

Myths and Realities of Korea's Economic Development

Abstract This chapter discusses four negative myths about Korea in the 1960s and 1970s, namely, that Park Chung Hee's regime (1) was anti-liberal, anti-democratic, and anti-free market, (2) was characterized by strong, government-led industrial policies that directly distorted and intervened in the market, (3) created monopolies which encouraged the concentration of economic power in large corporations with the pro-chaebol corporate policies, and (4) created unbalanced regional, sectoral, and corporate development. By arguing that these myths are largely unfounded, the chapter spells out the motivation and aims of the book.

Keywords Policy regime of Park Chung Hee · Anti-Park Chung Hee Government-led industrial policy · Concentration of economic power Unbalanced development

Korea under Park Chung Hee's leadership during her take-off and developmental era in the 1960s and 1970s are full of examples of numerous unorthodox policies that would not sit comfortably with mainstream economics or political ideology. Korea's economic achievements continue to remain controversial, clouded with many myths and confusion created among domestic as well as international commentators and scholars. We begin by outlining some of the myths and realities about Park's national management and economic policies.

MYTHS ON PARK'S ECONOMIC DEVELOPMENT POLICY PARADIGM

- Myth One:** Park's non-democratic, authoritarian leadership should have been detrimental to Korea's economic development because such a regime is anti-liberal, anti-democratic, and anti-free market. As such, Park's economic as well as political regime is not to be recommended to nor replicated by other latecomers and developing economies. Korea also should abandon Park's way of economic management if there is any hope for further development. In fact, the later Korean governments all made concerted efforts to dismantle Park's economic policies as well as his political regime. The verdict: Korea is described as a country that has embraced fully the notion and practice of political democracy and market economy albeit with disappointing economic results.
- Myth Two:** Park's economic policy regime adopted strong, government-led industrial policies by directly intervening in the market place and therefore, cannot be a successful benchmark for other developing economies. In fact, Korea's industrial policies were initially not endorsed by the World Bank ever since their initiation and were officially declared a failure by the Korean government in the early 1980s. Furthermore, there appears to be a consensus that Park's industrial policy should not be repeated if true development is to be achieved. As such, Korea's industrial policy regime since the 1980s has turned into a regime of functional support policies, instead of being aimed at certain industries or firms.
- Myth Three:** Park's economic policy regime created concentration of economic power by promoting large corporations through adopting a pro-chaebol corporate policy, which enhanced monopoly power as well as help deepen politics-and-business interlocking that became a source of widespread corruption. The post-Park consensus concludes that Park's regime was largely against the free and competitive market principles and therefore the economic power of the chaebol should be dismantled and their investment activities for any further expansion

should be tightly controlled. Korea according to this anti-chaebol consensus has adopted a systematic set of regulatory policies putting a grip on the large corporations' investment as well as management activities, while on the other hand adopting a strong Small-and-Medium-Sized Enterprise (SME) support system that hopes to establish a balanced corporate ecosystem and a competitive market economy.

Myth Four: As a way of summary, Park's regime is said to have created unbalanced regional, sectoral, and corporate development. This is seen as incompatible with balanced development, which has been proposed by some authors and most political leaders as a fundamental feature of a developed economy. Therefore, for the last 30 years, adopting a development path exactly opposite of Park's is regarded as the way forward towards a developed economy.

REALITIES AND PERTINENT QUERIES ON ECONOMIC DEVELOPMENT

Reality One: The above myths notwithstanding, Korea's fastest growth and the best shared growth experience of 30 years, which is also confirmed by the World Bank (1993) and perhaps unprecedented in human history, is associated with Park's political authoritarianism and economic interventionist policy.

Reality Two: In spite of the "failure of Korea's industrial policy," the very conglomerates that grew under the Heavy and Chemical Industry (HCI) promotion policy, which never found favor in mainstream economics, have continued to lead the Korean Economy. This is a strong counter-evidence against Myth two and three above, implying that Park's industrial policy may in fact have been indispensable to Korea's development and that the large corporations are not the "evil monster" working against national interest as some of us are made to believe.

Reality Three: The Korean Economy currently suffers from low growth and worsening inequality despite the past three decades of drastic policy shift that “corrects” the alleged misguided Park’s paradigm to further push Korea towards an advanced economy.

Quo Vadis? Given the huge rift between the myths and the realities, one cannot but feel embarrassed and intrigued with the state of the art in development economics, i.e. its failure to explain the Korean economic development experiences. Perhaps there is good reason to be suspicious about the validity of existing perspectives on economic development. In this context, some observations about the realities of Korea’s development could help clarify some pressing and pertinent queries on the development process in general.

First, it is interesting to ask how many examples in history there are of economic catch-up of nations that had adopted the Western style one-man-one vote democratic political system before development or with the market alone? The answer: Not many or only a few at best.¹ This book hopes to shed some light on why this is the case.

Second, despite strong historical evidence of successful industrial policies of countries like Korea, Japan and China, it is important to ask now whether industrial policy should be disregarded as is often argued in mainstream textbooks. This book hopes to provide a convincing alternative framework to such mainstream thinking as well as to supplement the somewhat weak existing pro-industrial policy argument. Moreover, should economists continue to preach that markets will take care of most things regarding development? Should economics as a respectable discipline continue to dwell on the “all or nothing” debate on the role of government versus the market? Be that as it may, controversy is everywhere and policy makers in developing economies remain confused.

Third, it remains puzzling whether it is possible to achieve economic development without such features as “economic concentration” in favor of growing corporations and regions, and “unbalanced development.” This book will explain why this is impossible, and that in fact, such features are necessary features of development for growing economies. Development without differences and inequalities based on the ideology of equality and balance appears to have become the modern view of economic progress among us. This book will argue that such kind of development is simply a mirage. This is akin to tying your own hands so

as not to allow one to select and choose, or “economically discriminate” based on economic performances in the market place. We seem to forget too easily that our selection instincts are intrinsically and fundamentally inseparable with economic development and with all those unequal outcomes in the market.

Fourth, this book aims to find lessons for developing and developed economies as well as for Development Economics (as a subject) from Korea's experiences which we split into two drastically different periods: the era of successful “misguided” Park's paradigm and the democratized and market-centric but failing mainstream economic policy paradigm in the post-Park era. The later chapters intend to explain the reason for such dichotomy of economic performances and to draw some key lessons by utilizing my new General Theory of Economic Development (Jwa 2017). Having explained in Chap. 6 such uncomfortable realities of Korean economic development, Chap. 7 highlights the eight most useful lessons for developing as well as developed economies following Korea's experiences which will help clarify some of the myths and queries about economic development.

NOTE

1. Note that Mercantilism could be reinterpreted as a precursor for Industrial Revolution and most of the now developed economies had infant industry protection policies under a relatively non-democratic political regime during the early part of their industrial revolution. See Chang (2002) for similar view.

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