Development Through Dictatorship

A Focus on the Economic Reforms of Park Chung-hee

Looking at Korea today, it is hard to imagine a time where they were not at the forefront of economic prosperity and innovation. However, following the conclusion of the Korean War, it possessed virtually no industry and was rife with political, and economic crisis. This would all begin to change following a military coup in 1961 that put General Park Chung-hee in power. Under his rule, Park would implement a series of reforms that restructured the bureaucratic and economic systems of South Korea.

Prior to Park's reforms, South Korea was solely dependent on his predecessor, Syngman Rhee's import-substitution program. This was a policy that advocated for the substitution of foreign imports with domestic production and self-induced industrialization, which would be stimulated by U.S. aid in South Korea's case. While this was the conventional economic theory for development espoused by entities like the United Nations in the 1950's and 60's, it led to a continuous decline in GDP and nearly complete stagnation of South Korea's economy from 1959-1962. By the time the United States began to reduce its aid to South Korea in the 1960s, this program was completely infeasible.

However, while Rhee would have preferred to increase domestic production (and, in turn, exports), the political will simply wasn't there. The political structure of South Korea at the time was such that Rhee had to deal with competing interests from a slew of varying political entities, including the United States, as well as an entrepreneurial class known in Korea as the chaebol, who had a vested interest in maintaining the status quo. Unlike Rhee, due to the centralization of his military government, Park was able to mitigate much of these political hurdles.

Even with Rhee's attempts to increase domestic production, by the time Park came to power in 1961, the state had virtually no industry supported by their main economic activities: agriculture and fishing. While Korea had some minor textile and cement industries at the time, they by no means had the capacity to increase the economic output of Korea.[footnoteRef:0] That said, what Korea did posses at the time was a large, inexpensive, yet educated workforce. Subsequently, the state was capable of allocating U.S. aid to import the raw materials they were unable to produce themselves and utilize them to develop light labor-intensive manufacturing industries. [0:]

Park recognized that due to South Korea's lack of available natural resources, the only way to encourage economic growth was to increase exports by developing a more extensive manufacturing base. By utilizing the Soviet systems of targeted Five Year Plans as his rubric, Park implemented a series of his own, the first of which started in 1962. This first laid the foundation for the rest to follow by delineating a path focused on utilizing the total economic potential of the nation. Much to the chagrin of Neo-liberals, these reforms took on a particular Kenysian flavor with a touch of liberalism just to encourage exports. Park sought to do this by expanding a nascent energy sector, capitalizing on existing industries, such as textiles, increasing productivity of South Korea's long-standing agricultural industry, in addition to improving the overall technical capabilities of Korea's industries.

In 1967 Park implemented his second Five Year Plan, meant to serve as the impetus towards developing heavier industries. The government began encouraging the growth of steel and petrochemical industries, which generated enough revenue to invest in physical infrastructure projects like schools, hospitals, and highways. This led to the development of the Park Kuro Industrial Park in the southwest district of Seoul, in tandem with the creation of a state-owned iron and steel company known as Pohang. This allowed the government to provide subsidized steel for the Chaebol, who at the time began developing automobiles and shipyards.[footnoteRef:1] [1:]

These plans would inject Park's new technocratic bureaucracy into the public sector as well as the private. In addition to establishing production targets for non-state-owned industries, Park went as far as developing requirements regarding what industries were allowed to produce and how they could produce it.

This process of state intervention encompassed much of the macro-economic sphere prioritizing capital distribution, the focus of imports and exports, and the oversight of public entities. It was at this point that the nationalization of the banking system became paramount. In order to secure the flow of capital to particular sectors of priority, under the control of the state, banks were used to encourage strategic investment through a strategy of state-sanctioned, low-interest financing. These efforts were compounded by additional state interventionist policies that offered industries, deemed high-priority, major tax subsidies, while also protecting them through strategic tariffs, limits on foreign investments, and consistent caps on interest rates.

However, it wasn't just industry that he had to encourage to promote this transition to an export-oriented system. Park recognized that in order to make South Korean exports more attractive, he had to do three things: 1.) Devalue the nations currency (which he would do in 1961 by establishing a unitary fixed rate); 2.) Develop a free trade regime that was conducive for his protectionist policies; and 3.) Strategically implement tax exemptions for domestic inputs used for exports.[footnoteRef:2] [2:]

To facilitate and coordinate these reforms, Park established three powerful agencies and by-products of his technocratic improvements: The Economic Planning Board (EPB), The Ministry of Trade and Industry (MTI), and The Ministry of Finance (MoF). These agencies would be the arms of Park's new development program, benefited greatly by his technocratic reforms.

With the onset of new reforms focused on encouraging the development of domestic industries, a program in 1964 focused on expanding exports was formulated by Economic Planning Committee. Several months later, in 1965, an Export Promotion Subcommittee (EPSC) was established, which served as "a central organizational locus for mobilizing support for expanded exports."[footnoteRef:3] [3:]

Through these efforts, South Korean exports swelled from 2.4% of GNP in 1962 to 31% in 1979, with an annual growth rate peaking as much as 40% during the decade of the first two 5-year plans.[footnoteRef:4] In the early years of the 1960's South Korean exports totalled around $400 million USD, however, by 1980 they had reached a stagerring $150 billion.[footnoteRef:5] [4:] [5:]

The benefits of this transition to an export-oriented industrialized economy began to really manifest by the mid-1960s. From 1963 to 1972, South Korea's economy grew 9.6% annually

and created roughly 2.9 million jobs in the process.[footnoteRef:6] Additionally, the way in which the economy functioned began to reflect Park's efforts. Between 1960 and 1972, manufacturing increased from 17.1 % of South Korea's total economic output to 35.2%. [footnoteRef:7] [6:] [7:]

Once the economy began to stabilize during this period, Park expanded his reforms towards a strategy focused on increasingly heavier industries. The first two Five Year Plans were primarily focused on restructuring the economy by encouraging the growth of light industries. As a result, Park's government was able to build the necessary infrastructure to improve the overall level of education and, subsequently, their technological capabilities. This reinvestment laid the foundation for future industries that would gestate during the second phase of development from 1972-81. The next step of Park's development goals then focused on the cultivation of industries in the heavy and chemical industrial sector. In 1973 the "Heavy Chemical Industries (HCI) Drive" was adopted, serving as the spear-head to this second phase of industrialization and economic development.

At the time, North Korea was becoming a looming threat. Bolstered by communist states like China and the Soviet Union in the early 1970's, North Korea, without a doubt, was the biggest economic and military power on the peninsula. This threat was exacerbated with the normalization of relations between the United States and China, which saw the U.S. begin turning away from their ally in the south in favor of this new relationship with China. Subsequently, the development of heavier industries became a necessity for increased economic stability, as well as security. If South Korea could become self-sufficient in producing the materials needed to improve their security apparatus (those needed to build ships, planes and other military hardware), they would ensure their own security in addition to decreasing their dependency on the United States.

The two Five Year Plans of the HCI were subject to the same levels of state intervention, albeit with more focus on the compulsion of the Chaebols and use of free market principles. These efforts focused primarily on steel, petrochemicals, automobiles, shipbuilding, and electronics. To this extent, those companies that agreed to shift their production towards these strategic sectors were given practically interest-free loans by government-controlled banks.

As Kisung Park notes, "Since the economy of scale is essential to heavy and chemical industries, the cultivation of these industries became an opportunity for large companies' full-fledged growth."[footnoteRef:8] To this day, some of South Korea's most notable companies (Samsung, Hyundai, and POSCO) were the products of this second phase of development. It was during this time that Park had to legitimately partner with the Chaebol. While at times these relationships were contentious, Parks regime emboldened companies like Hyundai and POSCO to such an extent that their relationship could be considered more than symbiotic. In return for meeting the targets delineated by the HCI, companies were rewarded with patronage in the form of tax cuts, the awardship of near total monopolies, in addition to alternative types of subsidies. [8:]

As a result of this second phase of development, the ratio between heavy and chemical industries and manufacturing increased at an exponential rate of roughly 39% in 1970, to nearly 54% in 1980, coupled with the ratio of total exports increasing from 12.8% to about 42%.[footnoteRef:9] Additionally, whereas the percentage of exports equal to GDP was 15% with the onset of the HCI in 1973, by 1979 it had increased to 24.6%.[footnoteRef:10] By the

time of Park’s assination in 1979, South Korea had exceeded the expectations of the entirety of Asia and the world. [9:] [10:]

To conclude, there are several elements as to why Park’s reforms were successful in encouraging economic growth. Firstly, because Park had near complete control of all facets of the government, he was not plagued by competing political interests, unlike Rhee. This was additionally benefited by the technocratic restructuring of the bureaucracy which Park had modelled after the meritocratic system of the Japanese military. As a result, this technocratic improvement and unipolar control of the government allowed Park to effectively agenda-set and thus implement his policies directly. Secondly, he was able to circumnavigate the extractive nature of foreign investment in early development through his protectionist policies and nationalization of strategic industries. This allowed park to encourage an influx in foreign capital through his export-oriented system without being beholden to foreign entities much like Central and South America at the time. Lastly, Park was responsive to growth and subsequently allowed for increasingly free-market principles to take hold when it became economically necessary to do so.

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