend coverage to farmers and fishermen in the rural areas and the self-employed in cities. Yet, Chun blocked a movement in the Ministry of Health and Social Affairs to integrate segregated health insurance societies in order to enhance solidarity and efficiency. He replaced the Minister of Welfare and Society and sacked Cha Heung Bong and other high-ranking bureaucrats who argued for the idea of integration; businesses opposed to the integration movement were critical of his decisions (Yang 2007: 86; Cho 2008).
6. This section is drawn from Yang (2012: 55–8).
7. Ramesh (2003); Kuhnle (2004); Kim (2006).
8. If the income of an applicant's close relatives is below 130 percent of the national minimum standard of living set by the government, then the applicant is eligible for public assistance. If not, the applicant is ineligible because close relatives are regarded as capable of taking care of the applicant.

# 13

## Effective but Uneven: Korean Development from a Gender Perspective

*Jinock Lee*

### Introduction

While the dominant analyses of the South Korean development experiences such as the developmental state and welfare developmentalism have taken little notice of gender inequalities, the gendered nature of the development process can be seen clearly in a number of ways, including: (i) in the early female-led, export-oriented industrialization (EOI) under the repressive labor regime of the 1960s and 1970s;<sup>1</sup> (ii) in the control and manipulation of women's reproductivity in childbearing through state intervention<sup>2</sup> in the male-biased corporate welfare regime that has protected male workers in core industries (Razavi and Hassim 2006); (iii) in the disproportionate effects on women of the deepened flexibilization of employment and rising social insecurities in the labor market after the financial crisis in the late 1990s (Chang 2000; Cho 2000); and (iv) recently in the intersecting inequalities of gender and income in emerging welfare policies (Peng 2009, 2011; Chang 2010). In particular, the minimalized expenditure of the state on social welfare has left the costs of reproduction to be borne largely by women. In this regard, it seems plausible to view South Korea's miracle as reliant on women's multilayered and undervalued work.<sup>3</sup> However, those critiques on the gender asymmetrical Korean development have tended to be rather patchy, analyzing each gendered feature of development in isolation, while in reality they are all closely interconnected. Furthermore, the approach to the Korean development from such a feminist perspective often offers little explanation of how women have straddled the production and reproduction realms and how their agency has been integrated, albeit partially, into the development process. Due to persistent gender inequality, women in South Korea's development process

tend to be portrayed as victims rather than as agents of economic and social development. This leads to a failure to appreciate the context in which the actions of women have helped to make Korean development policies effective and what opportunities and limitations women have faced in the development process; though raising this point is by no means intended to ward off criticism of the gender imbalances in the Korean development experience.

While seeking to draw some policy lessons from the Korean development experiences for other developing nations, this chapter attempts to make a comprehensive historical and institutional analysis of gendered formation of social policy in South Korea, particularly – though not exclusively – focusing on the regime of President Park Chung-hee, where the prototypical relationship between women and the state in the development context was forged. Herein, the concept of social reproduction, which is politically, socially and culturally determined (Picchio 1992), will be helpful in mapping out how gender is constituted by the Korean development process. Bridging between production and reproduction economies, between social and economic policies, between the public and the private spheres and between traditional and modern values, women have been integrated, co-opted and marginalized in the Korean development context.

### **Mapping the linking and de-linking of women in Korean development**

Herein, social reproduction is referred to as ‘both biological reproduction of the species (including its ecological framework) and ongoing reproduction of the commodity of labor power’ (Bakker and Silvey 2008: 2). It incorporates a range of activities, behaviors, responsibilities and relationships that ensure the daily and generational reproduction of the social, emotional and moral values of society as well as the physical reproduction of people. Thus, the central notion of social reproduction lies in the interrelationship between production and reproduction, spanning various institutions such as households, markets, and the third sector as well as the state (Picchio 1992), which is key to the ways that the public–private realms have co-evolved under the linkage and articulation of economic and social policy, and how different levels of institutions and various actors have coped with social changes occurring in the development process. In contrast with those approaches emphasizing the stark dichotomy between production and reproduction in which only the production sphere is valorized (Bedford and Rai 2010: 7),

the concept of social reproduction helps us to explain care, which is defined as a range of activities and relationships that promote the physical and emotional well-being of people 'who cannot or who are not inclined to perform these activities themselves' (Yeates 2004: 371 cited in Kofman 2012: 143) in the wider context of economic and social development, including both production and reproduction (Razavi 2011; Kofman 2012).

This framework also aids understanding of a key logic of welfare developmentalism, that is, 'transfer of costs' between the public and the private as well as between economic and social policies (Folbre 1994). The Korean welfare regime has often been termed as a productivist welfare model in which social policy is subordinated to the priority of state-directed economic development.<sup>4</sup> Under this regime, almost no alternatives to family care have been provided, devolving individual welfare and care responsibilities to the family. Access to the labor market has been utilized as a major resource for meeting welfare needs, leading to 'minimal social rights with extensions linked to productive activity, reinforcement of the position of productive elements in society, and state-market-family relationships directed toward growth' (Holliday 2000: 708).

Regarding the family-centered nature of the Korean social policy regime, the importance of culture has become contentious. While the Confucian characterization of these features dominates discussion of the welfare regime in East Asia,<sup>5</sup> the approach of welfare developmentalism has made vast efforts to 'deftly bypass culturalist landmines' (Woo-Cumings 1999b: 26). While successful in pointing out the problems of Confucian characterization such as the overstatement of the unitary, static and deterministic character of culture, the welfare developmentalist approach has resulted in a decontextualization of the social elements of the development process and an underestimation of the importance of the family as social institution and ideology.<sup>6</sup> This is a significant shortcoming since as Goodman and White (1998: 16) point out, 'cultural explanations play a very important role as ideological discourses which reflect and rationalize certain basic developmental motives and political forces'. Furthermore, without considering cultural aspects of the economic development process, one is likely to misjudge women's contribution to industrialization and economic growth since cultural values influence state policies and industrial practices (Truong 1999). Given that the family 'embodies strong ideological and normative dimensions or a social imaginary that defines the rights and responsibilities of its members, and identifies who should provide care, as well as the legitimate recipients, and the best location for such provision' (Razavi 2011: 884–5) and that reproductive labor

in the family sphere ‘inscribes codes and norms of identities and divisions of labor through parenting practices’ (Peterson 2003: 27), it is also useful to pay attention to the role of culture in constructing agents and institutions, which is called ‘cultural turn’ in social policy studies with its emphasis on agency and social construction (Oorschot et al. 2008).

Culture as a set of common values, norms and attitudes shared by the majority of a national population is a determinant of the construction of social policy, but is ‘external and enforcing only to a degree, and is not a totalitarian force, (it is) open to manipulation, negotiation, variety and change’ (Oorschot et al. 2008: 5). As such, the Park regime displayed an ambivalence toward Confucianism; while it was re-emphasized for the purposes of nation building, maintenance of political power and mobilization of social resources for economic development, it was quickly written off when its values conflicted with the modernization of the nation (Chun 1997).

Founded on the blending of nationalism with militarism, the Park regime emphasized the Confucian doctrines of loyalty and filial piety to reinforce the hierarchical order between the ruler and the ruled, between parents and children and between husband and wife (Chun 1997).<sup>7</sup> This effort to reinvent the tradition took shape in the reconfiguration of gender relations, placing stress on women’s role as ‘wise mother and good wife (*hyunmo-yangcheo*)’<sup>8</sup> in the modernization of the nation, and reassured the privileged position of men in public life. Through the ideal of wise mother and good wife, the family is rendered as the site of personal care, and so the social costs of reproduction are borne by women (Peng 2009: 3).

Women’s care work has not been confined to the private sphere, but rather has been mobilized into community development and welfare provision for those whose needs could not otherwise be met by society, and in this regard it can be argued that the Confucian ethic also has been employed as ‘a rationale for (the) laissez-faire approach to the problems posed by dependent people’ (Palley 1992: 801 cited in Shin and Shaw 2003: 331). However, Confucianism in the development context has been constantly reputed and recomposed as can be seen in the conception of modern motherhood with fewer children in a smaller family and in the role of women villagers in the family planning program and the *Saemaul Undong*, explored in this chapter. While motherhood has been refashioned to suit the goals of development and straddle the public and the private spheres, the use of Confucian doctrines in this process has been wholly selective.<sup>9</sup>

The formation of quasi-governmental women’s organizations at the grassroots level and the mobilization of existing women’s organizations



were also important parts of the Park regime's policy efforts to effect social change. Again, such participation of women in governance challenged and recodified the traditional values of Confucianism. The activities and voices of such organizations in the delivery of social services helped to anchor the developmental policies in society and, therefore, make them effective in practice. In so doing, women had a new opportunity to participate in public as subjects of nation building. In other words, the salient gendered formation of social policy governance has not been only the work of the authoritarian state, but also the joint product of the state and women's participation in the state policy. As a result, the state took 'a regulatory role rather than fiduciary or provision' (Kwon 1998 cited in Gough 2004: 183–4) in the Korean welfare developmentalism in which women have had key roles of both bearers of and challengers to the processes of social reproduction.

### **Women's policy: the construction of modern motherhood**

Until the National Assembly ratified the Convention on the Elimination of Discrimination against Women in 1984, issues relating to women's welfare were dealt with by the Department of Married Women (*Buneyoguk*) under the Ministry of Health and Welfare. As the title of the department suggests, women were ascribed gendered roles in the policy domain, conceptualizing them as either a wife or a daughter of a male household head. During the Park regime, government policy concerning so-called 'women's issues' was divided into two distinct categories: 'Protection' and 'Enlightenment' (Hwang 2001). Various social policy measures under the jurisdiction of the Department of Married Women, including the Prostitution and Prohibition Act, the Child Welfare Act and the Livelihood Protection Act of 1961, focused particularly on 'women needing protection' such as prostitutes, war widows, unmarried mothers, female household heads and women who had left their families. There were also Enlightenment policies consisting of education programs for women to encourage them to exercise their suffrage rights, eradicate female illiteracy, promote domestic sanitation, enhance women's status and rationalize domestic life (Kwon 1995: 5).

Women's Halls<sup>10</sup> were built for educational purposes to enlighten women as part of the modernization project with a strong emphasis on their roles as good mothers. The large number of Women's Halls built across the country highlights the significance of the Enlightenment policies in which women in their gendered role were used as subjects in the modernization of the nation embodying modern values of planning,

financial management and efficiency in the domestic sphere (Shin 2000 cited in Kim W. 2005). The Enlightenment policies placed great stress on having fewer children and on thrift and savings by housewives, supported by campaigns to keep household accounts and to abolish housemaids.<sup>11</sup> The context of the campaign to abolish housemaids has shown many implications of how women were situated in the modernization project of Korean development.<sup>12</sup> First, housemaids were counted in the group of 'latent prostitutes' in the statistical data kept by the Ministry of Health and Welfare (Kim W. 2004: 206). Secondly, it was presumed that the presence of housemaids would be an obstacle in the formation of modern motherhood, which was essential to the reconstruction of patriarchal order and the male breadwinner model in the Korean society, particularly in the aftermath of the Korean War from 1950 to 1953 when mother-centered families became common.<sup>13</sup> Thirdly, imposing austerity measures on housewives was seen as crucial for the pursuit of economic development and maids were viewed as an obstacle to this frugality. Lastly, while promoting a nuclear family model<sup>14</sup> that stressed the reduction of the birth rate as part of the modernization project, the campaign reasserted that it should be the mother who takes the primary role in childrearing and children's education. As such, the abolishment of maids was a strategy for the establishment of 'modern motherhood', reasserting the role women in the private sphere to fit the national project for modernization and economic development.

The emphasis on motherhood with the ideology of wise mother and good wife demonstrates women's perceived role in South Korea's development; women were considered as reproducers of the nation in the process of contestation between culture and tradition, on the one hand, and modernization on the other. Also, they were targeted as idle laborers to be mobilized for the economic development and the provision of social service. And such maternalist<sup>15</sup> notions have been embedded in the architecture of policy design to incorporate women in the development process.

### **Family planning program: reproduction control as a growth engine**

Among South Korea's development policies it is the population policy where women appeared most prominently, as population growth was seen as a major obstacle to economic growth. The Supreme Committee for Nation Rebuilding, established soon after Park came to power through a coup in 1961, declared the intention to enforce a strong

national population policy (Yang 1986 cited in Lee 1989), and the resulting National Family Planning Program was an archetypical example of social policy governance in South Korea. It was undertaken through cooperation between the governmental bureaucracy and non-governmental organizations (NGOs) of the Planned Parenthood Federation and the mobilization of women at the grassroots level under the surveillance of the Ministry of Health and Social Affairs. In 1964, an increased number of family planning fieldworkers, consisting mainly of nurses and midwives, were dispatched to 1,473 health subcenters at the town and the township levels. Furthermore, intrauterine devices (IUD) were introduced and mobile teams were organized to implement the devices in remote areas (KIFP 1978). In 1968, with the aid of \$230,000 from the US Agency for International Development (USAID) and free oral contraceptive pills from the Government of Sweden, 16,868 Family Planning Mothers' Clubs (FPMCs) were organized at the grassroots level in rural areas throughout the country. In 1973, the Mother and Child Health Act was passed, legalizing induced abortion under the condition that the pregnancy was diagnosed as detrimental to the health either of the mother or the fetus. In 1976, a social system of incentives and disincentives was introduced to promote family planning, including income tax exemptions for families with no more than two children and public housing priority for those who accepted sterilization. Also, the Family Law that had denied women the right to be the household head since 1962 was revised in 1977. In 1980, a reduction of delivery fees for mothers who accepted sterilization after birth was introduced, and was further strengthened in 1982. As a result, there was a drastic decline in the fertility rate from 6.1 in 1960 to 4.5 in 1970, 2.8 in 1980 and 1.6 in 1990.

This brief overview of the family planning program shows the wide range of approaches that the Korean government undertook to change people's behavior regarding fertility. It should also be noted that the measures were target-driven and heavily weighted toward women. As illustrated in Table 13.1, the target number of (tubal) sterilizations for females, 214,200 in 1987 and 180,000 in 1988, was more than twice as high as that for males, 93,300 in 1987 and 80,000 in 1988. Furthermore, 70 percent of men who accepted sterilization agreed to it during military service, where the acceptance of sterilization offered the benefit of discharge from Reserves Training (Lee 1989). Moreover, abortion, defined as 'menstrual regulation', was recommended to women who were under nine weeks pregnant. Though the Mother and Child Health Act stated that abortion should be restricted to occasions of life hazard, the average

*Table 13.1* Targeted number of contraceptive tools for distribution, 1987 and 1988 (thousands)

Contraceptive tools	Goal in 1987	Goal in 1988
Sterilization: total	307.5	260.0
Sterilization: vasectomy (male)	93.3	80.0
Sterilization: tubal (female)	214.2	180.0
IUD	250.0	250.0
Condoms (monthly)	140.0	125.0
Oral pills (monthly)	40.0	30.0

*Source:* Ministry of Health and Society's Family Planning Programme (1988) cited in Lee M. K. (1989: 64).

number of abortions increased fourfold within 20 years so that the total abortion rate and the total birth rate became equal at 2.9 in 1979 (PND Korea 2000 cited in Lee J. O. 2004: 178). Therefore, women's role in biological reproduction was controlled and manipulated by the target-driven population policy on the pretext of economic growth and various measures to mobilize voluntary participation of women's organizations such as the FPMCs and the Korean National Council of Women (KNCW).<sup>16</sup> The involvement of women's organization is not entirely dependent upon the government's policies. It can be also argued women themselves wanted to have more control over their life cycle and to reduce time spent on childbearing and childrearing. As the modernization process brought an increasing emphasis on the education of children, the increasing cost of rearing a child also brought pressure to reduce the number of children (Bae 2012). However, the state mobilized and controlled the voluntary sector by locating the FPMCs under a tight bureaucratic structure and forging a cooperative relationship with KNCW in order to meet its goal of economic development. Furthermore, women's participation has been mainly in the delivery of what was given by the state, not in the decision-making process. Such a corporatist relationship between the state and women leads to preempting women's needs for the sake of the perceived national interest.

### **Women's organizations in the formation of social policy governance**

It is interesting that in South Korean development women played a considerable role in voluntarily giving their unpaid labor for the benefit of state-led development programs. Women were an important partner

of the mixed governance of the Korean state for social and economic development (Ringen et al. 2011).<sup>17</sup>

First, FPMCs, while acting as outreach organizations for family planning programs by distributing contraceptives and providing information and education in villages, took roles beyond the family planning programs. Some of the funds allocated for managing the FPMCs in each village were spent on activities such as group-income generation, the construction of village halls, the improvement of kitchen sanitation and facilities, the establishment of village cafeterias, the provision of festivals for the elderly in the village and assistance for poor neighbors (Chung 1987). On the whole, the achievements of the FPMCs in family planning, the use of women's unpaid labor for community development and their vertical management structure highlight the importance and effectiveness of women's organization as a channel through which to accomplish national projects.

All of the projects and activities even including the *Saemaul Undong* (new village movement) and political elections should be planned and carried out with the agreement with the leaders of the FPMCs; otherwise, they are very likely to fail (a village leader quoted in Chung 1987: 17).

The performance of the FPMCs is argued to have inspired Park to launch the *Saemaul Undong* throughout the country in order to mobilize voluntary labor for community development and the modernization of rural areas<sup>18</sup> (see Chapter 7).

The influence of the successful performance of women's organization on the launch of the *Saemaul Undong* is highlighted by the fact that both a female and a male leader for each village were elected by villagers and the organization of women villagers and the responsibilities were given to the female leader. As women were very keen for improvements in living conditions, it is apparent that many were eager to participate in the *Saemaul Undong*. Furthermore, women's activity in the *Saemaul Undong* extended to income generation in organizing communal markets to help villagers buy goods cheaply<sup>19</sup> and reclaiming wasteland. These activities became sources of rural household income as well as an operational fund for *Saemaul Undong* projects, which led to the formation of village credit unions. Female *Saemaul Undong* leaders placed a strong emphasis on the campaign to provide a bank account for each individual in the village (Yu 2001; Choi 2011). Regarding the importance of women's devotion and dedication to the success of the

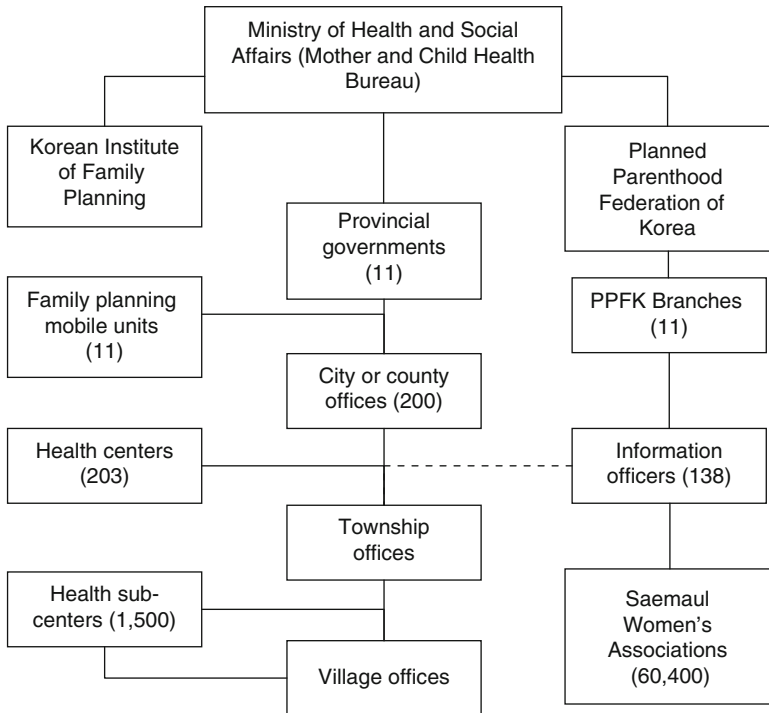


Figure 13.1 Organization network of National Family Planning Program

Notes:

Line of authority \_\_\_\_\_

Line of liaison - - - - -

Sources: KIFP (1978); Lee J.O. (2004:172).

*Saemaul Undong*, Park paid tribute: 'In all the villages with successful movements the female members' role in the village was great without exception' (1978 cited in Kim D. Y. 2004: 200). Such recognition was furthered through the introduction of a competitive system with the endorsement of government awards to villages as well as leaders.

While the *Saemaul Undong* attempted to resolve the conflict between traditional community values and the modernization project, the resolution occurred through stretching women's working hours. Although self-sacrifice and devotion to community was the ethos of the *Saemaul Undong* for both men and women, without reassessment of women's traditional reproductive role, women could not help but undertake the triple burden of caring, farming and community work (Yu 2001: 81-5).

Despite the time saved by the renovation of housing and construction of communal facilities for cooking and laundry, they suffered severely from time poverty. Furthermore, many female members, particularly the leaders,<sup>20</sup> tried to silence the complaints of their husbands and parents-in-law about their public activities in the *Saemaul Undong* by completing their housework in the early morning before going out for community work as well as by turning to the national rhetoric of modernization and economic development to justify their activities (Yu 2001). At the same time, they attempted to re-emphasize their position as a daughter-in-law under the traditional rhetoric of filial piety by organizing events such as village parties for the elderly and group holiday tours for their parents-in-law (Choi 2011: 133–4).

Although the public recognition gained by the leaders of the *Saemaul Women's Associations* and their strenuous efforts to make leadership accountable to their constituency should not be underestimated, the *Saemaul Undong* seems to have made little improvement in the living conditions of women in the rural society, and the *Saemaul Women's Associations* seem to have failed to enhance women's status in general. While the size of the primary sector, which includes agriculture, fisheries and forests, as a proportion of overall employment was halved in two decades from 58.6 percent in 1965 to 24.9 percent in 1985, women's proportion of the primary workforce grew steadily from 41.6 percent in 1970 to 43.8 percent in 1980, 45.0 percent in 1990 and 51.2 percent in 2000 as the significance of their role in agriculture increased (Oh 2004). Despite this growth, female farmers still tended to provide mostly unpaid family labor and their labor remained unskilled, while the male household heads claimed ownership of land and machinery (Gills 1999). Furthermore, female farmers had very little decision-making power; for instance, when it came to the buying and selling of farmland, research has showed that such decisions were made solely by husbands in 32.7 percent of cases and mainly by husbands in 46.5 percent of cases (Agriculture Economy Research Institute 1992 cited in Oh and Choi 2009: 235).

The relationship forged between women's organizations and the state under the authoritarian regime lies in the corporatist ideology that blurs the boundaries between state and civil society (Ringen et al. 2011), and the Korean state has wielded great influence over women's organizations by subordinating them into the government bureaucratic structure (Figure 13.1). Their agendas have been directed and even their rise and fall have been determined by the decisions of the state

(Kim H. K. 1999). In this sense, the devotion of women to the *Saemaul Undong* has been co-opted by the state for the demands of social and economic development. While the provision of welfare in the residual approach to the needy always has been supported through unpaid care work, the state endeavored to mobilize women into such social care work in the name of voluntarism (Yu 2003). For instance, in a study of women's organizations in Gyunggi Province, where about 87 percent of women's organizations were affiliated with KNCW and 71.4 percent belonged to the *Saemaul* Women's Association, it was found that 76.5 percent of women's organizations had aims including the provision of social welfare and 59.2 percent focused their major activities on social welfare (Kim H. K. 1999). Examples of such voluntary activities include: (i) care provision for child-headed households, the elderly, the disabled and the destitute; (ii) counselling services; (iii) provision of basic material needs and food; (iv) distribution of information on prescriptions and health check-ups; (v) support for health maintenance; (vi) provision of employment-related advice; and (vii) childcare (Seok 1996 cited in Yu 2003).

Although it is difficult to measure how much the voluntary work of women's organizations has contributed to social welfare in South Korea, this illustrates how such organizations have been incorporated into social policy governance and their work has been utilized in the social welfare sector, based upon maternalist notions embedded in the policy design. Furthermore, such maternalist norms imposed on women were reiterated by predominant employment practices that limited women's participation in the labor market and thus increased women's dependency on men and reinforced the male breadwinner model.

### **Reorienting the male breadwinner model**

As women were assumed to be 'cheap' labor, with 'nimble fingers' and 'docile' with regard to their employment relations (Elson and Pearson 1981), the jobs newly created by EOI in the 1960s and 1970s were mostly filled by an influx of young girls who migrated from farm backgrounds: aged 15 to 24, single with low levels of education and usually the heavy burden of providing support for their poor families (Koo 2001). The practice of hiring only young and single women in the manufacturing sector met serious obstacles in the early 1980s, since it was difficult to find such workers at low pay as the level of women's education had risen significantly; the percentage of women aged 25 years and above who had graduated high school more than



doubled from 8.4 percent in 1975 to 20.2 percent in 1985. As a result, the recruitment of females in the manufacturing sector was slowly extended to married women from the early 1980s (Tables 13.2 and 13.3). Although the revision of the Child Welfare Act in April 1981 shifted the focus of care services from only those children without parental care to every child by stating that responsibility for childcare belonged to '(1) all the nation and (2) the state and the local government' (Article 3438, Clause 3 of 1981, Child Welfare Act, Oh 2007: 46), there was no significant improvement in the institutions for social reproduction, and in particular for care.

Another factor to change the nature of the single, unmarried female-led industrialization was the emergence of heavy and chemical industrialization (HCI) as a new growth engine in the 1980s. Despite a rise in the proportion of the female labor force in HCI, representing 37.2 percent of women's employment in the manufacturing sector in 1985, the rate of female participation was significantly less than in light industries. Accordingly, this industrial structural change resulted in a firm establishment of the male breadwinner model through various channels. First, the focus of vocational training in HCI was placed heavily on men. Park was particularly keen to promote vocational high schools for technology/engineering through grants and incentives for those who acquired a skill certificate and encouraged the private sector to cooperate with schools through an array of legislation such as the Military Service Cases Law (Moon 2005; also see Chapter 8). As a result, the number of vocational schools for engineering rose from 54 in 1968 to 90 in 1978 and the number of students from 40,333 to 175,530 over the same period (Kim 2003), producing the bulk of the

*Table 13.2* Percentage of female employees by employment status, 1963–2010

Employment status	1963	1970	1980	1990	2000	2010
Self-employed <sup>a</sup>	22.2	21.0	23.2	18.8	16.2	12.8
Unpaid family workers	56.0	51.2	37.3	24.6	19.2	10.9
Waged workers	21.8	29.0	39.4	56.6	61.5	72.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Note:* <sup>a</sup> Self-employed includes employers and independent businesspeople, excluding unpaid family workers who work for family- or relative-owned workplaces, and waged workers including non-standard workers, though the distinction of these three categories are muted. For instance, golf caddies, door-to-door salespeople and insurance salespeople, which are female-dominated professions, are in the category of the self-employed.

*Source:* National Statistics Office (1994).

Table 13.3 Percentage of labor force participation by gender (aged 15–64), 1963–2010

Gender	1963	1970	1975	1980	1985	1990	1995	2000	2005	2010
Female										
Total	37.0	39.3	40.4	42.8	41.9	47.0	48.3	48.6	50.1	49.4
Married	–	–	–	40.0	41.0	46.8	47.6	48.7	49.0	49.1
Not married	–	–	–	50.8	44.7	45.6	50.4	47.0	53.6	50.5
Male										
Total	78.4	77.9	77.4	76.4	72.3	74.0	76.4	74.4	74.6	73.0
Married	–	–	–	88.3	86.8	88.2	88.8	84.3	83.8	83.0
Not married	–	–	–	52.4	43.5	43.2	49.6	50.2	53.6	51.3

Note: – indicates data not available.

Source: National Statistical Office (1994).

skilled labor required to further the economic development strategy focused on HCI. These vocational programs and schools were for the most part available only to males. Most vocational schools available to females were generally for accounting and commercial skills. Also, a 'national skill certificate' was introduced in 1975, but women accounted for less than one-tenth of all those who completed the certificate (10.9 percent in 1976; 8 percent in 1980) and 91 percent of the qualifications attained by women were in the communications sector such as switch board operation, data processing and office automation (Shim 1988).

Consequently, even those women employed in the heavy and chemical industries tended to undertake jobs that did not require official qualifications and, therefore, tended to be concentrated in labor-intensive sectors such as electronics and rubber manufacturing (Shim 1988). This led to large wage discrepancies in the manufacturing industries where on average women earned only 50.4 percent of male earnings in 1986 (Shim 1988). In addition, 90 percent of vocational training given to women in manufacturing was focused on increasing productivity through strengthening existing skills rather than generating new skills. In this sense, Kim (2003) argued that such vocational programs and the strategy of HCI have contributed to the consolidation and perpetuation of the gender division of labor in the manufacturing sector, with female labor unskilled and marginalized in contrast to male labor skilled and central to development planning. Given that in the shift from EOI to HCI and accordingly the production of a highly skilled labor force played a crucial role in the full-fledged economic development in South Korea, the vocational education and training programs that made such a shift possible have played a similar role in recomposing and reinforcing the gender-imbalanced economic structure. While many men working in the heavy industries became skilled, women undertook marginal occupations and, therefore, became replaceable and disposable.

Secondly, in addition to the male-biased vocational program, the marginalization of female workers in the economic structure was reinforced through the integration of military service into the organization of the labor market. Moon (2005) identified three ways in which the paid economy was associated with military service. In the process of recruitment for business corporations, the completion of military service was specified as a criterion for selection of applicants through the Special Measure Law enacted in 1973, and this practice continued until the Equal Employment Law was introduced in 1988. As well as the

recognition of military service as work experience, granting higher pay and faster promotion to veterans became conventional practice in private firms. In addition, Article 5 of the Employment Support Act granted 5 percent of full marks as a bonus on public employment exams in the government, public corporations and other state-sponsored organizations to post-conscripts who had completed the 'sacred duty of national defence'. This act was initially created in 1961 by the Supreme Council for National Reconstruction to lift the national military's morale and was reaffirmed, strengthened and gradually expanded through law revisions in 1984 and 1997 (Moon 2005).<sup>21</sup>

Thirdly, the long working-hour culture<sup>22</sup> that has been ubiquitous in Korean workplaces, regardless of gender, is also a complementary factor strengthening the male breadwinner model. In particular, long working hours with day-and-night shifts, which is common practice especially in the car industry, serve to reinforce the gendered division of labor. Rather than participating in the labor market, women are expected to cope with such long day-and-night shifts of their husbands, leading them to take full-time care of the home and dependent on their husbands' income (Cho et al. 2004).

Fourthly, the corporate-based welfare regime that was further expanded in the transition toward HCI has a salient gendered dimension. With very low public expenditure on social provision, wages and welfare benefits provided by corporations play a significant role in social security. However, there has been a great discrepancy between small and medium-sized enterprises (SMEs) and large enterprises in both wage levels and welfare benefits.<sup>23</sup> While the blue- and white-collar workers in the big business sector have benefitted from both major insurance programs and corporate welfare, marginalized workers in the periphery or informal sector have been excluded from both welfare benefits (see also Chapters 6 and 12). Women are more likely than men to work in SMEs or the informal sector and, therefore, receive very few corporate-based welfare benefits.<sup>24</sup> Thus, income inequalities arising in such dualistic labor markets have been intersecting with gender inequalities.<sup>25</sup> Furthermore, the shift from EOI to HCI has been accompanied by a shift in the leading actors and dominant sectors of the labor union movement, from female to male and from SMEs to large enterprise-based unions. As a result, a growing large enterprise-based trade unionism in the union movement has contributed to enlarging the discrepancy in social security between SMEs and large enterprises, and accordingly widening the gap between female and male workers in the dualistic labor market system (Ahn 2002).<sup>26</sup>

## Conclusion

Given the significance of South Korea's transition to democratization as well as its remarkable economic growth for international society, it is important to give an integrated analysis of the complete development experience. The gendered path of South Korea's development not only shows the implications of economic development for gender relations, but also demonstrates the multifaceted dynamic nature of the development process per se. Most of all, in South Korea the socially constructed maternalist norms played a crucial role in the economic and social policy framework of the authoritarian regime. It is interesting that, as seen in the analysis of women's policy, the maternal norm has been redefined as a 'wise mother and good wife' that embodies both values of tradition and modernity, and advances the goal of economic development.

Furthermore, women made a great contribution to South Korea's socio-economic development through participation in state-led social policy governance such as family planning programs and the *Saemaul Undong*. In so doing, they have made it clear that women's integration in the development process is essential to effective development. Women have thus gained opportunities in order to enter the public realm and be recognized as members of the nation, and women's organizations have been regarded as partners in the implementation of state policies. However, such opportunities have been limited to a small number of women and women's organizations often have been guided, controlled and co-opted by the state merely as an instrument for the implementation of social policy. In spite of women's active participation in the development process, women remain confined to the maternalist framework and women's needs and interests have been pre-empted by the state, with women's traditional gender roles and gender discrimination in the public realm left untackled. This is not to say that culture has not been merely a static variable that reinforces the existing gender order, as it has been transformed and selected to fit to the development process. For example, the traditional Confucian culture has been contested, challenged and reinterpreted by the state to be deeply incorporated in and utilized for South Korea's development, and thus women have embodied the tensions existing between tradition and modernity and contributed to the decomposition of old gender relations and the recomposition of new gender relations (Elson and Pearson 1981).

It can be argued that the use of maternalist policy as a central part of the industrialization strategy for South Korea's economic growth

has resulted in persistent gender inequalities and a strengthening of the division between the public and private and between production and reproduction. As the focus of industrialization strategy has shifted from EOI to HCI, vocational programs that were crucial to the shift became male biased, interlinked with a conscription-based recruitment system and reinforced the male breadwinner model. This model has been propped up by the welfare developmentalist approach to social policy emphasizing employment-based productivity and corporate welfare provisions, pushing the costs of social reproduction onto women. However, as the duality of the labor market has been sharpened with increasing gaps between the large enterprises and SMEs in terms of wages, corporate welfare and also newly introduced social safety nets, this male breadwinner model has become unsustainable, benefitting only the few male workers in the core sectors and leading to widening gender disparities in production economy as well as income differences between classes.

The experiences of women in the Korean development context just summarized can explain why gender inequalities<sup>27</sup> stubbornly persist despite South Korea's remarkable economic progress. What are the policy lessons that can be drawn from the Korean experience in the gender dimension? First, as seen in the family planning and the *Saemaul Undong*, policy works best when it is responsive to people's needs. Women's participation in the decision-making process in various social service programs helped make the policy reflect the people's needs better and also made policies more accountable and effectively implemented. Secondly, the design of gender-sensitive policy across all sectors is necessary in order to prevent gender asymmetrical outcomes. The case of the Korean vocational training program is a good example from which lessons can be learned about the possible negative impacts of policy on gender equality in both production and reproduction. Lastly, the social policy built around the maternalist policy framework has imposed the responsibility of social reproduction mostly on women, strengthening the dichotomy between men as producers and women as reproducers. At the same time, the male breadwinner model that is focused on only a small part of the population has been weakened and become unsustainable, which has impelled an increase in women's participation in the labor force and, therefore, brought about a crisis of social reproduction. Ultimately, the gendered development experience of South Korea provides evidence for the argument that 'without unpaid services and their depletion being measured and valued, predictions are likely to be faulty, models inaccurate and development policies flawed' (Hoskyns and Rai 2007: 297).

## Notes

1. Elson and Pearson (1981); Chun (2000); Koo (2001); Kim W. (2005).
2. Cho H. (1997); Lee J. O. (2004); Bae (2012).
3. Han and Ling (1998); Truong (1999); Cho (2004).
4. Holliday (2000); Gough (2001); Kwon (2005).
5. Dixon (1981); Jones (1993); Goodman and Peng (1996).
6. In this sense, Chang (2011: 1) lamented 'a deplorable deficiency of scholarly efforts to comprehensively document the concrete contents and characteristics of familist economic, political and social orders as a concrete historical reality'.
7. It is also noteworthy that the emphasis on such traditions coincided with the establishment of the Yushin regime in 1972.
8. It has been pointed out that this idea was originally from a 'good wife and wise mother' that had been used in Japan in the nineteenth century for the modernization project. The emphasis placed on the role as wife that comes first is interpreted to support husband-centered family life, the emphasis on the role as mother to undertake maternal care for children (Cho 1988: 101–2).
9. In a similar vein, Han and Ling (1998: 54) conceptualized the Korean developmental state as a hybrid between Confucian parental governance that is defined as 'a politico-ethico ideology where the state acts as a firm but benevolent parent in exchange for filial loyalty and devotion from its children-subjects' and western masculinist capitalism as 'a mode of accumulation and competition that valorizes which male privilege despite claims of rationality, objectivity and individuality'.
10. As of 2007, there were 126 Women's Halls throughout the country. Their names vary, including Married Women's Hall, Women and Welfare Hall, Women and Culture Centre, and Women's Development Centre. Among them, 40 were built after 2000, 61 in the 1990s, 14 in the 1980s, five in the 1970s, five in the 1960s and one in the 1950s (Moon 1985). Meanwhile, attempts to redefine the goals of Women's Halls have been made over the years that reflect the changes in government policy toward women. While the educational purpose of the Women's Halls was emphasized in the Park regime, the focus of their utilization shifted to the provision of welfare services in the 1980s and for vocational training in the 1990s. The legal foundation of Women's Halls also switched from the Mother and Child Health Act in 1989, which states their purpose as providing comprehensive welfare services for mothers and children, to the Framework on Women and Development in 1995, which promotes women's interests and rights including welfare.
11. As of 1973, about 246,000 households out of a total of 1,270,000 in Seoul had maids (Kang 2009: 62). However, live-in housemaids had become rare by the 1980s, replaced mainly with middle-aged part-time visiting housekeepers (Kang E. S. 2009: 68).
12. Kim W. (2004); Shin (2007); Kang (2009).
13. An estimated 1.1–1.3 million North and South Korean soldiers were either dead, wounded or missing. The number of civilians who were killed in wartime reached about three million, and consequently about 13 percent

- of the total population of 30 million people was missing or dead after the three-year war. Most displaced people were men in their twenties or thirties. As a result, both Koreas became female dominant with 88.3 males per 100 females in North Korea and 97.6 in South Korea in 1953. Undergoing a baby boom in the late 1950s, the gender balance of population in the South equalized at 100.7 by 1960 (Kim G. O. 2004: 43–4).
14. The attempt to promote a nuclear or small family took shape with the revision of the Family Law in 1962, stating: ‘The family of course can be independent after marriage. Unless the Household head is not a lineal ascendant, an adult male who makes an independent living may separate his family’ (Article 789 of the Statutory Branch Family in Civil Law) (Kim H. K. 2009: 184). Though the eldest son’s responsibility to look after his parents remained strong, this revision reflected the demands from women’s advocacy groups and challenged the form of the extended family, arguing that it would cause harm to the development of the entire society.
  15. Maternalism ‘exalted women’s capacities to mother and applied to society as a whole the values they attached to that role: care, nurturance and morality’ (Koven and Michel 1993: 4 cited in Razavi 2011: 886).
  16. Founded in 1959, KNCW was the biggest women’s advocacy group and had a close relationship with the state until democratization, and still remains powerful in local areas. As of 2004, it had 16 regional councils and 48 affiliated organizations, mainly of occupational associations totalling over two million members (KWDI 2004 cited in Hur 2006: 7).
  17. By analyzing the aspect of governance in the development of social policy from the authoritarian period in South Korea, Ringen et al. (2011) attempted to demonstrate that the simultaneous use of both hard power force to control forces from below and soft power to dispense governance throughout society made the Korean developmental state effective in the pursuit of the goal of economic development. In their work, such duality of hard power force and soft power governance has been explained through the interaction between social policy and the state. Given that little attention has been paid to soft power governance in the analysis of the Korean development experiences, they argued that the productivity of soft power in the governance of the authoritarian state explains both the effectiveness in driving forward economic development and the relative ease of transition to democracy.
  18. See Yang and Worth (1974), Chung K. (1987) and Hwang (2001). As membership of the three organizations of FPMCs, Classes for Mothers and *Saemaul* Women’s Associations overlapped, they were amalgamated into *Saemaul* Women’s Associations by prime ministerial decree in 1977. Consequently, voluntary membership of FPMCs at the grassroots level turned into compulsory membership of married women in the *Saemaul* Women’s Associations in virtually all rural villages (Lee J. O. 2004: 174).
  19. Women in the *Saemaul Undong* were seen as progressive warriors and moral activists who ousted the culture of ‘drinking and gambling’ among men stricken by poverty and pessimism in rural society (Kim D. Y. 2004). Women even sold alcohol in the communal market to ensure that some of the financial cost of alcohol consumption was returned to communal funds (Choi I. 2011).



20. Education programs were key to the *Saemaul Undong*, and leaders were required to complete a week-long education program conducted at an independent training institute.
21. The extra score system was abolished by a Constitutional Court decision in December 1999 in response to a petition from two female undergraduates and one disabled male.
22. Until the 1980s, workers on average logged 50 hours a week, with the long working hours mostly in the manufacturing sector: 52.3 in 1975, 53.1 in 1980, 53.8 in 1985, 49.8 in 1990 (Ministry of Health and Welfare 2012).
23. Making a comparison between large enterprises and SMEs – with more than and fewer than 300 employees, respectively – the average wage in large enterprises increased from 328,000 won in 1985 to 679,000 in 1990, 1,340,000 in 1995 and 1,815,000 in 2000; whereas in SMEs the increase was from 315,000 won in 1985 to 537,000 in 1990, 991,300 in 1995 and 1,219,000 in 2000. As for the value of fringe benefits, in large enterprises wages rose from 24,400 won in 1985 to 177,800 in 2000, whereas in SMEs the rise was from 18,700 won to 103,600 (Ministry of Labor cited in Yang J.-j. 2005).
24. In 1999, 3.25 million women, representing 63.2 percent of the total female labor force, were employed in workplaces with fewer than 20 employees (Keum 2002: 23).
25. The average wage for female workers compared to their male counterparts has increased gradually from 44 percent in 1985 to 53.5 percent in 1990 and 60 percent in 1995; however, since the financial crisis in 1997–98 this improvement has stalled, with 63.2 percent in 2000 and 62.6 in 2005 (Keum 2002: 128; Statistics Korea 2006: 33). This is closely linked with the flexibilization of labor, particularly in female-dominant industries and occupations, which is beyond the scope of this chapter's analytical focus.
26. While union membership in large enterprises with more than 300 employees made up 78.3 percent of the total number of trade union members in 2000, membership in small firms with fewer than 100 employees made up only 1.1 percent (Lee 2001 cited in Yang 2005: 403). Likewise, the proportion of female workers in union membership halved from 12 percent in 1987 to 5.6 in 1997.
27. According to the World Economic Forum in April 2011, South Korea ranked 104 among 134 countries on the Gender Inequality Index (GII).

# 14

## Korean Responses to Environmental Challenges: Origins, Drivers and Impacts of Green Growth on Development

*Manohar Pawar and Taewook Huh*

### **Introduction**

South Korea is a typical newly industrializing polluting country. Until recently, pollution levels, in terms of carbon dioxide emissions per capita, increased continuously as the national income grew (Schmalensee et al. 1998; Jobert et al. 2012). South Korea makes an interesting case for the importance of policy decisions or industrial and trade structure in determining environmental outcomes (Vincent 1997; Murad et al. 2009). What are the causes of the deteriorating environment in South Korea? Is it policy absence or failure?

This chapter focuses on Korean environmental issues and policy responses to them from the 1960s to the present and suggests lessons for developing countries. First, it presents a brief Korean background along with a literature review. Secondly, drawing on secondary data (Pawar 2004), it discusses the dynamics of past and present Korean environmental policies under four phases: (i) *ex post* restrictions, command and green belt policy between the 1960s and the 1980s; (ii) social and political responses and transition in the globalization era – from the 1980s to the early 2000s; (iii) the quality of life policies and governance approach in the 2000s; and (iv) the low carbon green growth policies and responses to climate change as of 2011. Furthermore, it looks at the limits of the green growth policy and the importance of the sustainable development vision. Drawing on this overall discussion, the final section discusses what other countries can learn from Korean environmental policy failures and successes.

## A brief history and questions

The developmental state implies the complex dynamics of key players such as politicians, bureaucrats and business, who 'use the other in a mutually beneficial relationship to achieve developmental goals and enterprise viability' at any cost, which often results in economic success in terms of aggregated economic growth (Cumings 1999; Johnson 1999: 60). However, the developmental state might also inflict damage on many areas, increasing inequality in many spheres (Cho M.-R. 2003, 2006; Jung G.-H. 2003). This was particularly prevalent in the environmental policy area since sustained economic growth was often at the cost of environmental deterioration (Ku 2000: 102). Korean environmental activists with a critical view of the developmental state system describe South Korea as 'Tokeon Konghwaguk' (the republic of construction business) since the developmental state in large measure was in favor of building and constructing industrial plants and facilities without any careful consideration of the environment.<sup>1</sup>

Since the 1990s, as democratization proceeded, many channels of public discussions on the issues of environment became available and many non-governmental organizations (NGOs) engaged in the debate on the environmental policies.<sup>2</sup> It is notable that NGO activities were confined not only to national-level environmental policies, but also extended to local-level environmental issues (Ju and Tang 2011). Despite the active engagement of NGOs in environmental policies, however, there was an apparent gap between people's demand for good environmental policies and the functioning environmental policies (Lee 1992; Lee 1994).

Since the 2000s, public concern for environmental policy has looked for sustainable development issues encompassing economic, social and environmental issues. The government also became proactive in involving business and civil society organizations (Shin 2003; Ju 2007). The establishment of the Presidential Commission on Sustainable Development (PCSD)<sup>3</sup> in 2000 was one of the landmarks demonstrating how the government became serious about sustainable development issues. The PCSD was constituted as a presidential advisory body and as a representative governance organization in which government, industry and civil society organizations participate jointly with the aim of attaining sustainable development in South Korea. The PCSD ultimately operated as a framework to support (and guide) participants with considerable influence on their activities, behaviors and interaction, encouraging or hindering them in the governance system (Huh 2011).

As climate change became a global concern, the government took several important steps. Since 2008, the government of President Lee Myung-bak has established several environment-related projects under the rubric of the Green Growth Project in order to deal with problems related to climate change, energy crises and economic hardship. The government argued that the Green Growth Project could provide an opportunity for South Korea to develop into one of the truly most advanced industrialized countries in the world acting in a sustainable and responsible manner. The Presidential Committee on Green Growth was established in 2008 and is currently carrying out a range of policies and programs (UNEP 2010; Feldman 2011).

This brief overview of environmental policies in South Korea indicates the convergence of the South Korean environmental policies with the advanced countries described in the Environmental Kuznets Curve (Kim J H 1999). Does it mean that the rapid industrialization and economic growth in the 1960s have been achieved through neglect of the environmental sector? Why has environmental governance developed since the 1990s been unable to improve environmental conditions significantly and has left South Korea as a typical example of a polluting country? In order to answer these questions, this chapter focuses on the nature and content of environmental policies from the 1960s, their changes and the impacts of policies on environmental institutions.

## Major environmental policies in South Korea

The evolution of environmental policies can be understood as falling into four distinctive phases: (i) *ex post* restrictions, command and green belt policy between the 1960s and 1980s; (ii) *ex ante* restrictions, economic incentives and cooperation during the 1990s; (iii) the quality of life policies and governance approach between 2000 and 2008; and (iv) the green growth approach since 2008.

### First phase: 1960s–1980s

The major task of the first phase was to address the problems from the deteriorated natural environment resulting from the Korean War (1950–53) and poverty as well as from industrialization. During the war, most of the natural environment was destroyed and afterward when the forest was stripped for fuel, which led to environmental problems such as deforestation and soil erosion. However, due to a lack of awareness of the environmental issues, the government implemented no policies to respond to these issues. Since the establishment of the Government of

the Republic of Korea in 1948, there have been no governmental agendas regarding environmental issues until the rapid industrial policies in the 1960s. The military government, which came to power through the coup on 16 May 1961 and which was led by General Park Chung-hee, implemented a five-year economic plan and started the country on the path to industrialization based on export-oriented light industries such as textiles. This heralded a period of environmental deterioration. The industrialization proceeded with the heavy and chemical industry (HCI) promoted under a series of economic development plans, particularly in the 1970s and early 1980s (Moon 2009). Significant environmental degradation occurred due to rapid heavy industrial growth. For example, as Rhee (2000) and Ku (2000) showed, from 1965 to 1979 the total energy consumption tripled and sulfur oxides (SO<sub>x</sub>) emissions increased ninefold. Relating to population growth, energy consumption per capita increased 2.5 times and SO<sub>x</sub> emissions per capita increased seven times. Between 1980 and 1986, while gross national product (GNP) increased 64 percent, the quantity of specific industrial waste increased 100 percent, general industrial waste 90 percent and carbon dioxide (CO<sub>2</sub>) emissions 75 percent. The rate of pollution appears to be greater than the economic growth rate.

The origin of the Korean environmental policy may be traced back to the Environmental Pollution Prevention Act, established in 1963, which focused on sanitary issues, including sewage disposal (Kim J.-G. 2004; Moon 2008). However, this policy remained only a piece of legislation without an appropriate budget for the prevention of pollution (Moon 2008). In 1977, under President Park, the Environmental Protection Law was enacted, which many environmental policy experts consider a turning point for environmental policy in South Korea—'from the age of pollution law to the age of environmental law' (Kim D. Y. 2004). Based on this law, in 1979, the Environment Bureau was created to manage environmental administration as a control tower. The chief of the Environment Bureau was inferior to the ministers and could not exert policy influence under the government structure where the ministries related to finance and industrialization were dominant in decision making. The policies of the Environment Bureau were based on a command and control mechanism without the inclusion of stakeholders and focused on *ex post* restrictions, including pollution control in general and noise pollution control. The regulatory measures, if there were any, of the private sector and in particular big business, were often overruled by other ministries involved in industrialization. It would be fair to say that the Environmental Protection Law and the Environment

Bureau did not result in any effective formulation and implementation of environmental policies.

However, there is one noteworthy successful environmental policy, namely the Green Belt Policy, introduced in 1971. According to Bengston and Youn (2005: 27):

The green belt refers to a physical area of open space – farmland, forest or other green space – that surrounds a city or metropolitan area and is intended to be a permanent barrier to urban expansion.

Between 1971 and 1973, green belts, known as restricted development zones, were demarcated around Seoul and 13 other cities. This was part of the City Planning Law of 1971, which was influenced by the 1972–81 National Comprehensive Physical Plan of 1973.<sup>4</sup> Beginning with the creation of a green belt 2–10 km wide on the outskirts of Seoul and 15 km from the city center, green belts were established in the suburbs of other major cities until 1977 (Chang S.-H. 2004). As a result of this policy, 5.45 percent of the total national territory and 37 percent of the urban area became green areas (Chang S.-H. 2004). However, the major reason for its success is closely related to its policy objectives for economic and military concerns rather than environmental concerns. First, for national security reasons, in order to strengthen the defense from potential attack from North Korea, a wide open area around Seoul was needed to hide a range of military facilities and, therefore, act as the capital's defense. Secondly, strong regulation was in demand to eradicate and prevent illegal shantytowns on the outskirts of Seoul and the associated urban sprawl to provide room for new factories and housing for the growing urban middle class. Thirdly, designating green belts could control land speculation and a rapid rise of land prices in the planned areas of development around the large major cities, which was one of the tools of macroeconomic management. Fourthly, green belts helped to reduce rapid growth in urban concentration of the population and industrial concentration, which was a tool for controlling labor market and industrial policy. Finally, and most importantly, the green belt policy protected agricultural land and promoted food security. Although it has been commented that the green belt policy was created during the early periods of rapid urbanization and industrialization, and mostly triggered by the military demand for the defense of the capital area, in the recent past (since the 1990s) its significance has increased due to greater awareness of the consequences of deforestation, land erosion, pollution and green house gas emissions as well as how the green belt helps to absorb and prevent some of these consequences.

The success of green belt policies and the incapacity of the Environment Bureau show that environmental policies were not successful in changing institutions conducive to environmental protection. This echoes the argument of Grossman and Krueger (1995) that the relationship between per capita income and environmental indicators was relevant until the 1980s. According to them, increases in gross domestic product (GDP) may be associated with worsening environmental conditions in developing countries: in other words, environmental and economic growth policies are negatively correlated, which is viewed as an inverted U-shaped curve – the Environmental Kuznets Curve. According to J.-H. Kim's (1999) study on the inverted U-shaped relationship between income growth and pressure on the environment, the Korean economic growth pattern has caused significant damage to the environment. For example, in the 1980s, with the average annual growth rate at 10 percent, industrial waste increased 90 percent and CO<sub>2</sub> emissions increased 75 percent (Ku 2000). In the 1980s, the necessity and logic of economic growth still took precedence over environmental policy; for example, the government's economic departments were uncooperative on environmental issues and companies' opposition to and complaints about environmental policies increased.

However, people's concerns about environmental problems were also growing rapidly. For example, the survey conducted by the Environment Bureau in 1982 showed that 90 percent of respondents were concerned about environmental issues and willing to participate in environmental civic groups (Moon 2008). Responding to this increasing demand for a good natural environment, the government gradually established various measures such as environmental and emission standards, emission charges and the environmental effects evaluation-based precautionary approach (Moon 2008). In addition, the organization of the Environment Bureau was expanded in 1986 with regional environment offices opened in six cities: Seoul, Busan, Daegu, Daejeon, Gwangju and Incheon.

### **Second phase: 1990s**

The environmental policies in the second phase can be characterized as the government's rapid response to the voice of the people. For example, in Daegu, the third-largest city, the toxic phenolic compounds of industrial wastewater polluted the source of drinking water and became a huge scandal because the polluting company was not held responsible and did not receive any substantial penalty from the government because it was a goods exporter. The incident provided a basis for the establishment of environmental NGOs and the social movement in the 1990s. Less strict control on media and civic groups in the process of democratization provided a

Table 14.1 Perspectives on environmental protection and economic growth (percent), 1982–2000

Year	Preference for environmental protection	Preference for harmony of environment and economic growth	Preference for economic growth	No comment
1982	6.6	69.9	14.3	9.1
1987	2.8	88.7	6.0	2.5
1992	51.5	29.0	19.5	–
1996	85.5	–	14.4	–
1997	77.7	22.3	–	–
2000	89.9	–	10.1	–

Note: – indicates data not available.

Source: Based on Ku (2000: 112).

better situation for the environmental NGOs, which were allegedly politically neutral (Ku 2000). The civil environmental movement focused not only on environmental pollution problems, but also on engaging in more nationwide issues such as the quality of life. National surveys show that, since the 1980s, most Koreans have become very concerned about environmental degradation (Table 14.1). Most people supported ‘the harmony of economic growth and environmental protection’ in the 1980s, while about 80 percent of respondents preferred environmental protection to economic growth since the 1990s. In 2000, around 90 percent of Koreans considered environmental problems a serious issue.

In addition, many people began to look favorably on environmental civic groups<sup>5</sup> that were rapidly developed in the 1990s. Responding to the growing environmental movement, various environmental policies were implemented and the environmental administration was established (Table 14.2).

The 1990s can be called the era of environmental awakening since the government started establishing comprehensive laws and regulations, a number of social movements were created and environmental NGOs actively engaged with the policy process through various methods (Moon 2008). International factors such as the Rio Earth Summit in 1992 also influenced the development of Korean environmental movements and government policies. The government actively adopted the recommendations from the United Nations (UN) environmental initiatives such as Local Agenda 21 by establishing an action plan for implementing sustainable development at the local level. The government’s adoption of Local Agenda 21 has provided a favorable environment for



Table 14.2 Environmental laws from the 1960s to 2008

1960s (6 total acts)	1970s–80s (9 total acts)	1990–2008 (46 total acts)
<ul style="list-style-type: none"> <li>• Environmental Pollution Prevention Act</li> <li>• Act Relating to the Protection of Birds, Mammals and Hunting</li> <li>• Act Relating to Toxic and Hazardous Substances</li> <li>• Waste Cleaning Act</li> <li>• Sewerage Act</li> <li>• Water Supply and Waterworks Installation Act</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental Conservation Act</li> <li>• Natural Park Act</li> <li>• Environmental Pollution Prevention Corporation Act</li> <li>• Waste Control Act</li> <li>• Compound Waste Treatment Corporation Act</li> </ul>	<ul style="list-style-type: none"> <li>• Framework Act on Environmental Policy</li> <li>• Framework Act on Sustainable Development</li> <li>• Environmental Education Promotion Act</li> <li>• Environmental Health Act</li> <li>• Water Quality and Ecosystem Conservation Act</li> <li>• Natural Environment Conservation Act</li> <li>• Act on Promotion of the Purchase of Environment-friendly Products</li> <li>• Act on Environmental Test and Examination</li> <li>• Environment Improvement Expenses Liability Act</li> </ul>

Source: Ministry of Environment of the Republic of Korea (2011).

NGOs since within its framework they could gain the government’s official recognition as legitimate partners in dialogue and cooperation. As a result, the framework of Local Agenda 21 has brought about various partnership activities and has been a cornerstone for promoting sustainable development at local and regional levels. Local Agenda 21 ultimately played a key role in the inauguration of PCSD in 2000, which provided the grounds for national governance for sustainable development.

Meanwhile, in 1994, the status of the Environment Bureau was raised to the ministerial level with more resources and power within the government. The change of the nature of environmental policy from a penal system to an economic incentive system is noticeable in this phase. For example, the Environment Bureau established the volume-rate garbage

disposal system and the burden charges as well as the deposit-refund systems whereby households would have an incentive to reduce garbage and pay more attention to recycling. With regard to businesses, a system of environmental charges was introduced to reduce pollution. Although their environmental impact is an empirical question, the charges contributed to increasing revenues and environmental budgets. Under this system, the collection of charges increased from 113.4 billion won (\$147.1 million) in 1995 to 300 billion won (\$265.3 million) in 2000 (Ministry of Environment of the Republic of Korea 2011). Adoption of new technology in the environmental policy sector represents further progress. The government initiated the implementation of various technologies for environmental monitoring and information systems in the areas of climate and air, water, waste recycling and chemicals – all designed to protect public health from pollution and environmental accidents (Ministry of Environment of the Republic of Korea 2011).

Notably, through these mechanisms, environmental impact assessments were upgraded in terms of not only the quality of the assessment, but also the participation of civil organizations. A wide range of organizational and policy changes took place to increase resources for environmental policies and enhance the participation of civil society in the 1990s, which can be characterized as the decade of voluntary participation and the cooperative relationship between the public, private and voluntary sectors.

### **Third phase: 2000–2008**

The third phase of the evolution of environmental policy began with the establishment of PCSD in 2000. It was created to set major policy directions and formulate plans to promote sustainable development (PCSD 2002, 2006). From 2000 to 2008, PCSD adhered to principles of multi-stakeholder participation and participatory decision making between government and non-government actors (PCSD 2005; Huh 2011). As a result, it emphasized a cooperative management system through which government, market and civil society together strived to overcome limits placed on the government and to cooperate around a common goal: the realization of sustainable development. Various actors from the private sector (companies) and the voluntary sector (NGOs including environmental civic groups) participated in the process of environmental policy decision making. The decision-making authority was gradually shared with the voluntary and private sectors, which was influenced by the governance approach based on the principles of participation, cooperation and partnership between stakeholders

such as civil servants, experts, civic group members and businesspeople (Huh 2011). One of the significant changes made by PCSD was to bring in a variety of environmental issues in the paradigm of sustainable development, including the response to global climate change, ecosystem conservation for sustainable development and arrangements of eco-efficient industrial structures and urban spatial settings. In other words, the environmental issues became recognized as multidimensional problems, requiring an integrated approach by the various sectors, including economy, society, land use, health and so forth. More specifically, environmental policies became more focused on health and the quality of life (Moon 2008).

The environmental sector actively engaged with the international policy process. South Korea joined the United Nations Framework Convention on Climate Change and ratified the Kyoto Protocol in 2002; these international frameworks provided a platform for domestic policies. By 2001, the first set of comprehensive countermeasures was established, including 36 actions such as the sectional emission reduction plan, greenhouse gas emission reduction, technology development and the Kyoto mechanism adoption. The second set of comprehensive countermeasures (2002–04) consisted of 84 actions that were created by the relevant ministries to strengthen negotiation ability, develop greenhouse gas emission-reducing technology, build up the infrastructure for implementation of the Kyoto Protocol and statistical data, and encourage public participation and cooperation. The third set of comprehensive countermeasures (2005–07) covered 90 actions of 19 ministries, including the infrastructure-facilities building projects, sectional greenhouse gas emission reduction projects and climate change adaptation projects. These actions were related not only to national-level policies, but also to local-level ones, and many metropolitan and city governments have established their own climate change strategies or are currently trying to formulate such plans and actions.

#### **Fourth phase: since 2008**

In 2008, the Lee government (2008–12) placed an emphasis on the Green Growth Project, which focused on the harmonization of economic growth and environment conservation that brought about a significant change in the government organizations and policies in the environmental sector. In August 2008, Low Carbon Green Growth was declared a national vision for the next 60 years, aiming to shift the Korean growth paradigm toward a quality-oriented utilization of renewable energy sources and green technologies. In late 2008, the

Presidential Committee on Green Growth was established by integrating three national bodies, including PCSD (Shin 2009). In late 2009, the Low Carbon Green Growth Basic Act was enacted by the approval of Parliament. This initiative was carried out under the direct control of the president who was very much committed to its implementation. Apart from the legislation process, in July 2009, in accordance with the vision, the government initiated the Green Growth National Strategy and Five-Year Plan (2009–13) for enhancing green growth in a systematic way. This strategy envisaged three main objectives: (i) preparing measures to effectively mitigate climate change and energy dependency; (ii) creating new engines for economic growth; and (iii) improving quality of life and enhancing the profile of the country in the international community (Shin 2009).

The Five-Year Plan, a medium-term program, was designed to formulate a long-term strategy. According to the plan, the Korean government would invest a total of 107.4 trillion won (\$97.6 billion, at the rate of 1,100 won to the US dollar) until 2013 in green sectors, equivalent to 2 percent of South Korea's GDP (Shin 2009). Nearly 5 percent of South Korea's research and development budget was earmarked for investment in environmental research and development, which is the highest among the selected developed countries (UNESCO 2009). Moreover, the Low Carbon Green Growth Basic Act, which was put into effect in early 2010, contributed to strengthening the legitimacy of the green growth national strategy. Lee exerted decisive influence and was the primary driving force behind this process, although there was a series of discussions, disputes and arguments about the vision, viability and feasibility of green growth between experts from government, political circles and academia.

One of the most disputed projects under this strategy was the Four Rivers Restoration Project that aimed to tackle short-term economic problems and create jobs by 'restoring' four major rivers: the Han, Nakdong, Geum and Yeongsan. The government budget was estimated at 22.4 trillion won (\$20.3 billion) (Shin 2009). The Korean government expects that this large-scale public investment project will contribute to green growth over the long term and job creation over the short term. The most serious problem of the government initiative was the adversarial relationship between government and civil society organizations, which undermined meaningful discussions on the implementation of the project and produced contradictory projects on the environmental outcomes. The formulation of the Low Carbon Green Growth national vision has been looked at with doubt because

the new term 'green growth' was introduced all at once without a range of discussions between various stakeholders, including civic groups in the public sphere.<sup>6</sup> The lack of public discussions also undermined the comprehensiveness of the law and policies. For example, the Low Carbon Green Growth Basic Act seemingly encompasses the aspect of sustainable development but pays no attention to social integration, one of the three important factors of sustainable development, which has been consistently advocated by the civil society. The lack of public discussions and consensus made the execution of the project difficult due to the constant criticisms and demonstrations against it (Yun 2009; Kim and Lee 2010).

While a range of green growth policies in the international communities was intended to overcome the global ecological crisis through greenhouse gas emission policies, such as enhancing energy efficiency of buildings and transportation, Korea's policies focused on increasing the government budget in order to secure profits for industry and business (Oh and Choi 2009). Growing concern is being voiced over an artificial ecosystem destroying nature that would be created by the Four Rivers Restoration Project. Many environmental experts have expressed concern about the growing budget and private capital inducement, the 'helter-skelter' masterplan, the environmental effects evaluation that was roughly carried out and so on. Moreover, the process of the project lacks social consensus about its necessity; according to several surveys conducted by the mass media, over 80 percent of the population is against the project. Given this, regardless of the accuracy of the surveys, it is generally pointed out that the people have not been persuaded of the need for nor do they understand the project. Much concern remains about turning to a trigger reaction for the Great Canal Construction Project that was withdrawn because of public opposition across the country.

The fourth phase can be characterized as growth-oriented environmental policy in which environmental concern is subjugated to growth priority in different ways from the first and second phases. The current green growth strategy places more weight on growth, considering green as both a factor for sustainable growth and a tool to actively lead growth. Although energy efficiency improvement and the expansion of new and renewal energy – demanded by environmentalists – were selected as main policy objectives, they are currently carried out in light of reinforcing the driving force for 'new growth' (Yun 2009). The Korean government supports and promotes nuclear power both inside and outside the country and has not explicitly refused the 'non-green'

element in the strategy and taken the growing energy consumption for granted. In this phase, the established cooperative relationship between the state and civil society has been significantly destroyed as sustainable development is narrowly understood as sustainable growth.

### **Conclusion: implications for developing countries**

This chapter looks at key Korean environmental policies and programs that address environmental concerns and emerging climate change issues as well as the broad lessons and implications that South Korea could offer other developing countries to address their environmental issues. The main limitations of the chapter are that it is based on secondary data only and for a short period for some policies (for example, green growth policies), which makes it difficult to analyze their impact and outcomes. The discussion shows that in the 1960s–1980s economic growth and environmental degradation went hand in hand under the authoritarian regime, although there were a few policies that addressed environmental issues directly. As the democracy deepened in the 1990s, the participation of people, communities and NGOs in addressing environmental issues became more active, and the publicization and politicization of the environmental concerns by the environmental movement became easier and more influential. Overall, it is fair to say, despite the discouraged voices of civil society of the government's unilateral implementation of environment policies in recent years, Korean society has stood united against the environmental degradation and been able to create effective pressure on the government and the business sector to change their policies and programs to appropriately respond to growing environmental concerns.

What lessons might South Korea offer for other developing countries to enable them to address their environmental issues proactively and effectively? For such a question, it may be *prima facie* opined that in the process of industrialization and economic growth no country has a good record of comprehensive environmental protection, as most have caused significant environmental degradation, at least in the past, and South Korea has not been an exception to this (Mkandawire 2011b). But as we have seen in the case of South Korea, the deteriorated environment in the early stage of industrialization is due not to the absence of environmental policy, but rather to the policy content and processes that could not effectively control polluters, which were mainly companies. It induces us to refuse acceptance of environmental degradation for the sake of industrialization, but instead pursue the better

policy solutions to deal with both industrialization and environmental preservation.

One of the central points in the pursuit for better policy solutions is the importance of public space that allows free discussions and open dissent. A comparison of the third and the fourth phases of the evolution of South Korean environmental policies points out the importance of the cooperative relationship underpinned by the public discussions in terms of policy design and implementation. Without this cooperative relationship based on free and open public discussions, the vast amount of investment in environmental policies, including research and development, cannot result in socially desirable results. A case in point is that the significant amount of investment has been only a source of social division over the environmental issues and undermines the implementation capacities of the government. Secondly, the comprehensive view of sustainable development that encompasses economic, social and environmental pillars is important not only from the perspective of intrinsic values, but also from the perspective of consensus making (Pawar 2010; Pawar and Cox 2010). One of the reasons for the smooth policy evolution in the third phase in contrast with the fourth phase is a comprehensive view that reflects various voices of business and civil society. It is also related to the first lesson on the importance of public space for discussions since comprehensive ideas would be comprehensive only on paper and run the risk of not obtaining voluntary cooperation from the excluded groups.

Thirdly, the role of the media and social movements is quite significant. As described in the case of the phenolic wastewater in the early 1990s, it was the media and social movements that put a specific environmental issue confined to a certain area on the national agenda, helping people realize that environmental problems anywhere affect people everywhere. Fourthly, the Korean experience suggests that it is important to facilitate the participation of and cooperation among people, communities, civil society, NGOs, business and the government to address environmental issues. Civil society often calls for more participation, representation and recognition, which can easily be sidelined by more powerful forces. It is important to ensure that such undermining does not occur. In any democratic process, opportunities to critique and comment and respond to the outcomes of that process are important, and such a healthy process relating to green growth policies and debate may be seen in South Korea. And fifthly, the green belt policy shows the versatility of environmental policy. Although an accurate balance sheet of outcomes is an empirical question, implementation of the green belt

policy, which was obviously better than nothing, certainly met the various policy goals.<sup>7</sup>

Korean experiences of dealing with its environmental issues, both in historical and contemporary contexts, offer significant insights for many developing countries. However, true to all learning processes, each developing country needs to look critically at its own socio-economic, political and cultural contexts in order to apply lessons learned from South Korea no policy or program can be transplanted as is. Equally true is that each country must focus on its own innovations and local solutions.

## Notes

1. Cho M.-R. (2003, 2006); Jung G.-H. (2003); Lee S.-H. (2009).
2. Lee (1994); Ku (2000); Lee (2000); Lim and Tang (2002); Liu (2004).
3. For details of the PCSD, the Ministry of Environment, subsidiary bodies and environmental issue, see [http://eng.me.go.kr/content.do?method=moveContent&menuCode=abo\\_sub](http://eng.me.go.kr/content.do?method=moveContent&menuCode=abo_sub).
4. Lee (2000); Lee S. C. (2004); Bengston and Youn (2005).
5. For details of the Korean Federation for the Environment movement, civil society and NGO involvement, see <http://english.kfem.or.kr/>; for details of Green Korea United, see <http://greenkorea.org/english/>.
6. Yun (2009); Lee (2010); Kim and Lee (2010).
7. Choi (1994); Han (1997); Bengston and Youn (2006).



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