Making International Development Cooperation Effective: Lessons from the Korean Development Experience

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Preface

This volume is the outcome of a year-long research programme conducted jointly by the Korea International Cooperation Agency (KOICA) and United Nations Research Institute for Social Development (UNRISD) under the sponsorship of KOICA. UNRISD coordinated research and commissioned papers to researchers with a plan to publish a book compiling the papers presented in this proceeding. The views expressed in the drafts are those of the authors and do not necessarily reflect the official position of both agencies.

The research titled 'Making International Development Cooperation Effective' started with the assumption that careful reading of the experience of South Korea is definitely rewarding to those with an interest in making aid effective for development, in particular preparing for the Busan High Level Forum on Aid Effectiveness (29 November – 1 December 2011).

Acknowledging that there is no one-size-fits-all model, the current research considers the questions:

1. What lessons can we draw from the Korean experience of success in economic, social and political development which will be valuable for developing countries today?
2. What are the critical issues and questions in interpreting Korean success? How should we interpret Korean developmental success and formulate lessons that can be transferable to developing countries?

At the commencement of the research activity, the research team gathered in Seoul, in May 2011, and over two days presented ideas and brainstormed on the questions. The overall consensus the participants shared during the workshop is that economic and social policy should not be separated in understanding the development of Korea and other developing countries, and the Korean experience is a good exemplary case to show the significance of multiple roles of social policy in development. All the drafts in this proceeding reflect the ideas and views during the workshop. KOICA and UNRISD, on behalf of the authors of the drafts, would like to thank those participants to the workshop who kindly participated in the discussion which all the authors have benefited from.

We hope the ideas and discussion points raised by all the participants to this conference significantly contribute to the final research findings which will be published as an edited volume in early 2012.

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Chapter 1

SOCIAL POLICY AND SOUTH KOREA'S DEVELOPMENT: AN INTERROGATION

※ Please do not quote without authors' permission.

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Introduction

This paper is not about social policies of South Korea. Rather it is an attempt at interrogating the Korean experience with the role of social policy in generic developmental terms with the hope of deriving some lessons for developing countries. The perspective is obviously "developmentalist" in the sense it is concerned with the role of social policy in development processes such as that traversed by South Korea during the last half century or so. The paper 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. The paper is concerned not only with the state's policies pursued consciously but also with those pursued unconsciously but with consequential social outcomes. It also looks at both effects of omissions and commissions in policy. All this may account for the tentative and speculative nature of the paper.

Learning from the past is, of course, not easy. One has to deal not only with the scientific processes of acquiring knowledge but also with the current political exigencies and subjectivities that impinge on such an endeavour. But beyond politics and subjectivities we must recognise that there are other problems inherent in the learning process. First is the willingness of the "late comers" to learn. Here, we face the fraught issues of openness, "cultural bias" and hegemonic pressures that direct eyes in one direction. In the case of Africa, our sights have been on the Western experience and even within that it has been limited to that of our erstwhile colonial masters. The second constraint is the capacity to learn. The issue may simply 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. The third constraint is the ability and willingness of the leading

countries to share their experiences and knowledge with others. In some cases the pioneers may simply not be willing to share their knowledge for commercial or geopolitical reasons. This is what Ha-Joon Chang has eloquently discussed as "Kicking the Ladder" (Chang 2002). Learning from predecessors is further complicated by the collective amnesia about failures and, in the opposite direction a vivid recollection and idealization of the success stories. In other cases, the mystification of the past may have gone so far as to make the lessons irretrievable for contemporary use.

The fourth problem is the temptation to lump together everything that happened simultaneously as inseparable or to assume that all the things we now deem good for development must have happened at the same time. The retrofitting and translation of the contingent into the functional gives a logical purpose to every policy pursued in the past and assigns to policy-makers of the time of tasks and objectives which they may never have been consciously aware of assignments. The policies may never have been intended and may not have been necessary but once adopted they were sufficient to account for some of the social outcomes of the development models. And once something from the past is given an *ex post* logical necessity, it is then impossible to see how anything else would have happened without it. We must recall also that even if we could establish that something may indeed have served a purpose at some historical point, we will not have established that there was nothing else that was functionally equivalent which would have done the job. The point here is that many "lessons" that have been learned by the forerunners *ex post* are often presented as evidence of the *ex ante* prescience and insightful of the leaders of the nations concerned. In light of all this, latecomers have to learn how to separate the wheat from the chaff and may have to do their own archaeological work to discover what are the really useful lessons buried under rabble of distortion, mystification and confusion.

The "all good things go together" has sought to associate the Asian growth miracles with whatever one thought was good – transparency, accountability, autonomy, non-corruption, bureaucratic efficiency, labour flexibility, embeddedness, flexibility etc. The fact is that the Asian experiences ought to raise a different set of questions: when and why is high economic growth compatible with wide ranges of "baddies" – corruption, bureaucracy, authoritarianism, cronyism, non-transparency, active industrial policy etc. The lessons of history is that there is always room for the political choice of instruments and I believe in looking back for lessons we

have to imagine or examine many possible things that could have been chosen but weren't and try to understand why particular choices were made. Thinking about the counterfactual may help in widening the set of choices. In other words, how much of these bad aspects of the Asian developmental state was contingent and therefore need not to define every developmental state.

Fifthly, there is the problem of learning how the pioneers learned from their own mistakes and how they learned from others. When a particular experiment has been successful it is tempting to downplay the "trial and error" nature of the process and the extent "learning by doing". We have seen this in the idealisation of the developmental state as something omniscient and omnipotent – autonomous but embedded, meritocratic, coordinated, flexible, far-sighted etc[1]. From this idealisation it is easy to draw the conclusion that the accompanying social policy was of the right kind and functionally compatible with the development model pursued. There is also the tendency to conceal the extent of borrowing that took place. Nationalism requires this. Every successful "latecomer" has knowingly or unknowingly drawn on the experiences of its predecessors and almost after the fact, sworn to have invented everything themselves. Nationalism often demands this claim. Related to this is the problem of separating policies that were adopted because they were functionally necessary from those that were opportunistic or serendipitous responses to domestic pressures or were the result of learning from the diffusion of ideas about social policies in a more globalized world as a consequence of being a late comer. In the Korean case Bismarckian social policy is said to have influenced Korean thinking through learning from Japan or through anational choice from the "varieties of capitalism" and of welfare states.

The sixth factor militating against drawing lessons from the East Asian experience is the claim of an "exceptionalism" that insists upon a cultural value – Confucianism more specifically- as determinants of the nature of social policy in East Asian economies. However, others have challenged this notion of exceptionalism and shown (a) the great diversity among East Asian economies themselves and (b) the dynamics of social policies and change over time within the same country, changes that cannot be derived from the static view of cultural attributes.

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[1] One the lessons that Kim draws for Africa is:

> "Institutional preconditions in African economies need to be improved. Examples of institutional preconditions include committed and credible government, a merit-based bureaucratic system without corruption, interaction between the public and private sectors, secured property and contract rights, and a trusted judicial system, etc."

And finally there are the more fraught questions of the relevance of the past experiences and the openness of the theoretical framework informing or formalising these experiences. To make the experiences of one country portable, we have to reduce them to "models" of some form. This is necessarily an *ex post* exercise. Thus, both the welfare state and the developmental state were theorised not at the height of their existence but much later many of the lessons are really *ex post*, accounting for the deductive nature of the literature on such regimes.

By definition models are, after all, presentations shorn of all the complexities of the realities of the societies they represent. This immediately raises the danger of de-contextualizing the lessons that can be drawn from the model and confusing the theoretical model with the actual historical experience. It is bad enough if the model is overly simplified. It is worse when the model is a misplaced abstraction of a particular political economic order. An example of this was the characterisation of the East Asian experience as an example of the neoclassical model in action. Furthermore, the model drawn from a particular experience may leave out the elements that may be more interesting for the "late comers". There is no basis for assuming that an introduction of particular social measures learned from predecessors will have similar negative or positive effects. We have seen this is some of the attempts at drawing lessons from the welfare state in which there has been an elision of aspects of social policy that were developmental and transformative as focus has been exclusively on the protective or distributive aspects of social policy. This has unnecessarily rendered the experience of the forerunners appear irrelevant for developing countries.

Competing Ontologies of "Welfarism" and "Developmentalism"

As indicated above, the paper is written in an unabashedly developmental mode that seeks to look at the developmental effects of social policy. This has become an important exercise in the developed countries and it would seem to me even more urgent in the developing countries. In more recent years, in the developed countries neoliberal economists have been at forefront at discussing the economic effects of the welfare state, if only to call for its dissolution. They have argued that pay-as-you-go schemes lower savings; that universalism is inefficient as it allocates resources to the "undeserving"; that payment for disability encourages people to leave the labour markets; and that social assistance creates "dependence" that blunts incentives for

initiative-taking etc.[2] This focus on disincentive effects of social policies has entered the discourse of social policy in developing countries, especially in the "Social Protection" agenda of international financial institutions.[3]

The past does not speak for itself. It must be explored, interpreted, interrogated etc. Ideas in the form of predispositions, paradigms or intellectual frameworks play an important role in the learning process. More significantly, they provide theoretical lenses for peeking into the past. In the absence of a coherent theory of social policy in developmental contexts we are compelled to rely on incoherent accounts of what happened as the past is put to use to serve current agenda. Although social policy has played an important role in the development and "catch up" process, its developmental role has largely remained un-theorised and the analytical work is nowhere near that of the work on advanced industrial countries. Only now are we beginning to get systematic account of what was the role of social policy in developmental states and, quite interestingly, South Korean scholars are playing an important role in this endeavour. However, these new efforts have yet to bridge a yawning gap between development theories and welfare regimes theories.[4]

If in the Post-World War era social policy in the developing countries was the handmaiden of developmentalism, in the developed countries it was imbricated within the ontology of the Keynesian economics which was fundamentally preoccupied with issues of stabilisation and maintenance of full employment or putting back to work those who had lost employment due to the Depression. Not surprisingly its focus was demand management and not supplies expansion, the quintessential preoccupation of development theory. Recall that a key assumption of the model was of excess capacity and underutilisation of existing resources due to low levels of resources. In this model, social policy provided both the objective of macroeconomic policy and an important instrument in achieving the macroeconomic stability. The "Keynesian Welfare system" that was built the welfare state on principles of Keynesian principles was, not surprisingly, focused on the protective and redistributive aspects of social policy. And if it paid any attention to growth at all, it was through the channel of better capacity utilisation and by augmenting aggregate demand through state expenditures on social programs or in redistributing income in favour of those with higher propensity to consume. Both these

[2] For the developed countries, see (Atkinson 1995b).
[3] See for instance the World Bank position in (Holzmann and Jørgensen 2001).
[4] I extensively discuss this in (Mkandawire).

aspects of Keynesianism appeared in development studies in the form of under consumption and underemployment Both notions attracted the attentions of structuralists who advanced the argument that patterns of income distribution in many developing countries led to idle capacity utilisation due to under consumption. The analyses led to social policies such as land redistribution designed partly stimulate aggregate demand through increasing the equality of income. The work of Celso Furtado (Furtado) immediately comes to mind as does that of Ranger Nurke (Nurkse). In the populist's versions, these theories have been accused for the "macroeconomic populism" that destabilised Latin American economies (Dornbursch and Edwards 1992). However, the general view that Keynesianism and the social policies it spawned did not address the problems of supply that were the main issue in the developing countries.[5] The association of Keynesianism with the welfare literature made social policy static and passive, and this has been reflected in a static view of the welfare state which has led to the mistaken view that the theoretical insights of the welfare regime literature are of little relevance to developing countries. Generally, however, in the eyes of developmentalists, the welfare state was guilty by an association to an economic analysis that was not deemed appropriate to developing country needs -- the Keynesian model and that Keynesian economics did not directly address long-term problems of economic development and the supply constraints on production immediately made Keynesian economics of much less relevant to have developing countries and that did not a transformative role to social policy.

We should, however, recall that even for the developed countries there were strong views within the Keynesian paradigm itself that a growth component was necessary. After all, the welfare needed not only full employment but increasing incomes and welfare. The Kalecki version of "Keynesian economics" had a strong growth component right from the beginning but this is not the model that won the battle of the day in the policy circles. Among the first attempts to give a growth element to the Keynesian system was Harrod's work on growth which was immediately followed by neo-Keynesian work by economists such as Joan Robinson, Nicholas Kaldor, using a Neo-Keynesian framework that drew heavily from the classical theories about distribution, savings and investment. This more dynamic work did not feature in the debate on the welfare state and in the policies of welfare states as much as it should have. One consequence

[5] Dudley Seers considered the application to which Keynesiasm was applied a "special case". (Seers 1963) The Indian economy V. K. R. V Rao argued that Keynesian economics was simply not relevant for developing countries".

of this is that much of the theorizing about social policy in the developed countries has had a rather tenuous relationship with economic growth, a fact demonstrated by the "discovery" of "social investment" as one of the task of social policy.

Development economics drew from other traditions – classical economists, the German Historical School and the Schumpeterian view of capitalist economies. Thus, Lance Taylor reminds us although early development economists differed about how to characterize growth paths and how to get between them, they all followed Schumpeter "-in thinking of development as a process of transition from one steady state to another- and "Schumpeter's (and the classical') emphasis on studying how economies change over time in specific historical and institutional circumstances" (Taylor 1988). The framework that could have reconciled the welfare state literature and economic growth was the Schumpeterian version which, when applied to economic policy, recognized that the protective role of social policy was the necessary counterpart of the "creative destruction" that capitalist accumulation entails by leading to the close down of uncompetitive industry, requiring new skills from labour, segmentation of the labour force between those in the oligopolistic sectors and the competitive sectors etc. The existence of such policies further facilitated acceptance of technological progress by counteracting Luddite tendencies in the labour movement.[6] Significantly, the Swedish welfare state was influenced by the Myrdalian view of "social investment" and the Schumpeterian notion of "creative destruction" which suggested the need for policy measures to address the consequences of "creative destruction", leading to a rejection of the passive role to social policy:

[6] This Schumpeterian understanding of Social Policy was apparently behind the think among the leading Swedish social democratic economists such as Myrdal and Meidner, suggesting that the new association of Schumpeter to the "workfare" understanding of social policies may not be historically correct (Jessop, Bob 1994).

"There are exceptions to this passive approach, though. In Sweden in the 1950s, the active labour market policy approach formulated as part of the Rehn–Meidner model appears to be a parallel track inspired by Schumpeter as much as by the Myrdal legacy. Following Schumpeter, the Rehn–Meidner model was actually designed to reinforce the destructive forces of capitalism in order to promote the establishment of new and more wealth-creating structures but, following the Myrdals, the model also provided the policy instruments for equipping the workers of the old structures with skills and other resources that would enable them not only to access but also to gain from the new structures. (Morel, Palier and Palme “Beyond the welfare State", p. 7)

It has been suggested with respect to Japan, that the Western economists that exercised the greatest influence on thinking about industrialization in Japan were Friedrich List, from whom the Japanese learnt the importance of domestic markets: Schumpeter, from whom they learnt the importance of market structures and technological innovation; and Karl Marx, from whom they learnt the necessity of managing the class contradictions spawned by capitalist accumulation. Ha- Joon Chang suggests that something similar was true among the economic epistemic community in South Korea when he states*:*

"In terms of their economics, the early top Korean political decision-makers were not fans of the free market, although they had to pay constant lip service to free-enterprise economics, given the critical importance of US support for the political survival of the regime. In addition, what little economic knowledge the early Korean economic bureaucrats — who were mainly lawyers by training — had was not of neoclassical economics but of the theories of Friedrich List, Joseph Schumpeter and, especially, Karl Marx…The major themes of Korean economic policy-making (were)…the concern with social waste from excessive competition (a distinctly Marxian notion), the emphasis on scale economies, the obsession with capital accumulation and the desire to develop heavy and chemical industries. (The) political-economic agenda of the Park regime was summarised in the First Five-Year Plan document as ‘guided capitalism’ where the state plays a guardian role." (Chang 1996: 151)

In the age of adjustment both the Keynesian and developmental framewrk within which social policy was to be understood were overthroun by the "neoliberal counter-revolution" (Krugman 1992). In the neoclassical model it is assumed that markets perform perfectly. There is perfect information and all producers have access to the same technology which obeys constraint returns to scale. Savings equal investments and are both determined and determine the rate of return. All resources are fully employed and if they are not they can be freely and costless disposed off. Income distribution is determined on the marginal returns of the different factors of productions. Individuals are described as rationally pursuing the maximisation of utility. Since there are no externalities in production or consumption, individuals preferences are unaffected by those of others. With labour markets always cleared, given the flexibility of wages and productions functions, there is always full employment. In the neoliberal world, social policy appears merely as a corrective mechanism for addressing "market failure", primacy and normalcy being given to the market. Tony Atkinson states:

> "The emphasis by economists on the negative effects of the welfare state can be attributed to the theoretical framework adopted in much policy analysis, which remains rooted in a model of perfectly competitive and perfectly clearing markets. In the first-bets situation, any real world tax or tax necessarily causes loss of efficiency. Put another way, the theoretical framework incorporates none of the contingencies for which the welfare state exists. There is no uninsured uncertainty in the model; nor involuntary unemployment; nor is the future introduced in any meaningful way. The whole purpose of the welfare state provision is missing from the model" (Atkinson 1999).

The dominant neoclassical view gave its own twist to the interpretation of the experiences of countries like South Korea which ultimately reduced them into social policy free zone (Chang). A reading of the Korean experience through the neoliberal eyes that the yielded insight that was something like "Thank God, South Korea was a "social policy free zone". In right wing circles, 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. Indeed, the combination of high growth with low social expenditure 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.

Later the Korean model, with low social expenditures, was paraded as a vindication of "social investment" welfare state because it had been able to avoid the negative aspects of the welfare state. Modifications of the neoliberal model now led to calls for what were labeled as 'social investment welfare states' (Giddens 2000), 'competition states' (Cerny and Evans 1999), or Schumpeterian post-national welfare' (Jessop, Bob 1994), 'enabling state' (Gilbert and Gilbert 1989), 'workfare'. Paradoxically, South Korea seemed to have been moving to towards the protectionist and redistributivist welfare regimes. The puzzle only arises because of the failure to recognize that the incipient welfare regimes of Asian were, by design or default, were "social investment regimes" and also by the fact that in the conventional modelling business of "welfare regimes" the Schumpeterian foundations of Welfare state were not fully recognized and when eventually recognized they have been confined exclusively to the "workfare" aspects of it (Jessop 1993; Jessop, B. 1994).

A much cited articles on the East Asian development states characterised 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). As we have argued elsewhere social policy addresses and consists of measures for production, redistribution, protections and reproduction. It is also misleading to suggest that the welfare states in the developed countries have only been "welfarist" and were exclusively preoccupied with protection and some redistribution (Mkandawire 2011). Production and reproduction have always been central concerns of the welfare state in capitalist economies.

A Framework

Developmentalism and Social Policy

Development poses three issues about social policy. The first one is related to the "social question" that the process of rapid change entails. The second relates to the instrumental value of social policy not only in addressing the short-term aspects of the "social question" but also the long term issues of economic development and structural change. The last, but from least, is the normative framework social policy established for development.

One way of organising the lessons to be drawn from the South Korean development is to start with consideration of what the key elements in a development strategy and to see how bi-directionally social policy relates to them. The logic of social policy has a lot to do with how one "stylises" the spontaneous working of the market. Such stylisation often makes explicit or implicit assumptions about the following items each of these is related to social policy:[7]

1) Initial conditions
2) Political conditions
3) Ideological Conditions
4) Thriftiness conditions
5) Distribution or the "Wage Bargain Conditions"
6) Economic structure
7) Financial conditions
8) Investment conditions
9) Labour Market conditions
10) Technological Conditions
11) International conditions

Initial Conditions

The attention paid to "path dependence" in social policy has quite naturally underscored the conditions of "initial conditions (Pierson 2000). The problem with success is that virtually any initial condition can be presented as a prerequisite for the subsequent success or as foreordained to lead to particular outcomes. In reality, if initial conditions are *conditioning* factors for any trajectory of development, they are not *determinant*.

In case of South Korea the following initial conditions are often referred to in the literature (see for instance Booth 1999; Woo-Cumings 1999; Woo-Cumings 1998).

(a) One is the "Confucians" legacy;
(b) Japanese colonisation;
(c) War and division of the country and the nationalism it induced

[7] This list partially draws from Joan Robinson work on accumulation. Hers was a closed model. Today we would definitely add international conditions. It also did not say much about the political conditions. See also an earlier borrowing from her work (Abdou)

(d) Land reform.

(e) Ethnic homogeneity

(f) Poor natural resource base

(g) High aid dependence

Each of these has been evoked as an important positive determinant of the development path of South Korea. However it should be recalled that this is not how all observers of the Korean condition said about it that time. In earlier writing virtually each of these "initial conditions" was posited as one of the constraints on the future prospects of the country. Korea was a problem child – divided, querulous, unstable etc. As Steinberg observes:

> "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 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." (Steinberg 1985: 21)

In some of the earlier recognition of the "oriental welfare state", the emphasis was on its modesty and low level of expenditure (Goodman and White 1998; Jones 1993). In some cases this was contrasted with bloated and inefficient welfare states of Europe. And that was image that the IFIs sought to spread to African and Latin American countries during the adjustment debacle.

All this said, there are a number of things which while perhaps not recognised *ex ante*, can be extracted as useful lessons, *ex post*, from the initial conditions of Korea's development: the high level of initial primary school education enrolment which have been attributed to Japanese and the land reform, which was a reflection of both the country's colonial past and the agenda of the new occupying power. Both these conditions have ensured Korea the favourable "initial conditions" in terms of equity and human capital.

They are some "initial conditions" that are inherently not "portable" as "lessons" or that should not be *portable* on moral grounds. It has been said that, with respect to South Korea, Japanese colonial rule was more developmentalist (Kohli) and that war stimulated nationalism

and self-sacrifice etc. One cannot chose to colonised or to wedge war to create the appropriate conditions, although, in the African contexts both solutions have been suggested. Generally, if you are not a path with those "initial condition", there are high "transition costs" in moving on to another and simply seeking to create these conditions may be suboptimal because of such costs.

Much has been said about how the point of departure of many countries compared to those of Asia. Such a comparison is to narrow a base and many other "initial conditions" have been created retroactively. One useful set of data that was collected during the "initial conditions" period comes from the study by Adelman and Morris (Adelman and Taft Morris 1965) which gathered data on social, political and economic indicators to construct an index that would be used to measure the interaction between economic growth and political and social arrangements. The index clearly shows that overall Africa countries' point of departure was worse than that of any other region. The comparison is often made between Ghana and Korea- the score for Ghana is –0.01 (among the best in sub-Saharan Africa) as compared to .85 for Korea. Such differences can have enormous implication on the eventual path of economic growth. Indeed, Jonathan Temple and Paul Johnson (Temple and Johnson 1998) use this that the index had considerable predictive power in terms of growth in later years.

The Adelman- Morris Index (1957-62)

	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

Another recent exercise has involved comparing African economies of the 1990s with their Asian counterparts of the 1960s on a number of key social and economic variables and then

arguing that African conditions are now similar to those of Asia then and drawing from this the conclusion that Africa is ready for a similar take-off as Asian economies. This is the linear view of development reminiscent of Rowstovian "stages" theory of development (Rostow 1960) that was addressed by Gerschenkron and others and need not detain us here. Suffice it is to note that simply lining up levels of indicators without establishing their inter-relations and direction of change doesn't tell us much as to the appropriateness of these "initial conditions" in the current circumstances.

Political conditions

Here perhaps more than in other areas does Asia provide negative lessons for Africa. Asia has been used to argue against the "premature development" taking place in Africa. If in some of the regression analysis, democracy enters the growth equation with a negative surplus in Asia and Latin America, they are positive ones for Africa (Krieckhaus 2002). This could be accounted for by the wretched performance of African authoritarian regimes but it does suggests, that even when we set aside the normative case for democracy in Africa, the instrumental case is strong in Africa.

Ideas Ideology and the Politics of Legitimation

Ideology plays an important role in shaping social policy. Conceptions of the relations between the individual, family, market and the state differentiate social policy regimes. More significantly, they help identify what perceived as the "social problem". It has been observed, for instance, while in the United Kingdom the problems was seen as that of poverty, in France it was about the family and nation while in Sweden the issue was about equality. In many developing countries, the problem was often seen as that of "nation-building" and development. The story about Asia is that somehow they were nationalists. And that this made them so successful. By implication, those who have not done well lack nationalism and national pride. Mahathir often made these observations about Africa's failure. I am personally sceptical about the inherently developmentalist thrust of East Asian nationalism. Most of the early African nationalists pursued developmentalist strategies and Africa had its own "miracles" in the 1960s and 1970s (Mkandawire 1999; 2001). The issue is not, therefore, the intensity of nationalism but the policies that were pursued and the social project and compositions of the bearers of that

nationalism. And here one would like to know more about the Korean experience beyond the assertions that Koreans were nationalistic.

Political regimes

One other feature taken for granted in the original welfare regime literature was that one dealing with democracy. The consideration of "development welfare states" and the varieties of developmental authoritarianisms meant that the political regimes and their interaction of the welfare regime had to 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 context? One general conclusion about the politics of the welfare state in South Korea was it was top-down, reflecting the authoritarian nature of the developmental state that shaped it. This begs the question as to why different authoritarian states pursue different social policies – from simple "Poor laws" provision of assistance to the indigent to universal access to basic services in the name of socialism. The point is that 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. Indeed, the whole existence of social policy is recognition of political imperatives that impinge even upon the most recalcitrant of dictators.

Because these developmental states were authoritarian, and often brutally so, most emphasis has been on force. It has led to the view that the developmental state do not permit the pursuit by the state of other social policies other than the purely productivist depending in part on its ideological underpinnings. This has tended to understate the infrastructural authority. It is clear that what makes the developmental state effective is not the brute force of repression but what Mann referred to as infrastructural capacity (Mann 1987), (Mann 1994) that sustained developmental strategies ultimately required. In recognition of this, writers on the developmental states such as Peter Evans have emphasised the ideas of "embeddedness" of the state in society (Evans 1995). In much of the literature this embeddedness has tended to be confined to the capitalist-business relationship, with state having a Janus face with a smile towards the capitalists and an angry sneer towards other social classes. However, this narrowing of "embededness" builds on an underestimation of the importance of social policy in the form of full employment and enterprise welfare enforced by the state. Implicit and explicit in the social policy of the

models was full employment and high levels of education. It is easy to attribute these items to a purely productivist orientation but it can also as central components of a policy to eliminate poverty And so while the measures to ensure its "embeddedness" in the capitalist class are recognised almost approvingly, those directed and for infrastructural power have received short shrift. Indeed, one of the negative aspects identified in the literature is that East Asia countries used social policies primarily to enhance the legitimacy of the government and pacify the working class workforce (Deyo 1989; Holliday 2000; Midgley 1986) or as "pre-emptory means to appease existing or expected distributional conflicts or to facilitate the industrialization process, rather than to reduce social inequalities" (Chung 1992: 3). This broader reach of the notion of embedded is argued by Ringen (Ringen, et al. 2010). In some of the writings, this is presented as a negative feature or as *sui generis* of the development state.

We should also recall that the concerns with legitimacy are not the exclusive preoccupation of developing countries. In earlier writing on fiscal policy James O'Connor argued that fiscal policy contained to two potentially contradictory objectives: the stimulation of accumulation and the Legitimation of the accumulation process. In a similar vein Ian Gough argued that the welfare state: "'… simultaneously embodies tendencies to enhance social welfare, to develop the power of individuals, to exert social control over the blind play of market forces; and tendencies to repress and control people, to adapt them to the requirements of the capitalist economy' (Gough 1979: 12). 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 over which accumulation must be sustained.[8]

One interesting lesson from South Korea is how democratisation can dramatically impinge on social policy and its normative basis. Democratisation seems to have contributed to the erosion of the segmentation of the welfare that was intrinsic to its Bismarckian features by extended rights on the basis of citizenship than that form of insertion in the market.

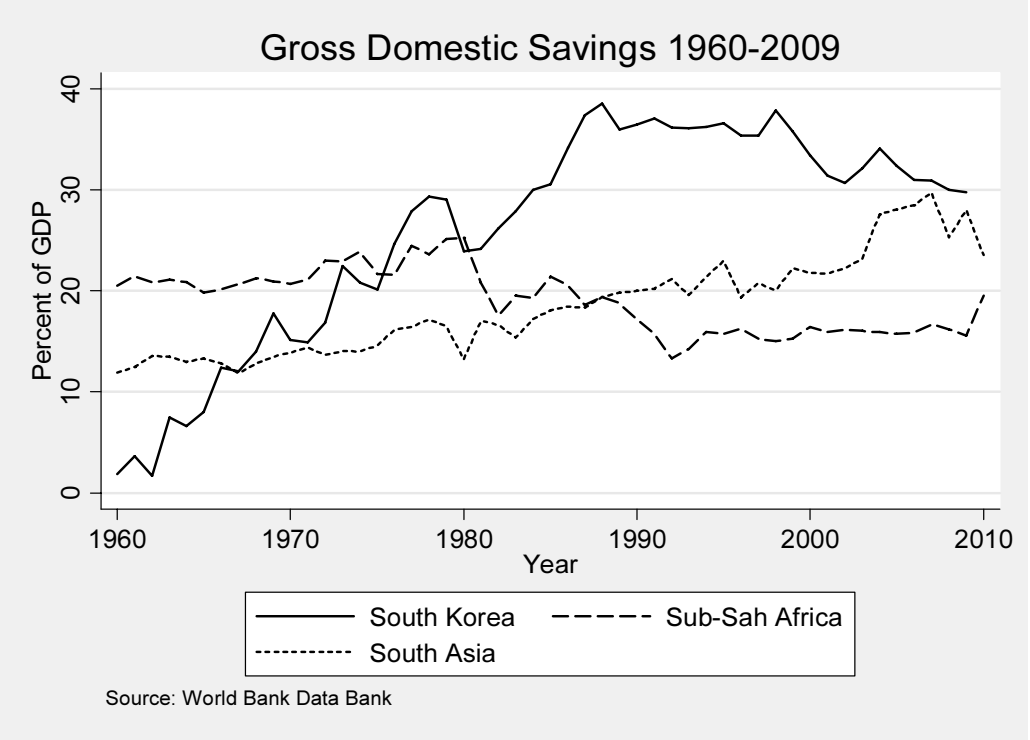
[8] Earlier development literature, with its concerns for political order, was keenly aware of the political problems raises by the "revolution of rising expectation" (Huntington 1968).

Income Distribution and Thriftiness conditions

Nobel Prize winner, Arthur Lewis observed that "the central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 per cent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 per cent of national income or more". Not surprisingly, the savings-investment nexus has occupied a central in the understanding of processes of development. In this section, we argue that social policy has played an important role. The problem of social policy in the process of development has not only been the generation of economic surplus but also distribution of economic surplus and the effect of that on future growth. Social policy can play a role in (a) determining the investible level and distribution of the investible surplus and (b) the use by directing or stimulating investment.

The role of social policy in stimulating investment was one aspect of the Keynesian welfare state in stimulating demand. It was generally not consider as relevant for developing countries although, as we noted above, some structuralists concerned with under-consumption, considered it relevant for developing countries as well. In recent years, many countries have had their own stimulus packages to counter the deflationary pressures of the recent crisis. Another Keynesian-like of social policy is stimulating or discouraging investment. With respect to the positive role, social policy can play a role in exhilarating the "animal spirits" of investors by ensuring political stability. On the negative side social policy can signal fiscal irresponsibility or an ideological bent hostile to capital.

The real issue, however, is the involvement of social policy in determination the levels and allocation of surplus. East Asian countries have high savings and others have attributed to a culture of frugality as opposed to that of waste and ostentatiousness in other parts of the world. The culturalist arguments do not hold. This may have been true for other parts of East Asia but does not hold for South Korea. In Figure 1, we see that the Korean savings rate was much lower than those of Asia, Africa and Latin America and that there was therefore a huge resource gap which was covered by foreign savings. Until it is only after the "oil crises" of the 1970s that Korea begins to dramatically outperform other developing countries.



Income distribution matters for the economy. But what income distribution? Economists distinguish between personal and functional distribution income. The choice between the two measures is not matter of indifference. Furthermore while personal income distribution may be good for looking at poverty, the latter is more appropriate for the larger issues of macroeconomy including growth and stability and for understanding the root and systemic causes of poverty. It is perhaps not surprising that with the dominance of neo-liberalism and an agenda on poverty that does not demand much redistribution limits the focus on personal income distribution. The two measures point to distinct political economic frameworks. The focus on personal income distribution has, for instance, been associated with a political economy that evolves around the "median voter".

In the new growth theory, there are least two arguments for considering income distribution. The first is the political economy argument that high levels of inequality can lead to resentment and politics of confiscation (Alesina and Rodrik 1994). The second argument is the relation to the notion of human capital and the view that while physical capital was important in the early stages of development today human capital plays an important role (Galor and Moav

2004).[9] In situations of extreme inequality and credit market imperfections, the poor will not have access to credit to allow them to invest in themselves or their offspring (through better education and health). Further, the poor will be averse to risk and will therefore not undertake risky but high return activities. This analysis fits in with the emphasis by such institutions as the World Bank to focus on "equality of opportunities". It is also suggested that the investment in human capital was probably the single most important social policy imitative in the Korean developmental state.

In contrast, classical economists and later post-Keynesian economists focussed their attention on functional income distribution partly because it is this distribution that shaped the personal income distribution and partly because distribution was seen as is important to understanding the different rates of accumulation. It is not surprising that the political economy that was associated with the Welfare state was functional income distribution. Furthermore, these two approaches point to two different aspects of social policy. Personal income distribution tends to focus social policy towards poverty personal income distribution does seem to be appropriate measures because it points to the well-being of families. Moreover, functional income distribution tends to address the distributional issues pertinent to social policy, distribution and accumulation in a capitalist economy and consequently places social policy in a dynamic context.

In more recent years, there has been a realisation that a fundamental issue in social is the functional income distribution upon which personal income distribution rests.[10] I am inclined towards the use of functional income distribution to understand the social policy regimes of East Asian economies and share the views expressed in this respect by You when, using a Neo-Keynesian farmework, he argues:

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[9] In a pan on Karl Marx *Das Kapital*, Kalor and Mauluv suggest *Das Human Capital* as the driving force behind class accumulation and suggest the end of class struggle (Galor and Moav 2006).

[10] unattainableEven the IMF has rediscovered the classical relationships by attributing the current crisis to the reshuffling of incomes in favour of finance and rents and against profit and wages. Following the financial crisis there has been a growing return to analysis that draws on functional income distribution. More specifically that the "stylised facts" of constant shares of wages and profit in national income that prevailed for much of the Post World War and that characterised the "Golden Era of Capitalism" was undermined by the neoliberal regime which shift surpluses away from profit and wages towards rents and interest with severe consequences on job creation and the indebtedness of the working class. The IMF has also weighed in this new debate (Kumhof and Rancière 2010). This shift in income away from wages had been the credit position of the working class simply.

"To provide an account of the dynamic interaction between income distribution and growth in East Asia, the classical/Keynesian view that accords central importance to the role of profits as the source of, and the incentive for, accumulation seems to be an indispensable perspective. In the classical/Keynesian tradition income distribution is at least to some extent an institutionally determined exogenous variable, and capital accumulation and growth are influenced by the given distribution of income. The central aspect of income distribution here is that between wages and profits, because profits are saved to a much greater extent than wages and thus become the main source of accumulation" (You 1998).

One aspect of the "social question" has been around the increasing inequality in the early stages of development. This was not only sanctioned by the summation of the historical evidence into a Kuznets Hypothesis" on the inverted u-shaped trajectory of inequality but also by the dominant theorisation of the link between income distribution, savings and investment. At the ideological level this was given a Calvinist twist whereby nations would have to go through a vale of tears before redemption. Another argument for growing inequality took a more classical form, being focussed on functional income distribution. The earliest formalisation of this problem in the development debates goes as far back as the classical economists who were concerned with question of distribution among the various class recipients of specific types of incomes. More spastically, wages for workers, profit for capitalist, rents for landlords and interest for the financiers. It was generally understood by the more progressive economists of the time that the accumulation of wealth and growth would be accelerated if the surplus was shifted towards profit and away from the rentier classes who were generally viewed as unproductive and wasteful. In development studies, this classical focus of functional distribution in income was revived by Lewis. For Arthur Lewis the implicit view was that the allocation of surplus to capitalist who would reinvest. Arthur Lewis assertions about savings, his has important implications for the distributive role of social policy. From logic of his classical model and historical experience Lewis then concluded that "the central fact of economic development is that the distribution of incomes is altered in favour of the saving class" (Lewis 1954: m=155-6). In the debate on Latin America, it was generally argued that the reduction or removal of rents accruing to the Latifundista would unleash capitalist development. Many neo-Keynesian economists have, by implication, subscribed to this view, although their concerns for aggregate

demand many have suggested a re-distribution in favour of workers with higher propensities to consume.

Labour market

Labour markets occupy a central position in the distribution of income both on a functional and personal level. They are also one of the defining institutions of varieties of capitalisms. The importance of what the Germans referred to as the "social question" in the process of industrialisation often manifests itself most sharply in this market. Not surprisingly, government have taken active measures with respect to this market. The reasons for active labour market policy include the need to address serious market failure, building of human capital and managing social change. The measures have included outright repression of labour to a Bismarckian pre-emption of the radicalisation of the labour force.

Keeping wages share down

How have wages share been keep down? In the authoritarian developmental states two measures have been. One has involved the "socialisation" or "Nationalisation" of Labour. The first case was a feature of the Stalinist Model and was repeated in the Maoist model where exhortation and moral incentives delivered labour to industry, albeit state industry. In authoritarian capitalist developmental models, in which the state "delivers" cheap labour to capital. industrial economy - (Castells 1992). Direct repression of labour had been an a too frequent feature of many "catch-up" strategies. The characterisation 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 the productivity and profits (Castells 1992). There is vast literature of the features of the East Developmental States that needs little elaboration (Castells 1992; Deyo 1989; 1992;Leftwitch 1995). It was generally justified in the literature by those who argued against "premature" unionisation or any other workers´ rights or extension of social rights in the name of development. Amaryta Sen (Sen) gave this view the acronym BLAST (for "Blood Sweat and Tears") which was couched in Protestant Ethic of Weber or as sacrifices for the nation or a socialist future. However, the co-existence of the developmental state and more extensive social policy in other parts of the world or among other late comes (e.g. Mauritius or Finland) may suggest that the low levels of social expenditure may not have been a reflection of

ineluctable exigencies of accumulation but a reflection of the repressive nature of the state and the "BLAST" view it may have shared with many others in the developmental state.

The literature on East Asian economies stresses that East Asian economies have had low levels of inequality and that shares into high savings and investment rates; and that low inequality and high profit shares coexisted primarily due to the unusually even distribution of wealth" (You 1998). However, this is only partial view of inequality in these countries. It relates only to personal income distribution. The true picture of the Korea experience is that (a) there is inequality in function distribution of income in favour of profits and (b) high level of equity in terms of personal income distribution. You (You) provided evidence that the share of wages in all the high performance East Asian economies, except Hong Kong, fall below the average of the relevant income group. These features have two important implications. The first gives a central role to the accumulation process while the latter reduces poverty and favours accumulation of human capital (Akyüz 1996; You 1998). You (You) explains this auspicious outcome by arguing that initial land redistribution created the favourable conditions for a more equal personal income distribution. With respect to personal income distribution, Ito Peng argues "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, Taiwan and South Korea". It consists of two key elements (a) a high employment generating growth model and (b) high initial levels of equity ensured by land reform that could generate high levels of human development indicators without the usual levels of social expenditure.

"Taxing Labour"

Social policy has tended to be seen as associated to increased social expenditure. This was, of course, true in the context of depression and low levels of aggregation where increased government expenditure would stimulate aggregate demand. There were, however, cases when social policy would contribute to squeezing demand through forced savings. In the developing countries such "forced savings" would contribute to higher levels of savings and investment and earlier literature on development was replete with schemes of "forced saving".

One common feature in the East Asian model that has wide social political bases and implication had to do with forced savings which often two forms (a) restraining consumption by restraining liquidity (b) different withholdings of income though schemes such as pension

schemes and other arrangements. With respect to the former, this point is well summarised by You as follows:

"East Asian governments also utilised various policies to promote household savings - whether the household income out of which savings are made is profit-related or not. They restricted consumption in various ways, including restrictions on importation of consumer goods and suppressing consumer financing (for example, requiring a large down-payment for housing loans) .... This was especially vigorous in Korea, where the government periodically mounted campaigns for belt-tightening and demonised what it deemed luxury consumption and conspicuous consumption. Furthermore, East Asian countries complemented the consumption restriction policy by tight foreign exchange controls to prevent capital flight before they were relieved of the balance-of-payment problems. Finally, the East Asian governments created financial institutions and schemes such as postal savings, forced saving schemes for school children, incentive measures for workers' savings, etc., to maximise mobilisation of savings" (You 1998: 53-54).

In the second category, the most prominent of these was mandatory pension schemes and the second was the pension systems as a source of forced savings, the iconic one being Singapore's providence fund. In addition, Akyuz further observes 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 Korea, such payments constituted between 14% and 33%, of the total wage bill during the 1970s.[11]

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.

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[11] Akyuz further notes:

> "Since bonuses are paid as a lump sum at periodic intervals, they allow firms to have at their disposal an important part of the wage bill as interest-free funds. From the workers' point of view such withheld payments are forced savings, particularly in view of their limited access to consumer credit, which restricts their ability to spend in advance of receipt of the bonus. In any case, both theory and practice suggest that the propensity to save from such temporary and transitory incomes tends to be higher than the propensity to save from regular incomes. Indeed, a close correlation has been observed in Japan between the long-term increase in the temporary income ratio and the long-term savings rate. The bonus system implies that workers' savings move in large part with corporate investment and profits: an investment boom leads to an increase in the revenues of firms, which in turn leads to an increase in workers' bonus income, which raises the savings ratio. This is also a main reason why household savings have been relatively high and rising in the East Asian NIEs" (Akyüz 1996: 465b).

Social Pacts

One approach has been the “corporatist” one which has been employed in both democratic and authoritarian regimes and t involves striking a “wage bargain” in which labour gave up some of the gains in productivity in exchange for greater employment and security. Such “wage bargains” did not take into account only the direct earnings of workers but also the "social wage" that includes benefits from social transfers and other publicly provided or mandated social benefits. The bargains were seals in “social pacts” which emerge as the standard solution in the post-World War model until the 1980s when, in many developed countries, labour was weakened. In a fundamental sense the welfare states in the more coordinated capitalists economists has some such “bargain” or “class compromise”, Were there such pacts established in South Korea and if so when? A number of writers have argued that in the Korean case labour was left out in the developmental coalition which involved the state and Big Business.

Social Policy and Wage compression

Finally, there has been the use of wage compression. The need for it can arise for a whole range of reasons including equity, exploitation, efficiency and social inclusion and has been use under various political regimes for different political reasons. In more authoritarian systems the wage compression has been the logical consequence of the suppression of labour. In social democracies, it has been used as a tool for equity (“equal pay for equal work”) but also as instrument for promoting efficacy by restructuring the economy towards more profitable examples. The wage compression pushes out less efficient producers and favours high productivity firms.

Experience elsewhere would suggest that “wage compression” must have played a role in the Asian economies. In the more neoclassical models Korea, and other, several Asian have relied more on market wage determination. This apparently is in contrast with other counties where state interventions created “labour market distortions” that led to high labour costs (Fields and Wan 1989). The “openness’” of the economy has created conditions where no protected “labour aristocracy” was allowed to flourish. This explanation is not reconcilable with (a) the fact that high levels of equality were achieved *before”* the export orientation through land reform (Haggard 1990) and (b) 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 literature on developmental states and increasingly that on welfare regimes in the developing countries suggests, it is much more interventionist role for the state that slowed growing inequality.

…And how has Investment been assured?

Our analysis has so far confined it on how social policy has affected levels of surplus and its allocation. The next question then what has been used to ensure that the high share of profits in will not frittered away in frivolous consumption by capitalists to will be spent on speculation or will be repatriated abroad? Or as Akyuz and associates observe with respect to East Asian economies:

"...policy-makers in these countries did not believe that channelling resources into the hands of potential investors was enough. In their view, there was no guarantee that corporations would use such resources for productive investment purposes, or that all investments would in the long run sustain rapid productivity growth. To begin with, potential investors could use the resources made available to them simply to increase luxury consumption - a possibility that seems to have materialised after the recent liberalisation episodes in Latin America" (Akyuz, et al. 1998).

What made capitalists reinvest by translating high profits into high savings and high business? A number of arguments have been advanced in the development state literarture which have included nationalism of the bourgousie, the coersive force of the state and its ability to "stablise" labour and, through carrots and sticks, to make the business class to buy into its poroject and the autonomy to force capitalist to invest (Koo and Kim 1992). [12] This, I believe, has obfuscated an important aspect of social policy in the South Korean social policy: namely to support high profit, ensure lower wages and labour peace accompanied by restriction on the use or allocation of such profits. There were a number of instruments for ensuring proper use of surplus. These included "severe restrictions on luxury consumption, both directly through

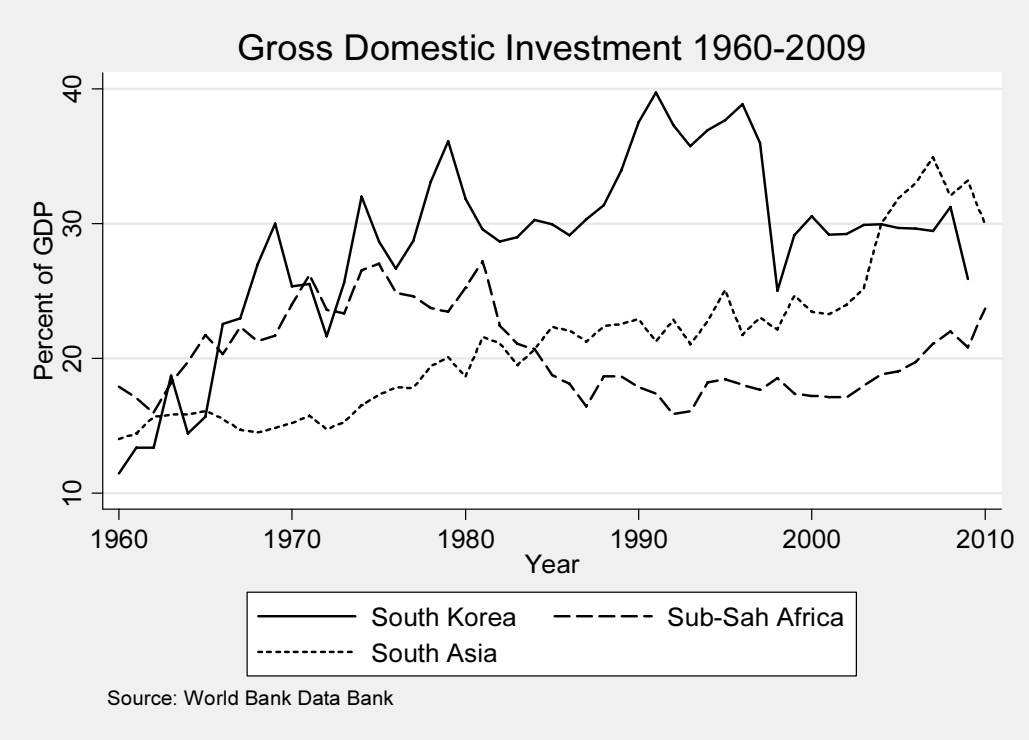
[12] Park Chung Hee's junta arrested leading businesspersons on charges of "illicit wealth accumulation" during previous regimes, with full intention to punish. Yet very soon Park turned around completely pardoning those arrested in exchnage for economic co-operation. He asked them to participate in his ambitious industrialisation projects as leading entreprenuers, and subsequently allocated to them the bulk of foreign and domestic capital along with many other trade and tax privileges. p. 125 (Koo and Kim 1992)

restricting the import and domestic production of luxury consumption goods, and indirectly through high taxation and restrictions on consumer credits, although the mix of measures differed across countries" (Akyuz, Chang, and Kozul-Wright 1998). The other measures were restriction of earnings from the financial sector. This was achieved by the state controlling or owning the banks, elimination speculative investment opportunities, restrictions on the outflow of capital. If we add these land reform measures that basically eliminated rents for landlords, we have an economy in which profit reigned supreme.

The real problem in development has been designing socio-political arrangement systems that ensure both "patient capital" and "patient labour" to underpin their accumulation and innovation systems. That is context of catching up; patient labour in the labour market should have as a counterpart patient capital in the financial market. For example, workers would be "patient" enough to accept a lower wage on the assumption that higher profits will lead to higher investment and, therefore employment and higher wages in the future. A critical assumption in this is that capitalists would be "patient" enough to reciprocate with high levels of reinvestment of profits. However, there is the problem of credible commitments against opportunism when employers retrench labour through acquisition of even more capital-intensive technologies or when they fail to reinvest the higher profits ensured by wage restraints.[13] One of the functions of social policy has been to give credence to such arrangement either through state regulation or state-guaranteed "social pacts" or "wage bargains".

What differentiates the East Asian NIEs, including the second-tier ones, is not household but corporate savings (Akyüz 1996; Singh 1998;You 1998). The East Asian countries have unusually high business saving rates, but that their household and government saving rates are not particularly high" (You 1998).

[13] This is a problem frequently faced by labour in developing countries. As Cristina Laurell (Laurell) notes with respect to Mexico, in the 1990s, "the large profits obtained primarily through wage depressions had not increased the rates of productive investment or job creation. Rather the scarcity of profitable investment opportunities in the national economy has provoked capital flight, along with a boom in luxury consumption (generally of imported goods) among the tiny minority of the population that is favoured by the neoliberal model". The headline in a recent article in the Herald Tribune (Sept. 30, 2006) says it all: "VW workers agree to a longer week: No extra pay, but investment is promised."



An important lesson here is that any decision to restrict wages in favour of profits must be accompanied by measures that ensure that the resulting profits will be productively invested. Indeed this is problem one of the more difficult challenges of social policy and it at the core of any normative justification for favouring profit in the functional distribution of income.[14]

Financial Conditions

Financial conditions here refer to how financial institution and markets are structured [the private/public ownership divide, the nature of competitions, universal banking versus the arms-length "Anglo-Saxon" banking, the role of stock markets etc. Earlier understandings of the institutional requirements for financing development among late industrialisers were captured in the work of Gerschenkron who argued that such economies would require specialised institutions. First, in these countries firms were unlikely to have sufficient internal funds to finance the relatively larger and more capital intensive "catch-up" industrialisers. 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

[14] Paul Samuesos once defined the rate "exploitation" as the share of capitalist consumption to total profit. A situation in which capitalists invest all their profits was therefore not deemed as exploitation.

was that development required some form of credit rationing to direct funds towards what were considered as strategic sectors or industries in the process of economic development.

There is an elective affinity between social security systems and financial institutions. The relation is a complex one and characterised by bi-directional causality. The sheer magnitude of funds involved relative to national financial institutions has made such resources a focus attention in the design of financial systems for economic growth. The way these funds are collected and managed can shape the financial sector while the financial sector can, in turn; affect their returns and the portfolio choices available to them (Estevez-Abe 2001). The way in which labour income and welfare is regulated thus influences whether savings will flow into the banking system (including public versus private institutions or into marketable securities" (Vitols 2001: 175-6). The link between social security funds and development finance has been a feature of "late industrialisers" with the German "universal banking" and the Bismarckian state the most emulated among other late comers. The firm or industry level policies that ensured wage compression and lower levels of household inequality and that laid great emphasis on solidaristic retirement provision were important factors in supporting the bank-based system in Germany (Vitols 2001). "This elective affinity between solidaristic labour regimes and bank-based financial regimes is important in controlling the relative size of the market segment of the financial system" (Vitols 2001: 176). This model was to be followed in different ways among the late industrialisers that were known as "coordinated market economies" or "developmental states" in East Asia.

As in most "Late Industrialisers" the pensions system was initially segmented, covering only the social groups that were central to the social order or the development models. However, its function was not exclusively to protect workers but designed "as a source of capital rather than as a means of old-age income security" (Jung and Alan 2009: 427). Huge funds were collected in the process, constituting 30 percent of GDP in 2006. As in Japan, in South Korea a substantial portion of the pension funds were lent the Ministry of Finance which in turn has used these funds to invest in various public projects (Iglesias and Palacios 2000). The pension system was used particularly to financing heavy and chemical industries (Kwon 2004, Kim 2006) (Jung and Alan 2009).

This use of social security funds as part of developmental finance or to strengthen developmental finance institutions has been under severe attack by neo-liberalism and many

countries the vast pension funds have been used to kick-start or stimulate financial institutions such as stock markets. This apparently has been the case in South Korea as well (Jung and Alan 2009). With no developmental prioritisation these pension funds have gravitated towards speculative real estate and, in Southern Africa fund most of the shopping malls.

Economic structure

One feature of the modern Welfare state is the preponderance of the formal wage employment. Consequently much of the literature on the welfare state is concerned with economies with such structures. African economies are the least industrialised in the world with large sections of the population still in the rural areas and those in urban sector being largely. It has been rightly pointed out, therefore, that social policy must include measures towards the rural and the informal sectors of the economy.

One aspect of social policy that has led to attacks of African governments has their exploitation of peasants through direct and indirect taxation of agriculture. In contract, countries such as South Korea are presented as have 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"[15]. The real question is not whether on not government taxed the rural sector but what social policies were introduced to transfer resources to the sector (e.g. education, health services, subsidies, new technologies, marketing, storage and transportation facilities). These "social policies by other means" are often missing in the discussions of "lessons" from Asia.

[15] Vu observes:

> "The government was a major buyer of agricultural products, collecting between one- and two-thirds of the annual marketed surplus of rice and barley crops.30 Food prices were kept low under tight government control until 1968. In almost every year to 1960, government purchase prices were between 20 and 50 percent lower than production costs, depending on the particular year (Ban et al., 1980: 240). Until 1972, peasants were paid less than market prices. Only in the third Five-Year Plan did Park begin to raise food prices, offer fertilizer subsidies and increase investment in agriculture. This policy change was partly motivated by the regime's concern about the decline of food production and the large amount of foreign exchange required for food imports. Politically, Park felt threatened ever since the 1971" (Vu 2007: 39).

Technology Conditions

There are least three aspects of technology that social policy must address. The first one has to do with social acceptance of new technologies. The triumphalism of industrialism has tended to obscure the extent of social resistance it faced, including most memorably in the form of Luddites, and the various forms of resistance even today and including in the advanced developed countries. "Modernising elites" have had to drum up the case for technology in the name of "modernisation", "catching up", national glory etc. In addition, the ease with which societies have accepted new technologies has also depended on the social protection that exists[16].

Reconciling Productivity of new technologies with other goals

The third is reconciling the choice of technologies to other social objectives, including employment or environment. One of the "Great Debates" of development economics was about choice techniques, with one group of economists arguing for labour intensive to maximise employment while another arguing for capital intensive techniques which would maximise surplus and thus rates of investment. However, one lesson from the late industrialisers is that the debate as to whether the economy as a whole should chose labour intensive or capital intensive techniques was misleading. Countries have tended to be "walking on two legs". Implicit in these debates issues of intergenerational and intragenerational distribution and the problems of reconciling the various discounting of the future.

The solution in the successful cases has involved the simultaneous pursuit of the two objectives using different sectors or industries with industry maximising surplus while services and agriculture maximised employment. The real problem is how in light of the big differences in productivity among workers in different sectors of the economy to reduce wage dispersion. In social democracy the solution has been the "solidary wage policy". However dictators can also compress wages by forcibly holding down wages to be paid to skilled labour and increasing minimum wages as Korea did in the 1980s. The outcome of such policies in Korea was significant, compelling Freemen to observe, "A union- dominated social democratic state would be hard pressed to produce distributional outcomes more favourable to the less-skilled" (Freeman 1993: 406).

[16] The rise of the Luddite movements during the Industrial Revolution was in part a social response to a technology that was seen as a threat in the absence of any protection.

Creating the "Social Capability"

The second task is creating the human skills and institutions for generating, absorbing and adapting new technologies. One other important aspect of "initial conditions" is related to notions of "catch-up" which has been theorised into an "advantage of backwardness" first adumbrated by Gershenkron. As Abramovitz states:

"The hypothesis asserts that being backward in level of productivity carries **a potential** for rapid advance. Stated more definitely the proposition is that in comparisons across countries the growth rates of productivity in any long period tend to be inversely related to the initial levels of productivity" (Abramovitz).

Abramowitz argued that the exploitation of such backwardness was conditional on what he terms "Social capability": "One should say, therefore, 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" (Abramovitz). Social policy is one of the instruments for making a society socially advanced and able to learn, adjust and innovate in line with the main social and political objectives.

A remarkable feature of the Korean system has been its focus on education and in much of writing 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 of the region ensured that that governments could "deliver the appropriate skills to the workplace; they had to establish strong controls over the institutions responsible for education and training. Fourth, governments had constantly to steer the system by adjusting the outputs from the education and training system to meet the existing and future demands (Ashton, et al. 1991: 141), although the private sector played an important role in proving education, the approach of these countries was not a laissez faire. 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 one must focus first on primary education then tertiary education. It has been suggested further that African countries together with their Latin American counterparts, It has been further suggested that the low levels of poor quality of post-primary education may reflect the fear felt by authoritarian regimes for volatile student bodies (Gough 2004). The countries which prioritized secondary education and finally tertiary education invested too much in tertiary

education. This argument was then used to dismantle the university system in Africa. However looking back at South Korea this prioritisation of primary school was short lived and Korea clearly exhibit high levels of achievements in higher education.

The "training regime"

The literature on *Varieties of Capitalism* has identified the "associated "training regimes" as one the constitutive elements of welfare regimes (Estevez-Abe, et al. 2001). And for late industrialisers it constitutes one of the defining features of the developmental state. With respect to skill formation outside the school system and in the labour market, these countries "training regimes" that "help structure the operation of the labour market. This may be to help speed up adjustments in the labour market and to shift the basic equilibrium within which the market operates. It may also involve influencing the level of rewards individuals receive for their skills. Here government action is an integral component of the labour market. It can be used to ensure a rapid adjustment of demand and supply, to speed up the increases in the stock of skills in the labour market and to change the incentive structure for the acquisition of skills" (Ashton, Green, James, and and Sung 1991: 141).

An important role of social policies is the coordination of decisions by different actors on the acquisition of skills. Workers may wish to know that should they invest time and money on training they will be rewarded with a secure and commensurately paid job. Employers may also wish to know that if they invest in training workers they will not be victims of poaching Social policy has played used to certain rules and principles of equitable distribution (such as incomes policy, enforcement of social pacts, and so on), all of which have the effect making innovative investment by the firm no longer dependent on the bargaining power of its own workers [Antoni and Pagano, 2002). And through regulation the state has ensured that the contracts are contractual credible arrangement and allowed the long-term economic coordination between employers and employees to address the "labour question" [Manow, 2001 #3123]In this way the "compulsory welfare capitalism" takes on the role of "an insurance device that make lifetime careers safer and enable people to engage in productive and risky activities that they would otherwise not undertake" (Vartiainen 2004: 208).

We should also add here a common aspect of industrial policy related to social policy – that of domestic sourcing. In most of these "late industrialisers" much of the export production came from the large firms. Their role in employment came not so much from direct employment (as most of them tended to be capital intensive), but from their linkages with smaller more labour intensive industries. These linkages were not simply spontaneous of market driven technological choices but constituted part of the national labour market policy and other social policies which encouraged or insisted on local sourcing and encouraged forward and backward linkages in the economy.

International conditions

The international context plays a considerable on the formation of social policy in individual countries. We have already this in the notion of "catch-up" and contagion. One should add here international conventions that have, in some cases, compelled developing countries to adopt a whole battery of legislations at much lower levels of economic and social development than the predecessors. In other literature, countries' attempts to shield citizens from external conjuncture has played an important role highlighted by the evidence that the more iopen the economy is in terms of the share of trade to GDP the more extensive the social protection. One consequence is that small, open economies tend to have higher expenditure on social programmes (Cameron, 1978; Katzenstein, 1984) (Cameron 1978; Katzenstein 1985;Rodrik 1997).[17] Earlier literature on world systems and dependence argued that since social programmes such as minimum wages 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 globalisation and in the critique of the neoliberal agenda which has called for the retrenchment of the state. How much does this analysis apply to South Korea?

One distinguishing feature of the East Asian countries is not that it has growth episodes – many countries have had. The really questions why have their growth episodes lasted longer and when terminated how have countries quickly got back to them How have they managed the

[17] Others have argued that the globalization has taken reflects the limitations that the welfare state has imposed on it. Thus Elmar Rieger and Stephan Leibfried argue:

> Our general thesis is that the movement toward and the trends in a globalized economy have been triggered, contained, differentiated or modified, weakened or strengthened, and slowed down or speeded up through *national structures of social policy and their developments*, to the degree that these could replace protectionism.

economic and social crisis of stalled growth and how have they adjusted? A widespread view of the impact of globalization on the welfare state is that it would lead to the entrenchment of the welfare state. South Korea has moved in a completely opposite direction by adjusting to the 1997 financial crisis by extending the welfare state. This is a response that needs to be better understood in terms of its politics, its time its efficacy and sustainability. After all there are many examples of "macroeconomic populism" responses to economic crisis that extended the role of the state only to run into serious financial difficulties (Dornbusch and Edwards).

Social Policy by Other Means

The "Eurocentric view" of social policy has led to a privileging one set of social policies prevent in the developed countries while and obscuring the many other social policy initiatives in developing countries. Looking through these "Eurocentric" eyes one has not been able to see these other initiatives (Midgley and Kwong-leung 2001; Walker and Wong 2004). In some of the earlier politicised recognition of the "oriental welfare state" the emphasis was on its modesty, low level of expenditure and efficiency as opposed to the bloated welfare states of Europe (Goodman, et al. 1998). And that was image that the IFIs 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 conforms to the proposition of Wilensky of a linear relationship between 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. As suggested above, other initiatives that have played considerable roles in the redistribution of wealth, protecting citizens against the vagaries of the market or brings excluded groups into the larger social sphere. The problem is one of capturing 'surrogate social policy' (Chang 2004: 252) (Kim) or "social protection by other means" (Mishra 2004). Several writers have pointed 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 brings excluded groups into the larger social sphere. Agricultural policies and agrarian corporativism that have included land reform, the high level of protectionism of farmers and price rice supports and producer subsidies constitute a de facto

income maintenance programme for the rural population. Other measures have included state-guided enterprise welfare that that were enforced through statutory mandate, administrative guidance and tax incentives. Gender policies were also used to force women as cheap labour in the more labour intensive export sects. Indeed one way of "devaluing" a country's currency is let the growth in wage rates lag behind that growth in productivity. The provision of health services can take many forms in which in some countries, the state as 'provider', delivering social services and benefits which are then paid for through its expenditure; in other cases the state may confining itself to as 'regulatory' role; while in still others the provision delivery of social welfare may be entirely private, although not voluntary. These variations are lost in the simple focus on public expenditure on health (Kwon 1997).

Conclusion

The purpose of this paper was not to recount the role of social policy in the development process of Korea and still less was it intended to draw immediate policy lessons. Rather, it was to suggest elements that one wishing to learn from the experience would need to keep in mind. As we have suggested the "success" included many unpalatable features including labour repression and gender discrimination. We have in places suggested that some of things achieved by the Korean social policy regime were achieved elsewhere with much better political arrangements. The point here was to highlight how contingent some of the synergies in the "model" were and 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, but this does not mean that this is the exclusive or dominant preoccupation. It may well be that it values equity and protection but believes that in circumstances increased production is vital for the attainment of these goals but it may be aware that the means it chooses are constrained by these fundamental goals of society and may be aware of the synergies among the various pursuits. This, at least seems to be the case in some of the democratic "late comers". Contemporary understanding of development may have insisted on "trade-offs" and policy makers may have been persuaded by such trade-offs and made the hard choices that subsumed other social goals under the one they chose to pursue often at 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.

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Chapter 2

The Korean Experience and the 21st Century Transition to a Capability Enhancing Developmental State

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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 Asia, Africa, 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 also assume that the state has an important role to play. In Korea, as in Taiwan[18] and Brazil, democratic pressures have nudged state action toward policies constructing a version of social protection that echo 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.

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[18] In UN parlance, this is "Taiwan Province of China," but I have used the shorter, indigenous nomenclature here.

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 but adapted to the conditions of the twenty-first century, has yet to emerge as a significant force in global development debates. The aim of this paper will be to argue 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 1970's and 1980's.

Understandings of the role of the developmental state have 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 paper will build on earlier work aimed at conceptualizing the "21st Century Developmental State" (Evans, 2008; 2010a; 2010b). It is divided into two parts. Part I sets out some of the conceptual issues involved in re-thinking the developmental state. I will begin by outlining some of the conceptual issues involved in re-conceptualizing development as capability expansion and the challenges of empirical measurement that result from such a reconceptualization. I will then consider some of the conceptual issues involved in thinking about the role of the state once development has been reconceptualized as capability expansion. In Part II: I will turn 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: South Africa and Brazil. Then, I examine two global

hegemons: rising China and the declining United States. Third, I consider two original archetypes of the developmental state, which have, for reasons still not fully understood, managed to shift in the direction of capability expansion: Korea and Taiwan. I will 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 twentieth century development state.

I. 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 us 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.

A. 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. Amartya Sen (1999: 18) argues that "well-being" involves more than increasing contentment or reducing suffering; it involves 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.[19] 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

[19] The "new growth theory" as put forward by theorists like Lucas and Romer, built on early work by Solow and has been subsequently developed by a range of economists like Aghion and Howitt (1998) and Helpman (2004).

plants, equipment and other tangible capital. If this was true in the twentieth century, 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 (see 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 under-remunerated, 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 under-supplied as well as being under-rewarded.

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 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 HDI (Human Development Index) contains income as one of its components. At the same time, simplistic "wealthier is healthier" algorithms obscure more than they reveal (e.g. Pritchett and Summers, 1996). If we take longevity as an empirical proxy, the general correlation between income levels and capability expansion is undermined in

two ways (see Evans, 2009). First, there is almost no relation between increased income and improved longevity once PPP GDP per capital passes $4,000 per capita. Second, 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 predicts longevity as well as income levels do (Evans, 2009: 115).

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.[20] 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, Ranis, Stewart and Suri, 2003: 25). They conclude 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 twenty years.

To begin with, we have still 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. Even comparisons using traditional indicators like the HDI still reveal interesting

[20] See Ranis, Stewart and Ramirez, 2000; Boozer, Ranis, Stewart and Suri, 2003; Ranis and Stewart, 2006.

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 relation 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 (see Wilkinson, 2005; Hacker, 2006; Zuberi, 2006). Cross national data shows a relation between lower levels of inequality and increased longevity. The recent inclusion of "Inequality-adjusted Human Development Index" in the UNDP's *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) concludes: "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."[21]

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

[21] Another recent paper by Kudamatsu finds 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" (2007: 34).

difficult by the fact that the relationship between particular policies and capability-related results is not as straight-forward 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" polices. Mkandawire (2007) captures this in his idea of "transformative social policy." Arrighi, Aschcroft and Scully (2010: 435) make 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.

B. Re-conceptualizing 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 five points:

1) Capable public bureaucracies are even more important than we thought they were. Without competent, coherent public bureaucracies, capability-expanding public services will not be delivered.

2) 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.

4) "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 must focus on a broad cross-section of civil society rather than focusing simply on industrial elites.

5) The problem of state effectiveness is even more clearly a political problem, and state-society relations are at the heart of the politics involved.

While state bureaucratic capacity remains crucial, questions of embeddedness and state-society relations 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 bigger 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 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 (see 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 under-invest 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 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 raises 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.

II. 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 will use a strategy of comparing three pairs of countries: 1) South Africa and Brazil: 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; 2) China and United States: two global hegemons, one rising and the other declining, both of which appear to be faltering in their ability to deliver development as capability expansion; and 3) 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.

A. 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 that Brazil in the period from 1995 to 2008). Both democratized over the course of the last twenty to thirty years, despite historical legacies of extremely inegalitarian social structures and exceptionally high levels of economic inequality. Starting in the 1990's, 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, South Africa and Brazil 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 1970's, 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" (Kerstenetsky, 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 a 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% to 95% between 1991 and 2004. In South Africa, it dropped from 92% to 88% in the same period [see World Health Organization, WHOSIS Database, http://www.who.int/whosis/en].

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 Appendix B shows, 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 21st century developmental state and the inability of the South African state to do likewise? It is probably not differences in traditional bureaucratic capacity. The South African state began the period with relatively high administrative capacity of the traditional developmental state type, certainly not clearly inferior to Brazil's. A variety of explanations might be put forward.[22] Patrick Heller (2011) offers one very consistent with my emphasis on state-society relations.

Based on extensive research in both South Africa and Brazil, Heller argues that even though South Africa and Brazil are both 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].

[22] It is tempting to point to the devastating effects of AIDS in South Africa as a simple explanation for the divergence. The divergent trajectory of AIDS in the two countries is, however, endogenous to differences in political institutions. Brazil's greater effectiveness at dealing with AIDS is in itself a result of very different relations between civil society groups affected by AIDS and the state, and consequently, sharp differences in policy responses. (See for example: Gauri and Lieberman, 2006).

Despite the fact that both countries have vibrant civil societies in which subordinate groups have organized and engaged in aggressive efforts to make claims on the state, the relation between political society and civil society is quite different. In South Africa, according to Heller, civil society organizations representing ordinary citizens have "become estranged from political society" and "decentralized despotism" (Heller, 2011: 15, 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, Ashcroft and Scully (2010) complement Heller's analysis by looking at the relationship between the South African state and capital. They start 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.* warn:

> 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 (2010: 434).

Unfortunately, in the view of Arrighi, Ashcroft and Scully, the South African state ended up "betting on capital," focusing its demands on "Black Economic Empowerment," which meant making the capitalist elite more multi-racial, rather than claiming a larger share of the windfall profits from the resource boom. Thereby, the state (2010: 435) "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."

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 relations. 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.

B. The U.S. and China--two hegemons with faltering performance in capability expansion: Forty years ago, the United States 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 U.S. 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).

The data in Appendix A show China and the U.S. both experiencing increasing levels of inequality. The data in Appendix C show the U.S., which had levels of life expectancy comparable to average European levels thirty 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 Korea thirty years ago, despite its much lower levels of income, has falling increasing further behind Korea over the course of the last three decades, despite its more rapid economic growth.

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 Boozer, *et.al.* (2003), China's early investments in capabilities provided a propitious foundation for world historical increases in income from the late 1970's to the present. Exceptional income growth during the neoliberal era has not, however, had a commensurate effect on capability expansion. While China's performance in terms of standard measures of capability expansion remains enviable, as Sen and Dreze (2002) point 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 (see for example, Wang, 2004). Chinese society has also suffered from sharply-rising income inequality and a withdrawal of prior social protections (see Davis and Wang, 2009). As Appendix A

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 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, as a combination of foreign corporations and local private capitalist elite groups that, in the socialist period, either didn't exist or were considered political pariahs, 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 United States – has experienced a similar evolution during the neoliberal period. During its rise to hegemony in the first half of the twentieth century, the U.S. amassed an admirable record in the provision of collective goods (see Skocpol, 1992), especially in the provision of mass education. Over the course of the neoliberal era, the U.S. remained one of the world's wealthiest nations and the 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 1970's, the rapid expansion of public education ground to a halt, leaving non-elite Americans unable to satisfy their educational aspirations!

The trajectory of the United States in terms of inequality is even more striking. The now classic 2003 analysis by Piketty and Saez (2003) captures the dramatic change in U.S. inequality during the neoliberal era nicely. 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 U.S. wage inequality that began prior to World War II (see Goldin and Margo, 1992). The Neoliberal era reversed it, taking inequality back to levels not seen since the First World War.[23] Thus, we can see in Appendix A that over the course of the neoliberal era, the U.S. moved from

[23] It should be underlined that the contrast between the two periods involves no "growth-inequality trade-off." U.S. 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.

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 U.S. were to continue into the future, it would raise the prospect of the U.S. becoming more unequal than Brazil, a prospect that would have seemed like a science fiction story forty years ago.

The negative social effects of rising inequality in the United States 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*. Frank, Levine and Dijk (2010) provide a nice quantitative analysis of the secondary effects of inequality. Comparing high and low inequality jurisdictions in the U.S., they find that high inequality situations are associated with a tendency to "live beyond ones means" and therefore experience financial distress as measured by levels of bankruptcy. Their data also confirms 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" (2010: 17).

How do we explain the odd convergence of rising and declining hegemons in terms of their apparently diminished capacity to support capability expansion? Straightforward economic explanations don't help very much. Diminished U.S. 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, 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 the Heller 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 with Arrighi *et.al*., similar to that used in the case of 'South Africa, and in explaining the relative downgrading of the priority of capability expansion in China and offers a provocative candidate for explaining convergence.

In the case of China, I have already 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 United States 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 (2010a; 2010b) agree that the increasing political power of corporate capital, especially finance capital, has constituted a fundamental shift in the structure of U.S. politics – with profound consequences for policy, and hence, for American society. Johnson (2009) puts it most starkly, asserting that "the finance industry has effectively captured our government." The shift from the immediate post-World War II 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 U.S. 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 U.S. 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.

C. Korea and Taiwan as Capability Enhancing States: Studies of the archetypal twentieth century developmental states, 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 Korea and Taiwan moved toward democratization in the 1980's, these states began a notable expansion of social protection (see Wong, 2004; Peng and Wong, 2008; Dostal, 2010; McGuire, 2010). In Taiwan and Korea, the last quarter century has been a period of socio-political transformation that looks like an effort to construct a 21st century Asian version of the post World War II Golden Age.

Siddiqi and Hertzman (2001: 331) sum up the lessons of the Asian Tigers as follows, "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 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 Appendices A and C. In Appendix A, Korea and Taiwan stand out in terms of their ability to preserve low levels of inequality.[24] Korea is particularly impressive in that, in contrast to China, it has managed to combine growth with falling inequality. Appendix C does not include Taiwan, but Korea's capability expansion performance is even more striking. Starting in the 1980s with levels of life expectancy comparable to China's, Korea ends up at the end of the first decade of the new millennium with levels comparable to the EU and higher than the U.S.

Does the exceptional performance in terms of capability expansion in 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 invokes in the case of Brazil.[25]

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[24] 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, Korea and Taiwan stand out.

[25] See, for example, Liu (2008) on the difficulties of the labor and environmental movements in dealing with the state in Taiwan and Korea.

While arguments for the importance of state-society ties in the capability performance of Korea and Taiwan must be considered unproven, they should not be dismissed out of hand. Joseph Wong (2004), who chronicles the shift toward greater public expenditures on health, argues 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) notes that a network of "progressive doctors, academics, and former democracy advocates lobbied successfully for the introduction of single-payer national health insurance" in Korea in the early 1990's. Dostal (2010: 165) highlights "democratization and political mobilization" as the most significant factors in expanding social provision in both Korea and Taiwan.

The cases of 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 insofar as they are, it underlines how little we really know about how state-society relations 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 relations.

CONCLUSION:

This paper has offered two kinds of argumentation: conceptual and comparative historical. The conceptual analysis presented in Part I built on my earlier work on the twenty-first century developmental state (Evans, 2008; 2010a; 2010b) and focused on the central importance of transforming state society relations if the state is to play an effective role in promoting development as capability expansion. At the same time, the conceptual discussion underlined the primitive state of our empirical indicators of capability expansion. The comparative-historical analysis presented in Part II complemented the conceptual argument. It used crude indicators of capability expansion to make some provocative arguments about the role of state-society relations in creating effective state action.

The comparative analysis started with Heller (2011) in order to make the argument 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 United States to promote capability expansion.

The comparative analysis then turned to the intriguing cases of 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 relations play a crucial role, but exactly what distinguishes these countries from other, less successful, countries in terms of the configuration of state-society relations in is not clear. While there is a substantial body of empirical research available on both 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 (as Heller puts it) "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 Korea. The one thing that is incontrovertible in these results is that Korea (and Taiwan), which were

arguably the most interesting sites for research on the developmental state as an instrument of industrial transformation forty years ago, are equally interesting cases for the analysis of the developmental state at 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 Korea, must become a research priority.

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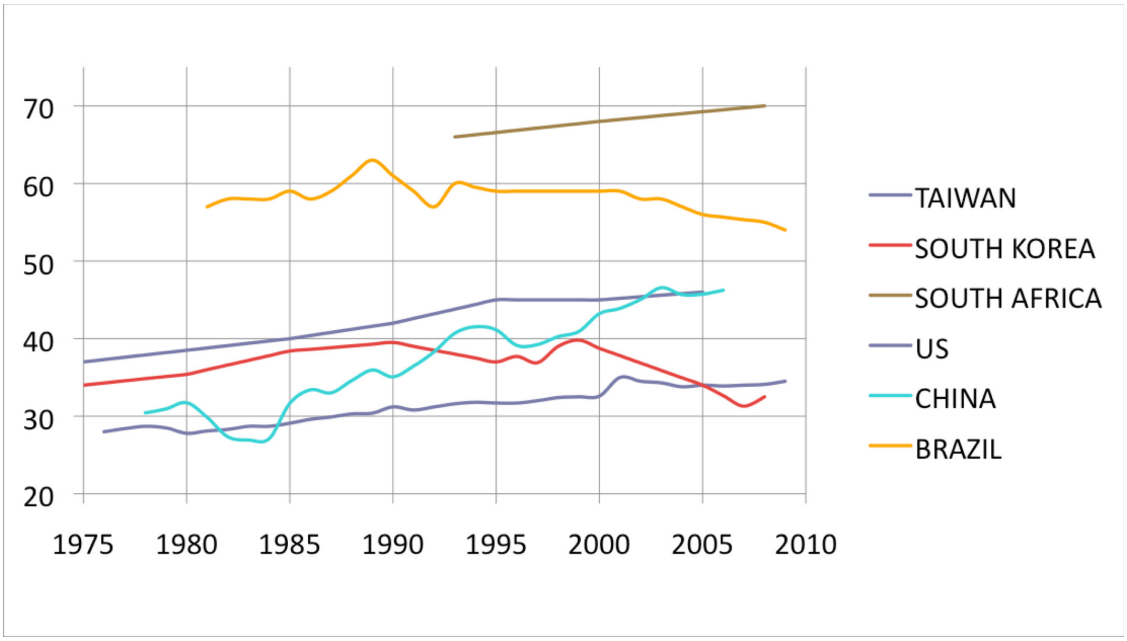
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Appendix A:

Divergent Trends in National Inequality
(Evolution of Gini Coefficients – 1975- 2008)



DATA SOURCES:
Taiwan: Major Figures of Family Income and Expenditure, National Statistics, Republic of China (Taiwan)
South Korea: "Republic of Korea: Four Decades of Equitable Growth", World Bank report. Data from Family Income and Expenditure Survey, National Statistical Office
US: OECD data.
Brazil: World Development Indicators and Global Development Finance. World Bank data bank.
South Africa: Leibbrandt, 2010. "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Papers, No. 101, OECD Publishing. Data from SALDRU 1993, IES 2000, NIDS 2008.
China: Chen, J., et al. 2010. "The Trend of the Gini Coefficient of China". Brooks World Poverty Institute. Data from China Statistical Yearbook and other sources.

APPENDIX B: Data Sources for Gini Indices

Korea, Taiwan, South Africa, Brazil, China and the U.S. - 1970-2010

Chen, J., et al. 2010. "The Trend of the Gini Coefficient of China". Brooks World Poverty Institute. Data from China Statistical Yearbook and other sources.

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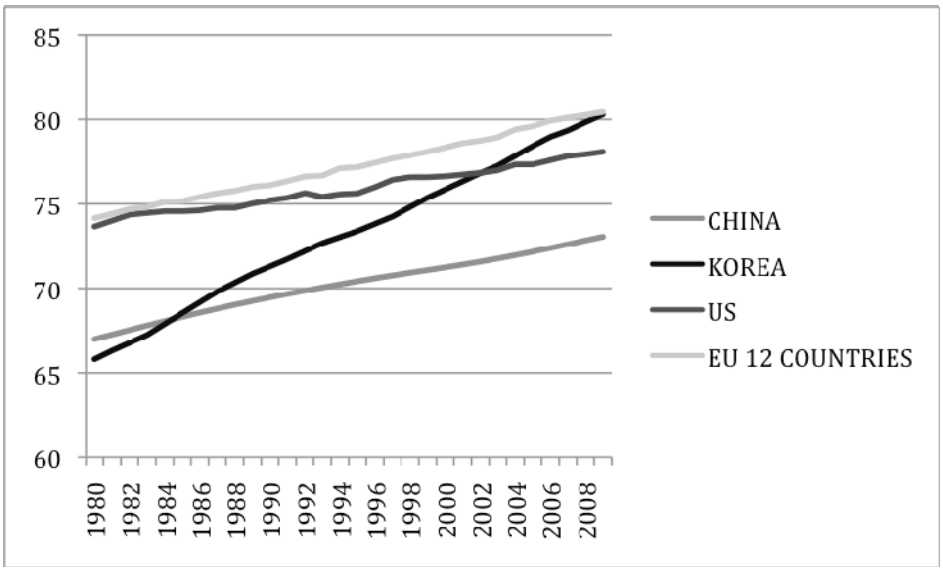
The World Bank databank
--Country reports:
http://data.worldbank.org/country/united-states
http://data.worldbank.org/country/china
http://data.worldbank.org/country/brazil
http://data.worldbank.org/country/korea-republic
http://data.worldbank.org/country/south-korea
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Appendix C:

Comparative National Trends in Life Expectancy during the Neo-Liberal Era
(Evolution of Life Expectancy at Birth – 1980- 2009)



DATA SOURCES:
US: World Development Indicators, World Bank; Centers for Disease Control and Prevention: National Vital Statistics Report, Volume 58, Number 21.
Korea: World Development Indicators, World Bank; WHO Health Statistics and Health Information Systems
EU 12 Countries: Average of 12 EU countries: Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Sweden, Switzerland, and United Kingdom. World Development Indicators, World Bank.
China: World Development Indicators, World Bank; and WHO Health Statistics and Health Information Systems.

Chapter 3

Securing the Home Market: A New Approach to Korean Development

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After comparing various schools of economic thought, I have come to the realization that the principle of state ownership is most profound, reliable and practical. Moreover, it will forestall in China difficulties that have already caused much anxiety in the West (income inequality). I have therefore decided to enforce the principle of the people's livelihood simultaneously with the principles of nationalism and democracy, with the hope to achieve our political objective and nip economic unrest in the bud.

Sun Yat-sen, Fundamentals of National Reconstruction, 1923

Since the eclipse of neo-liberalism 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.[26] To capture the essence of an industrial policy (in both the short- and long-run), it must be examined empirically, as in the de-colonized 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

[26] The most formal definition of industrial policy is a set of measures to coax industry (manufacturing, services, mining and agriculture) towards an outcome that market forces alone are unlikely to generate, within a specific time period. Komiya, R., M. Okuno, et al., Eds. (1988). Industrial Policy of Japan. Tokyo, Academic Press.

resources (the OPEC developmental role model).[27] From the vantage point of market theory, industrial policies correct market failures. From the viewpoint of the de-colonized generation's role models, they "*secure the home market*" on the road towards overseas expansion; they are fundamentally nationalistic and vary by country, starting with the overhaul of foreign property rights (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 de-colonization, electoral politics were absent in every developing country except India and Costa Rica---but it is 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.[28]

The "otherness" of the economies operating under great inductive role models was noted at the elitest 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" (and I would add, by Middle Eastern and some Latin American countries) {Freeman, 1996 #3318}.

Nationalism is a concept altogether absent in market theory, which 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 #3125}). While market theorists claim that industrial policies have mellowed over time, becoming more market-friendly, the Third World's role models, and the 'demi-monde' in which they maneuver to escape the effects of World Trade Organization law, suggest that their

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[27] This paper is based on a chapter of my book on role models: The Rational Revolution: Developing from Role Models, Deserting Deductive Theory. A role model is an inductive institution for learning and an analytical tool to understand economic development.

[28] The growth of individualism has long captured the interest of sociologists and theorists of "modernization." "Adam Smith's contrast between societies held together by ties of affection, obligation and gratitude and societies held together merely by «a mercenary exchange of good offices for an agreed valuation», toennies' gemeinschaft and gesellschaft, Durkheim's mechanical and organic solidarity or Thomas and Znaniecki's contrast between polish peasants in Poland and polish peasants in Chicago, all highlight the increasing scope for the exercise of individual choice as the division of labour proceeds, interpersonal contacts become more multiple and fleeting, people become more geographically and socially mobile, and security is increasingly assured by police and courts and bank balances and insurance companies rather than by the support of kin and friends. And the assumption is that where that scope for individual choice exists, human nature is such that individuals will take advantage of it {Dore, 1987 #3337}.

nationalism has simply evolved.[29] Continuity also characterizes the developmental state, which is now oriented towards laying the groundwork for a technology based economy and buffing up the performance of small- and especially medium-size firms, rather than building heavy industries.[30] 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 both in Latin America (especially Brazil).[31]

One aspect of nationalism, *ownership* of corporate assets, has been an issue of industrial policy since the de-colonized 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, (1) outward foreign direct investment is unfeasible (a foreign firm can't undertake a foreign investment on behalf of another country),[32] (2) supplying outsourcing services to developed countries is dysfunctional (outsourcers, by definition, look overseas for a national firm to undertake their production), (3) 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), (4) dislodging a foreign legacy position in a natural resource industry is undoable (to supplant a foreign concession, a domestic firm is required), (5) reversing brain drain of top national talent is more difficult (a glass ceiling may obstruct nationals from reaching the position of 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),[33] (6) the illegality of local content rules under WTO law is binding (while foreign-owned enterprises can't be subjected to local content regulations, state-owned enterprises can and private national enterprises have more incentive to build their

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[29] Many different terms are used to describe this demi-monde or underground. One researcher talks of the "murky protectionism" found in the international environment for mergers and acquisitions {Hemphill, 2010 #3284}.

[30] Peter Evans {Evans, 2008 #3323} stresses both continuity and discontinuity. The "developmental state" will continue to play a crucial a role in economic growth and social transformation in the 21st century, just as it did in the latter half of the 20th century," but it will have to depart fundamentally from existing models of the developmental state in order to achieve success."

[31] Economic nationalism was never wholly dormant. In the case of *el pulpo* (the octopus), or the United Fruit Company, which established a monopoly over bananas in Latin America, "Over time, the strengthening of nationalist government policies (in Colombia) caused the industry to pass to local independent banana growers and local entrepreneurial banana export ventures" {Dye, 2008 #3304}.

[32] For a review of outward FDI from emerging economies---empirical and theoretical---see {Sauvant, 2011 #3361}.

[33] Discrimination also exists at the national level, if China's allegations that Australia is discriminating against it are true. Australia's Labor government "applies special scrutiny to projects involving state-linked investors looking to take control of strategic businesses. A 2008 bid by Chinalco to take a controlling stake in Rio Tinto was abandoned. In 2009, China Non-Ferrous Metal Mining Co was blocked from buying a controlling stake in rare earths miner Lynas Corp. Australia also blocked state-linked China's Minmetals bid for OZ Minerals, saying its Prominent Hill mine was too close to a rocket testing range {Taylor, 2011 #3297}. For reverse brain drain from Silicon Valley to India and China, see {Wadhwa, 2011 #3157}.

own local supply chains),[34] and (7) foreign firms conduct almost no R&D in the de-colonized world, except in large markets like 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 1;[35] Mexico, with one of the highest rates of 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" (KIET 2006). The emergence of Chinese companies, moreover, was influenced by extensive experimentation in policy making. "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" {Heilmann, 2008 #3355}.[36] 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 must for a stronger India" {Subramaniam, 2010 #3372}.

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 green-field start-ups. In the past, the benefits of FDI were supposed to become evident simply by comparing the alternative of no FDI, but

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[34] WTO refers to the World Trade Organization. A 'legacy clause' prohibits increasing taxation for the duration of a tax contract. In Chile, for example, "Mining companies currently pay a royalty between 4 and 5 percent. The new bill initially sets the royalty at 4 to 9 percent on mining sales on a sliding scale. It raises the royalty to 5 to 14 percent starting in 2018. With the royalty change, the government aims to raise $1 billion over the next three years for reconstruction after a massive February earthquake. The new royalty cannot be forced on companies currently covered under a 12-year tax invariability clause signed in 2005, though the government hopes many major miners will adopt the new scheme.

Chile's mining sector includes private multinationals BHP Billiton, Anglo American and Xstrata in addition to state copper giant Codelco." Only Codelco could be made to pay the new royalty immediately, redistributing revenues to Chile's central government Mineweb (2010) "Chile's senate approves revamped mining royalty bill". Mineweb.com

[35] "The Chinese market is surging for electricity, cars and much more, and companies are concluding that their researchers need to be close to factories and consumers alike. Applied Materials set up its latest solar research labs here after estimating that China would be producing two-thirds of the world's solar panels by the end of this year" {Bradsher, 2010 #3368}.

[36] A study of the Chinese automobile industry mentions experimentation as a positive factor: "The reasons the Chinese state has been successful in promoting the automobile industry are that the industry had accumulated technological capabilities before the reform, there was room for experiments in the decentralized central-local relationship, there was a strong catch-up consensus supported by nationalism that provided requisite performance standards for building up national industries, and there was a continued attempt on the part of the government to continue to improve its industrial policy propelled by popular opinion"{Chu, 2009 #2534}.

today this comparison is inadequate {Moran, 2005 #3130}.[37] The national/international comparison is all the more important since FDI in the 1990s boomed under favorable neo-liberal policies. FOEs, foreign-owned enterprises, should always be warmly welcomed in competitive industries because with no entry barriers, they cannot 'crowd-out' national enterprises---either POEs, privately owned national enterprises, or SOEs, state-owned enterprises {Amsden, 2009 #2582}). 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 like cars, fruit, meat, vegetable oils and other agricultural products (EIU, 2005). There are still FDI caps on strategic sectors (Economist, Reform in India, 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 towards FDI (Bajpai and Sachs, 2000).[38]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 finding is not necessarily generalizable {Hale, 2011 #3182}.[39]

At the same time as the importance of national ownership has increased, inflows into select emerging economies of foreign direct investment 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 #3258}.[40] As much as 60% to 70% of China's FDI comes

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[37] {Moran, 2005 #3123}, Section III, makes no mention of POEs in its assessment of FDI on a host country's economic development, especially the R&D-intensive sectors of automobiles and electronics.

[38] For India's economic reforms, see {Ahluwalia, 2002 #3311}, {Bajpai, 2002 #3312}, Singh, 1988 #3326} and { Singh, 1995 #3310}.

[39] According to two economists, one at the Federal Reserve Bank of San Francisco and the other at the University of Electronic Science and Technology of China, "many of the empirical estimates of productivity spillovers from FDI to domestic firms in China are biased upward. When controlling for these biases, our firm-level analysis using a large number of specifications and FDI measures from two different data sets failed to find evidence of spillovers in properly specified estimations, " p. 151.

[40] FDI in Russia in the late nineteenth century provided ample technology to Russian industry, which was technologically relatively sophisticated to absorb it. The Russian government played a controlling role {McKay, 1974 #1102}.

from Chinese-owned firms.[41] 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.[42] The banking sector was sharply internationalized. The rivalry between FOEs and POEs is what 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% to 50%.[43]

New industrial policy is challenged because foreign-owned firms scarcely undertake local R&D, noted above, whether operating in Korea and Taiwan (where foreign R&D is around 1 percent of total R&D), Turkey or Brazil (in Brazil, mecca of the multinational, the government undertakes more R&D than the private sector, and an estimated 70% of business R&D is performed by public enterprises).[44] Multinational firms tend to keep their new product development close to corporate headquarters, as Raymond Vernon's product cycle theory predicts {Vernon, 1966 #1477}, and even if sub-parts of product-development are outsourced to lower-wage countries, their depth and breadth are nowhere near what occurs at corporate headquarters, as measured by R&D expenditures {Amsden, 2003 #2457}. 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 #2682}.[45] If R&D-intensive industries are dominated by FDI, and FDI does no R&D, 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 e*conomic* 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

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[41] For China's nationalist policies in the telecommunications equipment industry, see {Peilei, 2006 #3302} and {Peilei, 2006a #3301}.

[42] For the Chinese government's second thoughts about FDI in the automobile industry, see {Nam, 2010 #2833}

[43] For FDI in the world's least developed countries, see {UNCTAD, 2001 #3324}.

[44] See {Reddy, 2011 #3124}, {Amsden, 2001 #2682}, and {Amsden, 2003 #2457}. The R&D of foreign firms in Korea and Taiwan is consistently around 1 percent of total R&D {Republic of China, 2010 #3131} .

[45] China, once favoring international joint ventures to develop its automobile industry, has declared its policy a failure due to the failure of international automobile makers to transfer technology {Nam, 2010 #2833}.

{Langer, 1989 #3091}). 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 U.S., the reverse sequence has characterized the developing world (Chandler Jr. 1980). Industrial policies are distinct between 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 phototonics, the United States had "thousands of companies using phototonics 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 phototonics. These companies consist of a diverse array of large and small companies that serve the aerospace, telecommunications, healthcare, 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, 2011 #3320}. In a country like Brazil or Korea, if it were trying to commercialize phototonics, nothing remotely resembling these "thousands of companies" would exist.

In Turkey, which qualified for Marshall aid, when the European Cooperation Agency "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 #3350}. In the US, by contrast, 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, 1986 #3363}.

In the de-colonized 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, in process

#2572}).[46] Simultaneously, outward FDI by nationally owned enterprise, 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% 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 #3291}. 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).[47] In Russia, outward foreign direct investment often surprises outside observers by its landmark deals. One of them was the purchase in September 2009 of a 55% stake in General Motors' German affiliate Opel by a consortium of the Canadian car maker Magna and the Russian state-owned bank Sberbank. With this deal, Russia has bought into the industrial heartland of the world economy and could potentially access more advanced technology" {Panibratov, 2009 #3335}. The outward expansion of Brazil's companies has received government financial support, including targeted credit lines, to strengthen technological capabilities {UNCTAD, 2010 #2951} 12. 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 indicated in Table 2, in a broad range of industries emerging economies now compete with each other neck-and-neck; the BRICs are engaged in 'full-set' competition, covering virtually all modern industrial sectors. Brazil, Russia, India and China each account for a significant share of almost every industry, measured at the three-digit level. Because of each other's success (including Korea's), 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 needs to expand, it no longer has

[46]The nationality of a firm's ownership depends on the majority of its shareholders and the control of its corporate board. For a comparison of the advantags of private nationally owned firms (POEs) over foreign owned firms (FOEs), see Amsden (2009).

[47] When the 2008 financial crash left Japan's parts and components manufacturers with declining demand and a strengthening yen, the Korean government encouraged local firms to "explore the friendly takeover of Japanese companies" (in 2002, Korea's outward FDI in China exceeded that in the US) (KIET 2009b).

to accept the conditions imposed by the 'Seven Sisters;' it has recently formed a collaboration with the national oil companies of Malaysia and Iran).[48] Competition to develop Mongolia's coal fields involves bids from Brazil's mining giant, Vale, India's ArcelorMittal, a joint venture between Chinese and Japanese companies, and a consortium between Russia, Japan and Korea. More competitors have also signified more customers (Brazil's former chairman 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 2010c)).[49] China's impact on world markets is conveyed by the headline, "Copper falls as China cools" {Desai, 2011 #3167}. 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 #3271}. 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.[50] 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.

Competition among the BRICs, as suggested in Table 2, reveals the enormous lead of China vis a vis the rest, Brazil, Russia and India included (as well as 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

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[48] China began having a favorable effect on the Middle East as early as the mid-1990s. "One of the crucial developments was the growing economic, political, and military and diplomatic relations between China and the Middle East. These led to dramatic improvements in the development of OPEC's member states" {Al-Farhan, 2003 #3143}.

[49] Currently China is consuming as much as 40% of total global base metals production. Candy, G. (2010). "Long term copper looking good as China, India drive demand." http://www.mineweb.com/mineweb/view/mineweb/en/page36?oid=107351&sn=Detail&pid=92730.

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[50] In one account, a real estate deal maker, Richard A. Baker, moves into high-end real estate (buying Lord & Taylor and Hudson Bay). According to one manager, "I think because of his real estate background, the floor space is almost a sacred area," Mr. Hoffman says. "It's like tenants paying rent: 'We've got to find what will maximize the return for it' " {Clifford, 2011 #3168}.

capital needs.[51] India and Brazil may rank second in market share in the developing world, but it is a second that is far behind China's first. Although the import substitution history of both Brazil and India is regarded as failures by market economists, 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, although 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 Russia and India 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 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 World Trade Organization law.[52]

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.[53]

To secure the home market under WTO domination, then, what are the actual policies that the world's role models are mastering? After examining the concept of nationalism, we discuss these below.

Nationalism

The industrial policies of the de-colonized generation are drenched in nationalism, aiming to secure the home market by engaging the state, the POE, and the SOE, resource nationalism, and the right to formulate national measures to enhance technological capabilities and economic growth ("policy

[51] "Chinese and Indian firms are increasingly snapping up mining assets as the credit crisis (of 2009) sidelines Western rivals" {Webb, 2009 #3305}.

[52] {WTO, access 2011 #3364}.

[53] For nationalist policies in the Indian steel, auto and software industries, see {D'Costa, 2009 #3329}.

rights").[54] The importance of policy rights over human rights half a century after de-colonization is hinted at in a popular survey in North Africa conducted by the news service Magharabia.com in 2011:

Poll: Is sovereignty more important than human rights?

Yes

- (4027) 49.1%

No

- (3819) 46.5%

I don't know

- (360) 4.4%

Total responses: 8207

Although responses would probably differ by regions, the issue of sovereignty in the de-colonized 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 de-colonized generation,

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[54] Among the forms of resource nationalism faced by mining companies (sometimes referred to as "creeping expropriation") are:

Imposition of a resource rent, such as the Australian Government's proposed 40% resource tax;

Amendments to royalty rates, such as South Africa's new royalty regime;

Imposition of greater controls on foreign participation, such as Venezuela's revocation of multiple mining licenses;

Encouragement of in-country beneficiation, as in Brazil;

Institution of new mining codes that increase the government's direct or indirect revenue share, such as Indonesia;

'Use it or lose it' (use a concession to produce taxable revenues or forego it), such as the DRC's dispute with First Quantum Minerals; and Preference for state exploitation of national minerals, such as the withdrawal of the massive Tavan Tolgoi coal project from auction by the Mongolian government {Ernst & Young, 2010 #3153}.

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 de-colonized generation is based on political disunity at home, the reality, and vulnerability to economic interference *from* abroad.[55] 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 de-colonized generation to formulate its own industrial policies. Because the rich write history, the twentieth-century's negativism towards nationalism has strengthened the universalist idea of a 'level playing field' and identical economic policies for North and 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 which 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 Stewart 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, 1909 (1997) #3126}.[56] 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' (depiction of Eastern cultures by Western commentators) held that India was "all state and no society," despotic and doomed to decay {Mehta, 1999 #2360} 184. Today, orientalism takes the form of demonizing the Middle East's Muslims. In the Far East,

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[55] "While these national libration movements in the Third World were in theory modeled on the nationalism of the west, in practice the states they attempted to construct were generally the opposite of the ethnically and linguistically homogeneous entities which came to be seen as the standard form of 'nation-state' in the west" {Hobsbawm, 1990 #3152} 164.

[56] As cited in {Mehta, 1999 #2360}. Mehta's book, which won the J. David Greenstone Book Award from the American Political Science Association in 2001 for the best book in history and theory, is also the source for Burke's analysis. Mill "assumed that Indians had to first grow up under British tutelage before they could absorb the good things---democracy, economic freedom, science---that the West had to offer," while Gandhi insisted that "true civilization was about moral self-knowledge and spiritual strength rather than bodily well-being, material comforts, or great art and architecture" {Mishra, 2011 #3150}.

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 #1068}. In the 2000s, despite highly positive outcomes of industrial policies in the BRICs, Singapore, Korea and Taiwan, internationalists ceaselessly criticize government economic intervention and attribute positive economic outcomes to non-intervention (see {Pack, 2006 #3127}). 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 de-colonized 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 Xioaping 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 10 biggest companies remain state-owned (Economist, 2004). In December 2006 the government signaled 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, its state-owned development bank (BNDES) not only preserved but actually expanded its position in the domestic credit market in 1990-2006, despite the financial-liberalization policy that was implemented in that period {Hermann, 2010 #3319}.

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 United States as post Civil War Reconstruction diverted speculators' attention to business opportunities in Dixie away from plundering Japan {Norman, 1940 #1897}.[57] Following World War Two, 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 ¼ of US exports). As 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 (the WTO, 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 U.S. does not lend on subsidized terms to any foreign *private* investor (nor allow any multilateral bank of which the U.S. 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 U.S. 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 #727}. Yet the WTO prohibits nations to attach conditions to foreign *direct* investment. 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 (like mandatory joint ventures, technology sharing obligations, and domestic-content targets) should regain legitimacy in the World Trade Organization" {Birdsall, 2005 #3129}. But there is plenty of counter-evidence, and it is supported

[57] "Japan's comparatively successful transition to a modern state was accomplished in part because for reasons of their own the Western powers did not attempt to clamp Japan in the vise of neocolonialism during the period when the country was most vulnerable. The threat, however, nevertheless remained, and the game of international power was played by Western rules. Japan acquired extraterritorial rights in China before she had shaken herself free of similar foreign privileges in her own land"{Krehm, #3303}

by theory (local content regulations, by their very nature, tend to raise quality and productivity), as discussed in the next chapter. The developing world defeated a drastic multilateral initiative that would have spared FDI from virtually any national controls.[58] 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 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 #3151}. 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, Russia was still not a WTO member, foreign investment into India had prematurely slowed, and China was flagrantly undervaluing its exchange rate and criticizing the joint venture.[59] 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, the U.S. and Europe were themselves undermining their own liberal values, making it easier for the de-colonized generation to do so. The free trade agreement is at the heart of American foreign economic policy---Washington, unlike the WTO, injected politics into trade. Yet the FTA is the antithesis of free trade, since it provides preferential treatment to members only.[60] The attempt to limit subsidies inside a country's borders was weakened in the U.S. and Europe 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 #3145}.

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

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[58] See {Third World Network, 2009 #3298} and {Henderson, 1999 #2567}.

[59] Whether deliberate or not on the part of the Indian government, foreigners were turned off by India's bureaucratic hurdles, red tape, corruption, poor infrastructure, and concerns about intellectual property rules enforcement {Academies, 2007 #3128}.

[60] For the interaction of FTAs and financial crises, see {Third World Network, 2009a #3327}.

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 refers 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 (Chandler 1962). A firm's share in 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 de-colonized countries misleading.[61] Because of the private sector's weakness in the Third World 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 de-colonization and is still in full swing over half a century later. As the Korean Academy for the Motor Industry acknowledges, "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 TVs, 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). 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).[62] 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

[61] But see (Chang 2002).

[62] Brazil's government, through state pension funds and the state development bank BNDES, has a 51% stake in Vale as well as a so called golden share that allows it to veto or change Vale's directors. But it has no power to interfere in Vale's strategic decisions. Mineweb (2010).

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 #3143}.

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 as great an innovator as Eli Whitney depended for his material existence on U.S. military contracts ((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 isn't 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 head-start 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 (Morris Chang, chief executive of Taiwan's premier semiconductor company, left a high executive position at Texas Instruments because he claimed he had hit the "yellow glass ceiling;"[63] he would never make it in TI to CEO;[64] Korean electrical

[63] **TSMC chairman to receive IEEE medal of honor** Source: CNA English News, August 11 2011 http://focustaiwan.tw/

The chairman and CEO of Taiwan Semiconductor Manufacturing Co. (TSMC), Morris Chang, is to be awarded the 2011 Institute of Electrical and Electronic Engineers (IEEE) Medal of Honor for his contributions to the world's semiconductor industry, the IEEE said Thursday. Describing Chang as a pioneer in the integrated circuit sector, the IEEE said his "visionary leadership shaped the technology policy for an entire nation and revolutionized how the semiconductor industry does business around the world." According to the IEEE, which bills itself as "the world's largest professional association for the advancement of technology," the medal, which is sponsored by the IEEE Foundation, represents the IEEE's highest honor.

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TSMC chairman to receive IEEE medal of honor

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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 VP;"[65] West African executives complain of similar experiences in hitting a "black glass ceiling at Unilever;" Brazilian computer experts hit a "coffee glass ceiling" in IBM and Burroughs in the 1960s).[66] 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 snow-balling effect (the greater reciprocity, the easier to impose performance standards in exchange for subsidies (Amsden 2001)).[67] 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" (p. 96).

China, the inventor of silk, accounted for 51 percent of silk exports in 1859-61 but only 11 percent in 1936-38, 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 Korea's business community vociferously *favored* Korea's renewal of diplomatic and commercial ties with Japan, broken at the time of military surrender, although opening exposed them to Japanese take-over and export competition. Korea recognized Japan in 1965 under U.S. political pressure, but the beginnings of a new

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[65] Pyun.

[66] Interview, Morris Chang, Taipei, 2001. See {Amsden, 2003 #2210}. There are other forms of discrimination against emerging economies, such as informal barriers against their acquiring foreign property. See, for example, {Taylor, 2011 #3231}, for a discussion of China's accusations of discrimination in Australia.

[67] Performance standards and nationalism are discussed by Wan Wen Chu (2010) in the case of the Chinese automobile industry.

industrial policy curtailed Japanese foreign investment and provided protection and subsidies to Korea's textile mills, which operated with higher costs than Japan's and couldn't compete on the basis of market-determined prices (Amsden 1989).[68]

Eighty years after the Manchurian incident, the Korean government was still complaining about the private sector's passivity towards 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 Korea) includes the passive approach adopted by domestic medical institutions towards foreign markets [especially China's, whose supply of medical services has fallen behind demand]" (KIET 2009a).

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." 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) 86-87; 95.

After World War One, Egypt's "embryonic" national bourgeoisie "was so weak that it had to rely for political support on more powerful groups like 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 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 1999). 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).

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[68] The prestigious Pearson Commission noted about Third World competitiveness: "the American (and European) market is one in which the less-developed countries' price advantage alone is usually not sufficient" (Pearson 1969).

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". 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 1962, pp. 186-187). 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. Barely 79 had a manual containing organizational procedures (Schvarzer 1995, p. 147). R&D expenditures were almost nil; Argentina's national oil company, dating to 1922, was privatized in 1991 and became committed to a technology policy of "buy" rather than "make," until it was merged into Spain's oil and gas multinational, Repsol.

In Brazil, the nationalist economic developmentalism of the Vargas Regime (1930-1945) was excused on account of the private sector's failure to meet Brazil's wartime needs. High on the list was a steel industry, which the state ultimately established (Trebat 1983). "This image of a feeble private sector has lingered to this day" (Capstone 1988, p. 12).

Despite a description of Nigeria's private business sector in 1945 as a "formidable presence" (Tignor 1999), W. Arthur Lewis noted in 1967 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" (Lewis 1967, pp. 29-30). Nigeria's attempts at indigenization in the 1970s and 1980s was well designed but hard to implement because "the vast majority of indigenous businessmen did not share its interests or objectives" (Biersteker 1987, p. 297).

By 2000, the de-colonized generation had come a long way in its ranking among the world's largest enterprises, measured by sales in Fortune's top 500 international firms. The total went from 4 in 1962, to 33 in 1992, down to 25 in 1999 (Amsden 2001). After stagnating under neo-liberalism, the number jumped to 80 in 2008, as Chinese enterprises came on board (see Table 3). Still, the weakness of the private sector is suggested by the fact that over 50% of the 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 Fortunes' 2008 list. 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 increasingly for their knowledge acquisition (Chandler Jr., Amatori et al. 1997). Consequently, industrial policy 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 1980s' wave of privatizations) and strengthening small- and medium-size firms (discussed in detail below in the case of South Korea). 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, Moet 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 small- and medium-size enterprises in high-end niche markets is likely to be harder for industrial policy to achieve than for large-size firms competing on the basis of economies of scale, although the weaknesses of SMEs can't be circumvented by the establishment of public enterprises the way such weaknesses were circumvented in the large-scale private sector, seen with great clarity in all 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 foreign-owned firms 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.[69] Only India achieved the same end through the use of market forces. As noted 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

[69] Securitization….indigenization

than did private enterprise." Government holdings in the private sector became large enough to rival in value government holdings of state enterprises" (Encarnation, 1989, pp. 35-36). 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, p. 44). The state-owned national oil companies 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 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 1999). Likewise, when the Supreme Commander of the Allied Forces in the Pacific (SCAP) 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.[70]

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, p. 224). In Nigeria, a 1976 commission complained not of too little

[70] Two excellent collections of readings,

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…" (as cited by (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.[71] 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).[72]

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 GDP and 80 to 90 percent of its government revenues in 2010) or former communist transition economies.[73] 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 U.S. State Department responded by accusing Mongolia of "creeping expropriation" (U.S. Department of State and Service 2005/7). 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).

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 oil fields critical for creating more entrepreneurial opportunities and paid jobs through 'hollowing-in.'

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[71] See (Adelman 1986) for the view that national oil companies had a higher discount rate than multinationals for immediate production. For a review of the property rights debate, see (Al-Moneef 1998).

[72] In the case of the Nigeria, whose oil industry began producing in 1956 under Shell, " an indigenous petroleum industry appeared promising in the early 1970s. Although a foreign-owned industry in the hands of IOCs yielded handsome economic rents, production depended on the calculations of overseas-based corporate headquarters. The industry had limited impact on the economy, in terms of domestic factor input, reinvestment, and other linkages" Nwokeji, G. U. (2007). The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry: History, Strategies and Current Directions. Houston, James A. Baker III Institute for Public Policy, Rice University. **http://www.bakerinstitute.org**.

[73] For Angola, see Bendi (raw mat file, desktop) ; for caribbean, see unctad, 2007.

Latin America was late because it missed the discontinuity of political de-colonization after World War Two; its political independence had occurred much earlier, in the beginning of the nineteenth century, and the cathartic upheaval in postwar foreign property rights experienced in ex-colonies, therefore, didn't 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 foreign-owned firms. Its technology transfer before World War Two 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 towards 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 foreign direct investment. In those decades their estimated share of world total FDI (bound for developing countries) was 31 percent, 22 percent and 21 percent respectively.[74] 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.[75]

The second-stage industrial policies of Mexico and Brazil 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 Fortune's 2008 international list of the top 50 money *losers*, having depleted one of its major oil fields) (UNCTAD 2007).[76]

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

[74] UNCTAD online database (www.unctad.org).

[75] ADD debdas + re-entry. Eg autos. Finite.

[76] Many developing countries still have restrictions on foreign ownership of land. In 2010, for example, Brazil announced plans to tighten restrictions on foreign ownership of farm lands. The Agrarian Development Ministry said that under current law, large rural properties can only be purchased by Brazilian citizens or residents, but foreigners bypass that rule by setting up companies in Brazil, which are controlled abroad, to purchase land. The ministry said the restriction was necessary to ensure that Brazilians had secure access to food.

nationalization (overlapping terms, with or without due compensation), foreign property fell into national hands and the home market was secured.[77] 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. Industrial policy implementation depends on 'appropriate skills,' and where no role model exists to enrich such skills, as in Latin America and Africa, implementation suffers.

After World War Two, Argentina acquired thirty-five 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 disinterest 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, p. 199 sp. trans.). Argentina could boast one of the leading theorists of import substitution industrialization, Raul Prebisch, but his writings didn't provide a roadmap for making new manufacturing properties work.[78]

Compare Argentina's experience with Korea's or Indonesia's, both of which, starting with the "Greater East Asia Co-Prosperity Sphere," learned "sectoral policy" directly from Japan. When Japan's properties fell into Korean hands, 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 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, pp.327-28). 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 1961-1962, p. 344). After

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[77] indigenization

[78] A study of Argentina's publicly listed companies from 1895 through 1935 attributes the stagnation of Argentine industry to a failure of the private sector to accumulate technological capabilities and to the government's lack of policy making capabilities. Pineda, Y. (2009). Industrial Development in a Frontier Economy: The Industrialization of Argentina, 1890-1930. Stanford, CA, Stanford UP.

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 national oil companies got their hands dirty working for one of the seven sisters. OPEC's first President, Fouad Rouhani, worked for BP in Iran (and then helped Tehran nationalize BP). 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, had worked in Libya for Esso. 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 underway.

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.

Part II: From Home to Foreign Markets

The Korean government reported at the weekly economic coordination meeting on April 6 that it plans to invest 49.8 million dollars US to help local companies maintain their lead in the global smart TV market. The government will focus on developing new smart TV platforms and network technologies such as user interfaces. Also, it will focus on developing a "giga-level" Internet foundation for providing smart TV services such as video-on-demand, online games, and other applications. In addition, the government realized the lack of local content for smart TVs posed a major barrier to further growth. To solve this problem, the government and smaller enterprises will join hands and develop contents such as digital books and games. They will also cooperate to create educational content.

Korea.Net News Focus, April 14, 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 Alfred Chandler suggests, 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.[79] Sequencing was critical. First came "securing the home market" and then came leveraging knowhow 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, 1982,p.144; #1247)}Krugman 1984). Japan's Supreme Export Council was closely imitated in Korea {Rhee, 1984 p. 1152}. 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 #1}. Import substitution was subject to performance standards.

In 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). In electronics, "the initial ISI 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,p. 50). By 1984, heavy industry had become

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[79] The difference between leader and follower is evident in the steel industry. "Independent technological development was responsible for the success of the steel industry in Japan" {Iida, #3283}, whereas in Korea, Taiwan, Brazil, Malaysia, and Qatar, which borrowed their technology from Japan, success resided in project execution capabilities and production skills. In the case of the bicycle industry, it was important in Japan "for the key role it played in facilitating the manufacture of machine parts and metal materials, thus helping to lay the foundations for Japan's flourishing machine industry" {Johzen, #3285}. By comparison with Taiwan's bicycle industry, whose key player, Giant, has managed to create a worldwide brand name, the key component of the bicycle, the derailleur, is still purchased from Shimizu, Japanese company {Chu, 1997 #1405}. In the watch making industry, Japan first borrowed technology from the West, but then innovated its own watch mechanism, made possible by years of experience (starting in 1892), whereas the Third World's largest watchmaker, Hong Kong, never produced its own mechanism; it imported it from Japan or Switzerland. For the real differences between leader and follower in the aerospace industry, including Brazil's, see {Steenhuis, 2007 #3317}.

Korea's new leading export sector, exceeding light industry in value, and virtually all of Korea's 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 de-colonized world's private sector has spanned the firm-size spectrum, but perhaps weakest of all are firms in the small- and medium-size range. Especially missed in the developing world is the medium-size enterprise, individually or in clusters, with anywhere from 100 to 300 workers. The small- and medium-size range tends to operate in fragmented markets, with tacit technology and frail organizations, making it difficult to generalize about good performance and policy design.[80] 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, 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" (Geertz 1963). The SMEs in the developing world tend to be at the opposite pole from those in Silicon Valley or Emilio Reggio, outstanding for their innovativeness. They may create jobs, but these tend to be low paid and unskilled (for Taiwan, with a relatively well-performing SME sector in the developing world, see {Amsden, 2003 #2210}. 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 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.[81]

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[80] According to a World Bank study by Asli Demirguc-Kunt and Thorstein Beck, there *is* a general empirical conclusion. "In fact, there is no robust evidence that SMEs by themselves matter for growth or poverty alleviation….More fundamental reforms must first be instituted to tackle the underlying reasons why firms do not fulfill their growth potential. These reforms should lead to a better business environment that promotes competition, protection of private property rights, and a sound contract environment. All of these are proven to boost economic growth" (says Beck) (World Bank 2006). But our discussion of property rights (above) suggests that getting them 'wrong' may have a strong positive impact on growth.

[81] "The analysis of national, regional and continental industrial policies in this study shows that the objectives of industrialisation and the enhancement of manufacturing capacity remain very much alive in Africa. All the countries reviewed (Botswana, Cameroons, Ghana, Mauritius, Rwanda, Kenya, Uganda, South Africa) either have explicit industrial policies or are implementing specific measures to promote industrial development. Nonetheless, these policies often lack consistency with other development roadmaps. Despite the presence and comprehensiveness of some national industrial policies, there is a serious lack of policy coordination with other areas (e.g. trade, finance, education, agriculture) {Marti, 2009 #2796}.

The private sector falls short in the small- and medium-size range even in countries where early industrial policies excelled, such as Korea. Although much is made about differences between Korea and Taiwan in organizational structure, these differences exist mainly above the 299-employee firm-size mark. 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, American icons. While SMEs in Korea, Taiwan and Japan are defined slightly differently, in the mid 2000s all accounted for roughly the same share of total employment -around 75 percent (see Table 4). In all three cases, SMEs have tended to advance fastest---in terms of quality, cost and technology---in concert with larger firms (in sub-contracting relationships that are either formal or informal). Thus when we talk about 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 #13}; 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, SMEs' development tends to vary by stages, as does their industrial policies.[82] Korea's industrial policies from 1962-1971 (1st and 2nd 5-year plans) focused on promoting industries with scale economies by means of exports, so SMEs received only moderate support. Then from 1972-1981 (3rd and 4th 5-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 (5th and 6th 5-year plans), the government sought a balance between large and small firms, and to raise SMEs to the large firm capability level, support became more intense. From 1992 to 1997, the year of the East Asian financial crash and the beginning of liberalization (7th and new economy 5-year plans), policy sought to strengthen SME competitiveness amidst market-opening. From 1997 to the present, during the "Government of the People" period and the "Participatory Government" period, SME policy has sought to nurture competition, innovation, and a social safety net, although beginning in the 2000s the growth rate of SMEs slowed.

The measures to promote SMEs for 1962-71 involved at least 4 infractions of market laws: state-ownership, quotas to increase lending, targeting special firms, and special industry government supports.

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[82] 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, Ed. (2007). The Policy Environment for the Development of SMEs. Taipei, Chinese Taipei Pacific Economic Cooperation Committee.

1962-1971: Policies

a. SME division within the Ministry of Commerce founded.

b. A state-owned Industrial Bank of Korea (Kookmin) was established to serve people in the low- and mid-income brackets.

c. An administrative system was established to nurture SMEs and rules were devised to mediate disputes between small and large firms (mostly over timely payments).

d. Government initiated a set number of mandatory loans (30%) that commercial banks had to allocate to SMEs, and introduced a special discount window on papers that SMEs received from large companies.

e. SMEs that were capable of exporting were selected and developed and automatically received loans when presenting a letter of credit.

f. Industries in which SMEs made a significant contribution to employment and balance of payments were given special support.

g. A measure was enacted to "Nurture Social Industries in Regions" (such as sweaters and wigs of human hair).

h. Government specified the size of SMEs that qualified them for special government support in specific industries.

i. Government established an SME Technology Training Center

The measures for 1972-81 also involved at least 4 infractions of market laws: private contract regulations, quotas on lending, targeting special firms, and special industry government supports.

1972-1981: Policies

a. To increase the availability of capital, the Bank of Korea broadened criteria for lending to SMEs and increased the mandatory loan ratio of regional banks (from 30% to 40%).

b. Government introduced a Credit Guarantee Fund to overcome SMEs' lack of collateral (a measure now opposed by World Bank).

c. SMEs subdivided into groups for different treatment, and funds were swiftly made available to SMEs with dilapidated capital.

d. After 1976, the government began to target 100 SME machine factories each year for special 5-year support.

e. To improve relations between large firms and their small suppliers, government specified contract-based conditions.

f. Indigenous producing companies were given special support.

g. An "industry Promotion Agency" was created to increase standardization, quality management and industrial development of SMEs.

h. Mandatory lending was increased (commercial banks, from 30% to 35%; regional banks, from 40% to 55%) as more funds were needed to enhance productivity of SMEs and increase their exports.

i. A special Promotion Fund was established for modernization of SMEs in certain industries.

j. Special procurement conditions from SMEs were established for the public and private sector.

The measures for 1982-91 involved even more infractions of market laws than previously, insofar as restrictions on industries reserved for SMEs were introduced and types of credit guarantees were expanded.

1982-1991: Policies

a. To increase the availability of capital to SMEs, the government increased the mandatory ratio of loans extended to them from regional banks (55% or more to 80% or more).

b. The government permitted SMEs to issue corporate bonds and it guaranteed payment of up to 200% of capital.

c. The government established the "Fund for SME Mutual-aid Projects" to prevent bankruptcy and promote mutual SME businesses.

d. The government established a system for SMEs to strengthen their competitiveness by identifying and supporting promising SMEs that showed self-sufficiency.

e. Industries that needed support were designated as Priority Industries for SMEs and received funds for facility modernization from an SME promotion fund.

f. The Small and Medium Business Corporation opened an SME Training Institute.

g. A 23 “Priority Industries for SMEs,” designated in 1979 by the government to protect business areas occupied by SMEs, was changed to “Businesses only for SMEs” in 1982. “Using this as a turning point, the government implemented a full-scale system of restricting certain businesses for SMES only, thus preventing large companies from moving into these areas” (much like India) (Yang 2009).

h. The government initiated an SME Systematization Promotion Committee inside the Korean Federation of Small and Medium Businesses to promote out-sourcing and reduce disputes between large and small firms (Fair Trade).

i. To support SME start-ups, the government enacted a law that simplified start-up procedures, in addition to giving start-ups financial and tax support.

j. The government supported the technology development of SMEs by strengthening assistance from regional industry testing centers.

k. To reduce Korea’s trade deficit with Japan, the government drew up a 5-year plan (‘local content’) to use domestic machine parts and materials, many coming from SMEs, and assisted suppliers with funding, technology development and tax support.

l. A “System of Research Centers under SMEs” was established.

m. The government focused support on mid-size companies that had exported less than 8 million dollars annually but were judged to be able to increase exports to around 10 million dollars within 3 to 4 years. Mid-size export companies were identified and supported.

n. Traditional handicrafts in fishing and agrarian villages were supported in conjunction with the Seoul Olympic Games.

o. The government opened an “off-board stock market” to give more opportunities for SMEs to mobilize funds through direct financing before listing on a regular stock exchange.

p. The government established a “Technology Credit Guarantee Fund” to guarantee debt repayments of SMEs that developed new technologies or commercialized new technologies.

q. As the economic environment of SMEs deteriorated due to the appreciation of the Korean won, increased labor disputes and wage increases, the government passed the “Act to Promote Restructuring and Stability of SMEs,” to support sound business activities of SMEs in the short run.

r. To support the convergence of technologies through active exchanges between SMEs in different business areas, the government launched a “Plan to Advance Technology Exchange.”

s. SMEs that had graduated in self-sufficiency were to be identified and supported for their continuous growth and development.

t. Restrictions on businesses reserved for SMEs were tightened and increased to 237 businesses.

u. To prevent inefficiency that might be caused by long-term protection, the "System to Cancel the Designation for SMEs" was adopted.

v. Sound management and technology development were encouraged further through regulations of government procurement.

w. The government organized "Cooperatives to Invest in Start-ups."

x. More regional banks were established to support SMEs.

Despite Korea's official policy in this time period, 1992-2010, of market liberalization (the Kookmin Bank, for example, 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 lite, lean or temporary about these policies.

1992-2010: Policies

a. The government raised the mandatory ratio of commercial bank loans to SMEs. Under a new system, the Bank of Korea supported financial institutions that extended loans to SMEs with low interest rates on the basis of the institutions' loan performance.

b. In 1997 (the year of Korea's financial meltdown) the government introduced an "Insurance System for Bills" to prevent increased bankruptcy of insolvent paper profits of SMEs, which might lead to defaults of other companies ("too many to fail"). In addition, the government drew up emergency measures that included extending the loan repayment period for SMEs by 6 months, expanding the Bank of Korea's credit system, implementing a direct loan system for policy funds, establishing a special center to handle financial difficulties, and supporting SMEs' export and import financing. A special fund was established to provide operating capital. The government introduced the SME Asset-backed Securities System to

support SMEs' issuance of corporate bonds. The government urged public organizations to buy SME products.

c. The government opened the KOSDAQ, a state-owned stock market dedicated to SMEs and venture companies.

d. The government introduced a "Project to Improve SME Structure," thereby pumping 1 billion won every year into the economy.

e. The government tightened procedures on fair trade between large and small businesses.

f. The government started constructing a "Comprehensive Distribution Center for SME Products."

g. A Business Center to incubate start-ups was introduced.

h. The government passed the "Act on Special Measures to Promote Venture Businesses," in effect for 10 years. Venture companies were targeted as those with patents, new technologies, or more than 5% of sales invested in R&D.

i. To expand credit guarantee support for SMEs with insufficient collateral but with "remarkable" technologies, the government introduced and operated a "Special Support System for Technology Credit Guarantee," as well as a regional consortium (including industry and academia) project to stimulate technological upgrading of SMEs.

j. In an effort to relieve SME shortages of labor in "3D" industries (Dirty, Difficult and Dangerous) the government introduced an "Industrial Technology Training System for Foreigners," and it launched the "Elderly Volunteer Group" to give working opportunities to retired people with special skills of interest to SMEs.

k. To identify SMEs that had the potential to export but had weak management systems, the government closely supported them for two years (later expanded).

l. New legislation designated special regional support zones for SMES, promoting special industries in regions, and establishing credit guarantees.

m. The government carried out a "Small Store Modernizing Project" to strengthen support for small-scale retail businesses.

n. The government opened up a new chapter in support of SMEs by making it possible to support them quickly and closely through regional organizations.

o. The government altered the definition of SMEs so that different types could quality for government support.

p. The government recognized that supporting technologically innovative SMEs was an urgent matter, so it set up Inno-Biz and set a goal of identifying and supporting 5,000 technologically innovative SMEs, 1,000 each year for five years.

q. Information about SME technology-related information was loaded into an electronic SME Technology Exchange, in addition to information exchanges about personnel.

r. For SMEs that intended to set up local subsidiaries overseas (outward FDI), the government put in place an "Export Incubator" in major overseas markets.

s. The government set up the "Act on Supporting Women in Businesses," which included government financial support for women entrepreneurs, managerial assistance to start-ups, government procurement of products made by female-managed businesses, preferential treatment to females for funding, and establishment of the Korean Women Entrepreneurs Association, a key center for women's business activities.

t. To strengthen SME policies during structural revision, the government established a "Presidential Commission on Small and Medium Enterprises" directly under the President, in charge of mediating and coordinating SME support policies involving multiple ministries.

u. The government introduced a "Network Loan System" to collect money owed by large firms to small ones in a more timely manner, and increased the availability of data on SME's creditworthiness.

v. The government legislated a set ratio of products from SMEs that public organizations had to procure, and urged public organizations to establish SME procurement targets, and to aim for 5% or more of technologies to come from SMEs.

w. The government facilitated the sharing of expensive equipment of universities with SMEs.

x. The government passed an Act to Promote Business Activities of the Disabled.

y. The government created a consolidated database that classified funds, technologies, human resources, sales channels, exports and progress status of SMEs and new ventures. Policy information from 234 institutions, including government ministries, became available.

z. The government increased entry of foreign workers from 24,000 to 34,000 "to contribute to resolving the shortage of labor for small and mid-sized companies" (Korea 2010).

The performance of 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 IMF

conditionality after 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) and (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 on-going challenge suggests that in the near future, industrial policies towards SMEs will be anything but lite, 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 de-colonized world, is reflected in its industrial policies, one per country, piled up on top of each other to support common elements, and summing to one whole, 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 towards "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.[83]

[83] The anti-imperialism of the Middle East role model, which expropriated the IOCs, has always been greater than that of the Far East role model, which seized Japanese properties, and remains so today in "Bolivarian" Latin America. On May Day, 2011,

First and foremost this meant expropriation (with compensation) of the giant international oil companies (IOCs), supplanting them with giant national oil companies (NOCs), sometimes 100% 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 U.S. 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 de-colonization, long after explosions of popular movements for national independence, the de-colonized world remains true to its past, engulfed in its own history of anti-imperialism, as seen from its nationalist industrial policies.[84]

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 de-colonized country is handicapped to: (1) serve as an 'out-sourcer' 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; (2) undertake an outward foreign direct investment, a new way to diversify by de-colonized countries with small domestic markets (28% of total OFDI in 2010 was from developing and transition economies);[85] (3) establish a brand name, which only a country's own company can do (4) dislodge a foreign legacy concession in a natural resource industry to raise tax rates and royalties; (5) reverse the brain drain of professional talent by offering nationals top managerial positions that are beyond their reach in foreign-owned firms; (6) circumvent WTO restrictions on local content, a major form of technology transfer, and (7) raise expenditures on R&D in high-tech industries.

President Morales of Bolivia stated: ""The best legacy of the Bolivian people is to be anti-imperialist, anti-capitalist and anti-neoliberal" {Kosich, 2011 #3155}.

[84] For the influence of colonial history on present behavior in the de-colonized world, without mention of change in property rights, see {Acemoglu, 2003 #2619}.

[85] {UNCTAD, 2011 #3156}.

The emerging economies now face the formidable task of modernizing small- and medium-size enterprises (especially medium-size), 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 relations more efficient.[86]

As for the role of the state, state power in de-colonized 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 an OPEC Secretary-General, H.E. Ali M. Jaidah: "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." (Jaidah 1977, 3). 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 de-colonized 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 de-colonized world still has a long way to go before it catches up. In 2008, roughly 60 years after de-colonization commenced, emerging economies had only 80 listings in Fortunes 500 largest international firms (45 in the public sector and 37 from China, as shown in Table 3), suggesting that ambitious industrial policies will continue to be the norm. 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, de-colonized 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-size suppliers, to

[86] For embedded autonomy, see {Evans, 1995 #13}. For performance standards, see {Amsden, 2001 #727}.

conform with national local content policies, or as Korea's electric utility is doing before cautiously privatizing, with an eye towards social welfare. "Knowledge of a business" implies a knowledge of the economic model of a business, i.e., its major costs, distribution channels, competitive landscape, financial leverage, and so on. The game plans of de-colonized 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---information externalities, product space and market failures---rather than on inductive characteristics, such as who else is likely to enter a business, the direction technology is apt to take, and how demand will probably behave---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 don't believe in it as in the present. There is no better example of this than South Korea.

Table 1

R&D Expenditure as a Percentage of GDP

ADD 2009 or 2010 (latest)

Country	1990	1995	2000	2004
Brazil	n.a.	0.87	1.01	0.91
Chile	n.a.	n.a.	n.a.	0.67
China[1)]	n.a.	0.57	0.9	1.13
India	0.70	0.63	0.77	0.71
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
Russia	2.03	0.85	1.05	1.28
U.K.	2.15	1.95	1.86	1.73
U.S.	2.65	2.51	2.74	2.59
Japan	2.81	2.71	3.04	3.17

Source: OECD (2008), OECD Factbook 2008, OECD: Paris, France; National Statistics of Taiwan, Indicators of Science and Technology, National Statistics of Taiwan: Taipei, Taiwan.

Note:

[1)] Before 2000, only large and medium-sized enterprises were included.

Table 2

BRICs' Share in Total World Output (%), Rank in Developing Country Output

By Industry, 2007

INDUSTRY	Brazil		Russia*		India		China	
	%	Rank	%	Rank	%	Rank	%	Rank
	World	Devl.	World	Devl.	World	Devl.	World	Devl.
Textiles	2.1	5	<	-	4.2	2	36.7	1
Apparel	2.0	4	<	-	<	-	28.7	1
Leather & Footwear	2.2	6	<	-	2.0	7	39.1	1
Wood	3.7	2	<	-	<	-	12.5	1
Paper & Prods.	2.1	2	1.5	-	<	5	12.9	1
Petroleum Prods.	6.0	2	<	-	1.8	6	15.7	1
Chemicals	1.9	3	<	-	3.5	2	12.5	1
Rubber & Plastic	2.2	2	<	-	1.4	5	18.3	1
Non-Metallic Min. Prods.	2.5	2	2.2	-	2.1	4	16.1	1
Basic Metals	1.3	4	2.3	-	2.9	2	36.3	1
Fabric. Metal Prods.	2.4	2	<	-	<	6	9.4	1
Machinery	1.6	2	1.5	-	1.4	3	15.9	1
Computing Mach.	1.1	3	<	-	0.3	8	3.2	2

Electrical Mach.	2.0	3	0.8	-	3.1	2	30.8	1
Communicat. Mach.	1.9	4	<	-	0.7	9	7.2	1
Medical & 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

United Nations Industrial Development Organization, International Yearbook of Industrial Statistics 2009.

Share (%) of total world output (100%); Rank of share in developing (Devl.) country output. < Less output than the top 15 or so countries.

*Not in developing world. Example: in the case of textiles, Brazil's share in total world output = 2.1%. Among the output of textiles produced by developing countries, Brazil ranks 5th.

Table 6.x

Royalties and Licensing

2000	Argentina	36.76	580.34	-543.98	2005	Argentina	50.96	654.45	-604.59
	Brazil	125.19	1414.58	-1289.39		Brazil	101.66	1404.49	-1302.83
	Chile	10	297.47	-287.47		Chile	54.02	347.56	-293.54
	China	80.35	1280.97	-1200.62		China	157.4	5321.25	-5163.85
	Taiwan	371	1834	-1463		Taiwan	234	1796	-1562
	India	82.55	282.46	-199.91		India	131.16	766.96	-635.8

Indonesia	na	na	na	Indonesia	263.33	960.87	-697.54
Malaysia	18.16	546.05	-527.89	Malaysia	27.04	1369.66	-1342.62
Mexico	43.1	406.7	-363.6	Mexico	70.4	111	-40.6
Korea	688.1	3221.1	-2533	Korea	1908.4	4560.8	-2652.4
Thailand	8.66	709.87	-701.21	Thailand	16.83	1674.12	-1657.29
Turkey	0	173	-173	Turkey	0	439	-439

Note: USD in millions

Source: UNCTAD online database.

Table 3

Companies from Emerging Economies

In Fortune's 500 International Firms,

2008

(Revenues)

Country (No. of entries; G=state-owned)	Ranks	Industries (No. of entries)
China (37) (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, Telecom., Electricity, Steel, Railway, Trade (2, Hong Kong-based), Shipping, Metals, Construction, Autos
S. Korea (14) (G=1)	40, 69, 72, 87, 199, 213, 305, 355, 362, 438, 441, 471, 475	Electronics, Holding, Autos, Steel, Electricity, Heavy Ind., Finance, Explosives, Oil and Gas, Beverages, Construction
India (7) (G=5)	105, 258, 264, 289, 318, 402	Oil and Gas, Steel, Chemicals, Finance,
Taiwan (6) (G=1)	109, 291, 306, 323, 342, 436,	Electronics, Oil, Petrochemicals
Brazil (5) (G=2)	34, 148, 174, 205, 400	Oil, Finance, Steel, Minerals
Mexico (4) (G=2)	31, 273, 370, 421	Oil, Telecom., Electricity, Cement
Singapore (2)	275, 300	Manufacturing services, Agro-industry
Malaysia (1) (G=1)	80	Oil
Saudi Arabia (1)	186	Petrochemicals

(G=1)		
Thailand (1) (G=1)	118	Telecom.
Turkey (1)	172	Holding
Venezuela (1) (G=1)	27	Oil
Total Entries=80		
Total G=45		
Comparisons/size		
Google (US)	423	Electronics
Amazon (US)	485	Electronics
Hon Hai (Taiwan)	109	Electronics
Quanta Computer (Taiwan)	342	Electronics
Samsung (Korea)	40	Electronics

Fortune Magazine, July 20, 2009. Differences in accounting methods may influence results.

Table 6.4

Comparison of Small- and Medium-Size Enterprises in Korea, Japan and Taiwan

Unit: number, 1,000 persons, %

	Number Enterprises		Number Employees		
	SMEs	% of total	SMEs	% of total	
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	

Source: Korea Federation of Small and Medium Business, Statistics of Overseas SME, 2008, 12, as cited by Hyun-Bong Yang, Development and Performance of Korean Policies for SMEs by Economic Development Stage, 1962-2007, KIET Occasional Paper No. 76, December 2009.

Note: Definition of SME. Korea: 5-299 employees. Japan: 4-299 employees. Taiwan: paid in capital of less than 80 million NT$.

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Chapter 4

Korean Experience within the Context of Development Cooperation Effectiveness[87]

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Introduction

Since the late 1990s, the aid debate, in particular the discourse on aid effectiveness, has developed dramatically. Research findings on the correlation between aid and economic growth invoked the debate on aid effectiveness and reached a widely agreed conclusion that aid has been ineffective in reducing poverty in developing countries. As the international donor community began to focus on the role of aid in promoting the achievement of millennium development goals, the major criteria to assess the effectiveness of aid became multiple, both economic growth (usually interpreted as GDP growth) and the reduction of poverty and inequality, such as inclusive growth or growth with equity.

From the perspective of aid effectiveness, the South Korean experience is one of the rare examples of successfully achieving both economic growth and the reduction of poverty and inequality within a short period of aid reception. Between 1945, when South Korea was liberated from Japanese colonialism, and 1994, when the country graduated from the World Bank lending list which marked an official termination of aid for development in a proper sense, South Korea received aid amounting to 26,912 million USD[88] (see Appendix 1). In particular, over the two decades since 1945, during the vital take-off period of the Korean economy, South Korea received a significant amount of aid in various forms. However, previous studies on the economic and social success of South Korea have not paid due attention to aid factors, despite the fact that through the period of rapid economic growth of the 1960s, grants and concessional

[87] Authors gratefully acknowledge the invaluable assistance from Ellie Seo and Sungmi Kim in assembling data.
[88] In this study, we use the aid concept to encompass both public and private development assistance although we focus on public aid which is both official development assistance (ODA) and other official flows (OOF) as defined by OECD DAC. For details, see the Appendix 1.

loans accounted for a significant part of government budget and investment in industry and social infrastructure. How did South Korea as one of the largest aid recipients next to Egypt in the 1950s and 1960s, successfully make aid effective in terms of economic growth and poverty reduction?

The Korean experience as a recipient country is historically bounded and structurally contextualised and therefore is not a duplicable model to the present developing countries facing the changed international environment for economic and social development, new risks and new aid architecture. However, understanding the experience of South Korea can offer a good opportunity to both donors and recipient countries to learn lessons on how to make aid effective to development in many ways. Firstly, the South Korean case can offer various lessons on how to coordinate aid and non-policies for simultaneous economic growth and poverty reduction from the perspective of recipient countries, which can be neglected in the aid effectiveness debate often dominated by actors from donor countries. Secondly, the experiences of South Korea, in particular in the transition from a post-colonial war-torn poor country to a high achiever in terms of economic growth and social development and as an aid recipient under both authoritarian and democratic regimes provide us with a variety of dynamics between various stakeholders in different political, economic and social settings.

In this research, in order to extract lessons from the Korean experience, we will answer the following questions. What was the nature of international assistance to Korea and how did the Korean government respond to international development assistance? What were the key institutions, organisations and policies to make aid effective to development? How did the different political regimes organise policies around aid? We will answer these questions by focusing on both non-aid and aid policies, specifically in the domains of management of the macro-economy and aid funded projects. We will specifically attend to institutional and policy issues relevant to the ideas of ownership, alignment, harmonization, results-oriented management, and accountability which are the five key principles of the Paris Declaration. We will also pay attention to business and civil society when they played a significant role in forming government policy and institutions for managing aid and aid resources.

Our focus is on the period of heavy dependence on aid for development, specifically between 1945 and 1980 when the grant from the major donor, the U.S., was already phased out and the net flow of ODA had hit bottom just before a new surge due to the economic crisis in the early 1980s.

The paper is composed of seven sections. Firstly, we review the major points in the debates on aid effectiveness and development effectiveness and explain our development cooperation effectiveness

approach. The proceeding five sections provide an analysis of policies related to aid with a focus on the institutions and organisations of non-aid and aid policies. In the conclusion, we surmise the major points of the Korean experience from which we can extract lessons for both donors and recipients.

1. Conceptual Framework: Development Cooperation Effectiveness

The concept of development effectiveness, a position that criticises the narrow focus on goals and objectives of the aid effectiveness debate, emerged in the 1990s. Various actors in the development community have posited their own definitions and policies for development effectiveness ranging from organisational effectiveness to policy coherence between aid and non-aid policies. The scope of the actors in the discussion has also widened to include private sector and civil society organisations as the development effectiveness debates evolve.[89]

In these discussions, however, several issues are left unclear or neglected. Firstly, while acknowledging the fundamental importance of development for all, many views are often vague about the value premises that development policies, be they aid or non-aid, should be based on, such as equity, solidarity and democracy which are the main components to fight against poverty (UNRISD, 2010). Development outcomes and the relevance of aid to development should be assessed against these values since aid is not supposed to contribute to making unequal, undemocratic and fragmented societies. Policy coherence and consistency should be aligned with these value premises.

Secondly, preoccupations with correlations or causal relations often lead to a silo approach looking only at individual sectors. Development is both a process and a consequence composed of or resulting from a wide range of national and international factors. Therefore, it may be virtually impossible to attribute overall development success, i.e. an outcome of the development efforts, to a single factor or a set of factors or to only quantifiable factors (Flint et al., 2002). For instance, one can suggest that in a country where one donor is dominant, as in the case of South Korea during the 1950s and 1960s when heavily dependent upon aid, the outcome can be attributed to the effective aid delivery of the major donor (Kindornay, 2011). However, given the complexity of relations between a recipient and donor country in different spheres, as we can see in our analysis of the South Korean case, it is not easy to attribute

[89] For the debates on development effectiveness from different angles, see Kindornay (2011) and see Krueger, A.O. (1982) *The Developmental Role of the Foreign Sector and Aid,* Cambridge, MA. and London, Council on East Asian Studies, Harvard University.

development outcomes to aid even in a country with just one major donor. This leads us to the importance of taking a holistic approach to aid in development which examines both aid and non-aid policies.

Thirdly, various principles for aid effectiveness or development effectiveness, in particular good governance, accountability and ownership are interpreted and understood superficially without taking into account the unequal power balance between the state and society on the one hand and between the donors and recipients on the other hand, both of which can prohibit accountability and ownership from being meaningfully realised in practice. The concepts of good governance and accountability from a developmental perspective primarily consider the relationship between the state and society rather than quantified indicators of technocratic transparency and implementation capacity. They refer to representation, democratic resolution of interests and conflicts and the social contract meeting the needs of citizens rather than focussing on the administration of policies prescribed by external actors, in particular by donors (Mkandawire, 2004a). These aspects of good governance and accountability become problematic in the development community where conditionalities or interventions from donors are predominant. Ownership, which is a key pillar of new paradigm adopted by the 2005 Paris Declaration (see the Appendix 1, Figure 1), also becomes rhetoric given the formal and informal conditionalities of donors imposed on developing countries on the one hand and constant donor presence in both decision-making and non-decision making processes of development policies on the other hand (Fraser and Whitfield, 2009). The room for heterogeneous ideas and policies or division of opinions between the recipient and donors, which themselves are the significant sign of presence of genuine ownership, has been reduced in spite of shifting rhetoric and some reforms for strengthening ownership. Substantial conditions, in particular of macro-economic stabilisation, are still attached to aid from most donors. Presence and surveillance of donors are much more penetrating in informal and formal decision and non-decision making processes, and particular research and training initiated by donors create the "institutional mono-cropping and mono-tasking" environment (Mkandawire, 2009; Whitfield and Fraser, 2009a).

In order to address these problems, we examine aid management and the use of aid resources through the lens of development cooperation effectiveness. In the development cooperation effectiveness context, aid and development cooperation between countries are one of many forms of institutions for increasing the welfare of people through socially sanctioned purposes and methods in both donor and recipient countries (Rimmer, 2003). Aid is also a means of redistribution at the global level from the perspective of international "solidarity and collective responsibility", given that the underdevelopment of recipient countries is one of the costs paid for the others' development (Myrdal, 1971; Acemoglu et al., 2001). This

understanding of aid or development cooperation implies strong emphasis on sovereignty in the sense that "making financial transfers, no matter how large, does not grant the donor rights to impinge on the autonomous decision-making process of the recipient" (Whitfield and Fraser, 2009a). It also implies that the effectiveness of aid should be assessed with regard to the various dimensions affecting the welfare of people, namely production, redistribution, protection and reproduction which contribute to development as a broad goal (Mkandawire, 2004b). The policies and tools for making aid or development cooperation effective are not limited to aid policies but other policies such as trade, energy, environment, and migration. All policies should be designed and implemented to address production, redistribution, protection and reproduction in the equitable, democratic and sustainable manner, which contributes to enhancing human and societal capabilities, the requisites of development of a given society.

These assumptions and value premises lead us to a concept of ***development cooperation effectiveness which is defined as the extent of the coherence and consistency of aid and non-aid policies enhancing human and societal capability by partners in development cooperation (donors, recipients and stakeholders) based on the recipient country's sovereignty. In this development cooperation, synergies within and between production, redistribution, protection and reproduction are explored and created in an equitable, democratic, sustainable manner***.

This understanding posits that effective development cooperation demands a wide scope of policy tools, aid and non-aid, and a wide range of actors with substantial participation and cooperation. It demands coherence and consistence within and between the normative principles for development goals and outcomes on the one hand, and functional principles such as efficiency and effectiveness on the other hand. Institutional and human capacity for this should be built up on the unity of normative and functional principles and more than anything else, this development cooperation effectiveness should be realised in such a way as to guarantee equity, democracy, sustainability and national sovereignty. These values are interlinked with each other in the development context and a deficit in any of these values and their institutions undermines the accountability of the recipient government to its citizens.

With the strong emphasis on the national sovereignty and accountability towards its citizens, ownership in the development cooperation effectiveness is understood as control over the processes and outcomes of choosing policies rather than as a commitment shown by recipient governments to the implementation of the polices that donors encourage them to adopt, Therefore, within the context of development cooperation effectiveness, ownership is realised through the processes and results of development. In order to understand aid management in South Korea, i.e. how the South Korean government negotiated

and managed donors and how donor and South Korean institutions and actors interacted with and interpenetrated each other, we are going to examine such domains as ideas, plans, and implementation in order to find who dominated which process and was responsible for which output. Examining ownership in different domains is essential since our research purpose is to examine the role of recipient which is in most cases considered the passive actor in aid relationship.

Which policies and institutions of aid and non-aid sectors are conducive to development is a very much contested question. Burnside and Dollar's Aid-Growth Model (2000) demonstrates the positive impact of aid on economic growth in developing countries with 'sound' institutions and economic policies such as free trade, anti-inflationary and anti-budget deficit fiscal and monetary policies. Easterly, Levine and Roodman (2004) utilising extensions of the Burnside and Dollar data questioned the importance of policy choices, finding no policy and growth interaction. Empirical literature measures particular policy impacts such as privatisation, financial market liberalisation, educational policies and tax reforms to uncover which factor can influence growth performance (Cook and Uchida 2001; Berthelemy and Dessus 2000; Fry 1995). While diverse in terms of their emphasis on the desired policies, these literatures share a common deficiency in that there is limited consideration on the recipient state's political, economic, social and cultural contexts. In our research within the context of development cooperation effectiveness, we focus on the social, economic and political contexts of South Korea which condition the policy choices for the effective use of aid resources as well as policies and institutions themselves.

We will also tackle the question of what were the institutions and policies to build the institutional and human capacities for enhancing development cooperation effectiveness, in particular the ownership in terms of control of the policy, that were developed. This question basically considers the factors to build two related but different forms of capacities; the capacity to take the control of policy design and implementation and the capacity to produce developmental results. The sources of weak recipient's ownership are various ranging from internal issues such as corruption, weak governance and weak institutions to external issues such as various conditionalities and interventions in the informal and formal sphere. We will look at the critical policies in which we identify factors to strengthen ownership in different domains. With regard to the capacity to produce developmental results, a large body of literature concludes that diminishing returns from aid result from the low absorption capacity of recipients (Dalgaard, Hansen and Tarp, 2004), political instability (Islam, 2002) and recipient governance leakages and weaknesses. Rajan and Subramaniam (2005) and Rodrik (2004) find that recipient institutions and their related capacities and efforts to support and implement development agendas are the key variables in

aid effectiveness. 'The contribution of institutional quality appears far more substantial than and is not closely related to the volume of development assistance received' (Rodrik, 2004). How did South Korea successfully overcome these problems and build up institutional and human capacities to absorb and effectively use aid resources?

The following sections will answer the questions raised in the introduction by explaining the process of development in South Korea from the perspective of development cooperation effectiveness.

2. *Aid for the Status Quo: 1945 to 1948*

During the period of 1945-1948, the transition from liberation to the establishment of an independent republic of South Korea, aid to Korea, mainly under the US's Government Appropriation for Relief in Occupied Areas (GARIOA) was emergency and humanitarian relief. The structural problems such as the bisection of the industrial North and agricultural South and the highly unequal distribution of land, internal conflicts between the left and right wing political forces and the incompetence of the Military Government in Korea (USAMGIK) significantly limited the impact of this aid to achieve.

Initially, USAMGIK's goals of economic and social policy measures were to prevent starvation and disease by addressing problems of scarce food resources and rising prices of food and consumable goods. The major policy tool to deal with these problems was to import food and consumable goods through the GARIOA programme, which was mandated to provide "such minimum supplies for the civilian populations of (occupied) areas as essential to prevent starvation, disease, and unrest" (Wolf, 1960). 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. The impact of such aid resources was negligible in terms of physical capital accumulation and employment.

Particular USAMGIK policy measures in both aid and non-aid sectors at this time did have significant impact on the productive sector. The most important policy measures was land reform in the agricultural sector through which land confiscated from the Japanese were distributed to tenants and tenancy rates were significantly reduced. As agriculture was the largest productive sector, in which more than two thirds of population lived on, this land reform was a great transformation of the economy in Korea. As a result of land reform, tenancy was reduced to a maximum of 25 percent of harvests and farm tenancy reduced from 73 percent to 40 percent of all cultivated land by 1948 (Bloomfield and Jensen, 1951; Yoo, 1975). In addition, in order to increase yields for food security, aid was used for the large-scale

importation of fertilizers and irrigation and land reclamation projects were carried out to increase the productivity of agricultural sector. In 1946, a further USAMGIK policy measure to re-establish a rice collection and rationing system was conceived to control the price. Despite the positive impacts of these policies and the significant role played by aid on poverty and inequality on the one hand and productivity on the other hand, the production of grains were still far short in meeting demand and grain importing continued. Additionally, the attention to the rice collection and rationing influenced local politics. It shifted political and economic power from the left wing forces which had begun to deal with the collection and rationing after the liberation to non-left wing organisations, who were more compliant USAMGIK. At this time, there was purge of left-wing political forces across the country contributing to this power shift at the grass root level (Cummings, 1997).

Apart from agriculture, there were not substantial policy measures to address other sectors such as manufacturing and energy, mainly coal production and electric power. The shortage of coal remained the key bottleneck to the expansion of electric power which was far below basic requirements. Also, transportation and communications systems were in deplorable operating condition due to years of under-maintenance and shortages of essential equipment parts and supplies. A small number of parts imported through aid to meet the demands of these sectors could not meet the needs of these sectors while foreign trade, which could have supplied necessary parts and machinery for production in manufacturing industries, remained at very low levels. Aid imports, mostly processed food and finished goods, reached 188.3 million USD in 1948, and private imports were only 16.6 million USD. Total exports (governmental and private), consisting largely of tungsten, graphite and marine products, were only 18.8 million USD. The export sector could not provide enough foreign currency to buy necessary parts and machinery for production from abroad.

Finally, education reorganisation and reconstruction was a noticeable policy by USAMGIK. These efforts attempted to fill the gap left by the departure of Japanese teachers, who comprised a significant part of teaching staff, in particular secondary and higher education, and change the Japanese curriculum to a Korean curriculum. This attention to education assisted great increases in school enrolment.

Table 1. Increases in enrolment and faculties since liberation

	Elementary School Students	Secondary School Students	Higher School Students	Elementary School Teachers	Secondary School Teachers	Higher School Teachers
1945	1,372,883	79,846	7,110	23,274	1,186	753
1946	2,159,330	111,934	10,315	26,238	4,866	1,170
1947	2,493,462	227,449	25,813	36,382	7,933	2,775

Source: Werth 1949. (We do not have a reliable statistics of demographic structure. With regard to the number of total population, there are various estimates. According to UNESCO field report, it was estimated that more than 20,000,000 people lived in the southern part whereas more than 10,000,000 in the northern part.)

USAMGIK also established 'civic' schools for those outside the normal school-age range, and adult literacy increased significantly (Noland, 2010). Aspiration for a new independent country contributed to increased enrolment when the schools were provided (*see YI's paper on Education and Health for more details*).

In this initial aid reception period, under the circumstances of widespread absolute poverty, the scarcity of resources and social unrest, it became clear that USAMGIK needed to engage in economic rehabilitation through planning rather than relief alone. During this entire period, from 1945-1948, the US government were preparing for a withdrawal from the Korean peninsular and did not allow USAMGIK policy space and resources for planning (Henderson, 1968; Krueger, 1982).

3. Incoherent Donor Policies: 1948 to 1950

In April 1948, after a long debate in the US Congress, the Economic Cooperation Act (Marshall Plan) became law. With the establishment of the first Republic in August 1948, headed by President Syngman Rhee, aid policy changed from humanitarian relief to economic recovery. The first government-to-government pact under the Economic Cooperation Act signed in December 1948 within the framework of Marshall Plan was the Republic of Korea-United States Agreement on Aid.

Under the Economic Cooperation Act, the US's economic assistance activities were transferred from USAMGIK to the Korean Mission of the Economic Cooperation Administration (hereafter ECA (1949-1951)), in the Republic of Korea (RoK) but remained under the leadership of the US State Department. Different from the Department of Defence, which was in charge of economic assistance under GARIOA, the State Department was more concerned with policies to make RoK a successful economy as an economic showcase rather than a military foothold against communism. These different concerns and interests in national security, diplomacy and development resulted in contradictory and inconsistent approaches to aid and non-aid policies by the US towards South Korea and this can be seen to continue until the US grant elements of aid were completely phased out in the late 1960s (Patrick, 2006).

The ECA, while continuing GARIOA type programmes of emergency relief, made a basic shift in the emphasis and rationale for aid programmes from relief to economic development, although in a limited

sense. Recognizing that a mere relief programme could make no contribution to the development of the RoK economy, in 1949, the ECA drew a proposal for a three-year reconstruction programme, including capital investment in strategic sectors of the economy such as for coal mines, thermal power generating facilities and fertilizer plants.[90] In early 1950, the RoK government also prepared a confidential "Five Year Economic Recovery Programme" as a funding proposal for 125 million USD per year from the US. Neither plan got the full support from Congress who assessed these as too ambitions and less realistic (Macdonald, 1992) Congress approved a one year budget of 100 million USD in 1950 instead of 125 million for ECA plan Regardless, the Korean War broke out and these plans were not pursued.[91]

One of the major concerns to the US both during this period and until 1960s was skyrocketing inflation which had continuously increased from the period of liberation and was high enough to offset any positive progress in the economy. The RoK government was aware of the problems but did not worry to the degree that the US was. The ROK-US agreement on aid, in 1948, had considered this issue and clearly stipulated a condition for aid reception that the RoK government should make an effort to establish and implement appropriate monetary, fiscal, and balance-of-payments policies. The agreement also contained a specific clause on establishing a counterpart-fund account in which the South Korean government should deposit Korean currency, corresponding to the value of the dollars of the aid cash and goods, at an agreed exchange rate. The main purpose of this account was to help the US monitor and control the Korean government's monetary and fiscal policies The existence of the counterpart-funds account, however, created an unintentional incentive structure for the RoK government (Woo, 1991). In order to expand fiscal space and reducing the burden of the counterpart-funds, the RoK government set an overvalued exchange rate for the Korean currency against the dollar, on the one hand, and low local prices for goods imported through aid, on the other hand. In this way, the overvalued Korean currency and the low local prices of aid goods consequently increased the amount of aid dollars and goods available which could have been positive to the RoK economy, if there had been the capacities to absorb additional resources for productive use. However, the exchange rate and price policies, however, significantly distorted the market to the extent of undermining the productive activities of the private sector by producing hoarding, speculation and black markets.

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[90] The plan was based on the assumption that a viable RoK would be an exporter of agricultural commodities Lewis, J.P. (1955), Reconstruction and Development in South Korea, Washington D.C., National Planning Association, pp.

[91] The ECA plan could not get the support from the Congress. Considering the three-year ECA plan too ambitious, the Congress was reluctant to give enough resources and eventually approved only a one year budget of 100 million USD in 1950 instead of 125 million which ECA requested for 1950.

The US government strongly protested against these market distorting foreign exchange policies and threatened the RoK government with the reduction of aid. However, President Rhee had strong confidence that the US would not reduced aid to RoK because of security reasons, which turned out true. President Rhee found space for manoeuvring the US through capitalising on the inherent tensions within the US administration, in particular between the Pentagon and the State Department (Woo, 1991). The US wanted to make South Korea a bulwark against communism (strong containment state) and a self-sufficient economy and a market for Japanese goods (liberal dependent state) at the same time. Whenever faced by pressure to make exchange rates and prices for aid goods realistic, Rhee appealed to the US tolerance, i.e. the Pentagon's support, for a strong containment state. This policy autonomy on the exchange rate gained from political bargaining and negotiating, however, did not produce desirable consequences in development since this financial gain was subsequently appropriated by cronies of President Rhee. The structure of the RoK government management of aid resources was designed for this unproductive use of aid. For instance, the Office of Planning and Office of Procurement, two main organisations to develop and administer the programmes relating to requirements, procurement, allocation, distribution, pricing and accounting for supplies obtained, were organisationally separated from each other; the former under the Prime Minister's Office but the latter under the President. The latter, which was the one to decide the beneficiaries of aid resources and contractors of the projects funded by aid resources and placed under the President's control at Syngman Rhee's insistence despite objections from the US, became the source of an ineffective aid use as well as rampant corruption related to aid resources.

In 1949, the US threatened again to cutback ECA aid which would jeopardize ECA investment projects vital to social and economic development in RoK (Bloomfield and Jensen, 1951). This threat included the withdrawal of the US forces from RoK, and as such the impact on the RoK government was greater than before. Facing this threat, the RoK government slowly moved in the direction of the US recommendations. The RoK government asked for technical assistance from the US for banking sector reform for stabilisation programmes including an exchange rate change in June 1949 and US experts' proposal drafts of banking laws were passed by the Korean government without any fundamental changes in early 1950 (Bloomfield and Jensen, 1951; Tamagna, 1952).

In the last quarter of 1949, the RoK government agreed to raise the "counterpart fund exchange rate" from 450 won to the dollar to 600 won, and began to increase the prices of aid goods with the ultimate objective of reaching 80 percent of their open-market prices. In early 1950, at the request of the US, the Korean-American Joint Economic Stabilisation Committee was established to study and make recommendations on a large range of monetary and fiscal policy measures. Through this organisation, the

US placed strong pressure on the RoK government with a view to halting inflation, balancing the budget, establishing more efficient budgetary accounting controls, limiting subsidies on goods and services supplied by government departments and agencies, controlling sound bank credit creation, strengthening the tax system, raising the prices of ECA aid supplies and systematizing the foreign exchange structure. The reduction and delay of aid support were the main US tools to put pressure on the Rhee government, but the counter-inflationary measures designed and recommended by the US did not have a time for implementation because of the War.

4. Aid for Recovery from the Korean War

The Korean War in 1950 swept away the gains over the previous five years. During the War, from 1950 to 1953, the ECA operation was terminated and the responsibility for aid was transferred to the United Nations Korea Reconstruction Agency (UNKRA). However, the American army representing the United Nations Military Command (UNC) exercised the authority to block the operation of UNKRA for military concerns, making UNKRA's work relatively ineffective until 1953. During the war, it was the UNC's Civil Relief in Korea (hereafter UNCRIK) under the command of the UNC army that operated the major relief work designed for the prevention of "starvation, disease and unrest". Aid became again concentrated on relief work, without proper coordination between donor agencies, in particular the UN and the US.

The outbreak of the war re-intensified inflationary pressures. The twin affliction of shortages and rising prices became norm. Between June 1950 to mid-1953, retail prices were estimated to rise twentyfold, and wholesale prices more than fifteen-fold (Lewis, 1955). Under the circumstances where the US dollar was the only reliable currency to import goods and foods, the issue of the exchange rate emerged again as one of the most important policy issues to accrue dollars by the RoK government. Throughout the Korean War, because of the immediacy of time, the Korean currency was generally lent to the UNC without formal agreement on the exchange rate. The RoK government maintained an overvalued Korean currency while the American government had to accept this high exchange rate due to the urgent need for expenditure. In addition to the counterpart funds, the money lent to UNC further encouraged the South Korean government to overvalue the exchange rate of the Korean currency.

Following the Korean War armistice, there were more continuities than discontinuities in aid. Firstly, aid continued to be predominantly bilateral aid, mainly from the US. During the War, UN-USA coordination in terms of aid delivery had not worked well since for military reasons, the UNC controlled by the US

army had often hindered the effective delivery of aid goods, for instance, not allowed access in active military controlled areas, which constituted large parts of RoK (Macdonald, 1992) After the war, UNKRA started to provide commodities to South Korea in the 1953-1955 period, but could not raise sufficient funds for the activities. The US decided shortly after the end of the war that aid to South Korea should be bilateral and cut funding to UN agencies in Korea.[92]

Secondly, the composition of aid was also similar to the period prior to the War. Three quarters of aid between 1953 and 1960 was commodities such as processed food, oil or fertilizers, and only 16.5 percent going directly to support manufacturing (Lewis, 1955).

Thirdly, tension between the RoK government and donors, mainly the US, became severe during and after the War. With concern on the instability of the economy, in particular the foreign exchange problem, the US put pressure on the RoK government through dispatching special envoys, [93] and establishing organisations, such as the Combined Economic Board (CEB) or the Economic Coordinator. Through these bodies, the US conveyed strong messages on RoK government's policies and monitored the accomplishment of the agreed policies. The RoK government and civil society expressed criticism of these interventions of the US. For example, aid from the US was described as being too little, too late and insufficiently aimed at reconstruction. The RoK government publicly criticised poor coordination of efforts, the veto of CEB decisions in Washington, bureaucratic delays, a minimum RoK role, and partiality towards Japan (Macdonald, 1992). Behind these problems were an unproductive balance of power and fragmented planning and delivery of aid within and between the US and the RoK government. The US with the capacity to delay aid resources and threat to reduce aid frequently interrupted the implementation of projects and the RoK government with bargaining skills to capitalise on tensions between the multiple interests of the US and its geo-political position prolonged the negotiation process which consequently undermined the project implementation. The confrontation between donors and recipient over the policy ownership together with the absence of recipient's capacity to design and implement development policies resulted in the negative development consequence.

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[92] UNKRA's financial weakness arose from two sources. The US Congress set the donation to the UN agency's budget at 65 percent of the total budget. The UNKRA could not collect a sizable 35 percent from the other member countries. Amsden, A.H. (1989) *Asia's Next Giant,* Oxford and New York, Oxford University Press.

[93] Clarence E. Meyer visited as a head of a special Presidential mission in April 1952, and Henry J. Tasca as Special Representative of the President for Korean Economic Affairs in April 1952. They recommended to establish various committees to deal with economic assistance such as Combined Economic Board composed of the representatives of the US and the Korean government (July 1952) and United Nations Command Economic Coordinator to coordinate all US and UN aid programmes including those of the UNKRA and Korea Civil Assistance Command.

The stagnation of economic and social development was partly relieved by increased volumes of aid, both in absolute terms and as a proportion of resources available to the RoK economy, received from 1945 which reached a peak in 1957. The increased aid definitely played a role in accelerating the economic recovery as reflected in the economic growth rate of 5 percent per year in real terms between 1953 and 1957, a satisfactory rate at the time compared to other least developing countries (Strout, 1969). However, statistics about increased aid and the GNP growth alone often mask an important factor in assessing aid and development effectiveness. Despite the "bold new approach" to aid in terms of greatly increasing the volume after the Korean War, in particular from the armistice, the US aid was not fully utilised for various reasons. Firstly, there was little investment in the manufacturing sector which resulted in the ineffective demand and weak industrial capacity to absorb and use aid effectively. Secondly, coherent and consistent long-term planning was undermined by the unpredictability of the aid from the US. Furthermore, the collective psychology of aid agencies in RoK which were under continuous resource pressure, due to Washington's diminishing tolerance for foreign assistance spending, played a significant role in undermining planning. General budgetary austerity in Washington, in particular in foreign assistance spending, and the uncertainty within aid agencies intimidated and enervated aid agency planners before their requests were dispatched to Washington. The consequence was a forced short-termism and unplanned aid (Lewis, 1955). Additionally, at this time imported American grain negatively impacted Korean agriculture since it drastically lowered the rice prices. In 1957, when there was a good harvest, rice prices went to the lowest level in eighteen months. The interest of the US to dispose surplus grains resulted in low incomes for farmers on the one hand, and opportunities for corruption such as collusion between local officials and farmers to avoid taxes by under-reporting the produced grains.

In retrospect, however, at least two positive factors during this period can be identified to have contributed to economic growth between 1953 and 1958; good weather for rice-growing and the accumulation of human capital. The weather in most years from 1952 had been good for rice-growing and contributed to increasing production of grains. It indicates, however, a strong dependency of agricultural production on nature rather than capital and labour factors. Manpower certainly played the most significant role in war recovery activities. Despite loss of manpower during the War, RoK had the "most skilled, diversified, best trained, and energetic labour force in the Far East, save Japan's" (Lewis, 1955). This is a reflection on the oversupply of educated labour throughout Korean history after liberation, in particular in the 1950s, 60s and 70s.[94] During this period, the sharpening of old skills learned under

[94] It was estimated that 9,000 of 15,000 college graduates were unable to find jobs in 1960. Lee, J.W. (1966) Planning Efforts for Economic Development, In *Patterns of Economic Development: Korea* (Ed, Chung, J.S.) Seoul, The Korea Research and Publications, pp..????

Japanese colonialism and the learning new skills occurred through every possible opportunity in schools and in the workplace. Koreans applied wisely new technologies and skills and rapidly developed the capability for industrialisation. Nonetheless, investment of aid resources into higher education could have been greater if the Rhee government had placed more emphasis on the practical and vocational skill education and training and appropriate investment in capital goods for production (see Yi's paper for the details of the development of education).

In terms of macro-economic management, the increasing aid volumes until 1957 strengthened the incentive of the RoK government to overvalue the currency again who introduced a multi-exchange rate system to differentiate exchange rates; the official rate, counterpart deposit rate, export rate, import rate, and military payment rate. This maintained the overvalued Korean currency against the dollar in the transactions for aid and the counterpart fund. Foreign currency was mostly used for importing goods which were sold at a higher price based on the market exchange rate than the landed costs based on the official exchange rate. Within the framework of this distorted foreign currency exchange system, importation became the space where both the government and private sector importers appropriated implicit premiums. Various mechanisms such as the auction of dollars and lotteries among the import license-holders affected the size and value of the implicit premiums of both government and private sector actors involved in foreign trade. For such import license-holders, it was more profitable to import rather than produce goods and this undermined the opportunity for growth of import substitution industries.

Exports were stagnant and accounted for less than 2 per cent of GNP between 1953 and 1960. Most exports were non-ferrous ores which did not need processing industries. RoK exports were entirely dependent upon the primary sector as many developing countries are these days. Between 1958 and 1960, however, some segments of light manufacturing and heavy chemical industries slowly grew. For instance, there was a considerable increase in production in the textile and apparel industry and the chemical and heavy industry such as coal briquettes and toiletries during the 1950s (Suh, 1975). However, this did not increase the import substitution rate since most increases in light, heavy and chemical industries only met a part of the increased domestic demand.

The slow industrial development was partly related to the existing aid architecture, in particular to the allocation of counterpart funds. Although the size of the counterpart funds was systematically reduced by the high exchange rate, it accounted for more than half of the government revenues throughout the 1950s. The US government based on the RoK-USA Agreement participated in decisions regarding how

counterpart funds should be spent, even in cases where counterpart funds were the smaller fraction of the total budget for government expenditures. Given that all the reconstruction and development plans with a long-term vision such as the Taska Report of 1953, Electricity Development 3 Year Plan of 1953, Nathan Plan of 1954, Agricultural Finance Improvement Proposal of 1955, Small and Medium Sized Enterprises Promotion Policy of 1956, and Manufacturing Industry Development Policy of 1957, had a component of counterpart funds in their budget, it can be said that the Korean government did not have the authority to independently design the plans and projects.[95] Further, the implementation process of project approved by the US, including procurement and disbursement was mostly inefficient, if not corrupt, and dominated by the cronies of President Rhee.

Indeed, the donor, the US aid was often affected by President Rhee's policy focus on reunification, as used for the legitimization of authoritarian power. One of the major "negotiating capitals" of the Rhee government was a geo-politics.[96] In negotiations with the US over aid, the Rhee government continuously reiterated its determination in the early post-war period that the Korean peninsula should once again be unified. This negotiating capital was also used to justify undemocratic measures such as the suppression of political opposition. In response, the US with concern of RoK authoritarian politics used their own capital, postponement of crucial investment and delay of aid resource delivery.

Another constraint in planning and delivery of aid was the institutional weakness of the RoK bureaucracy and corruption. As we can see in the case of the underestimated 1957 rice crop due to the under-reporting, there was widespread corruption across all levels of bureaucracy. Senior officers made profits by selling aid goods such as cotton to soldiers and low-priced fertilizers and grains at the market. Low ranking officers were involved in various petty irregularities. The biggest irregularity took place at the procurement process controlled by political leaders and bureaucrats at the top. Aid projects were often awarded to President Rhee's cronies, and fertilizers and grains distributed for political advantage in local

[95] The reasons for the failed implementation of the Nathan Plan, the most comprehensive development plan among these, can be attributed to other reasons as well as the budget problem. According to Lee, President Rhee did not like the Nathan Report because Robert Nathan responsible for the report was associated with the Democratic party in the U.S. Shortly after the Nathan team arrived in Korea, in the fall of 1952, the Republican party won the elections in the U.S. and President Rhee, who reportedly identified with the Republicans rather than the Democrats, apparently concluded that it would not help to elicit more assistance from the new administration in the U.S. if Korea's reconstruction programme was openly based on the Nathan team's studies (Macdonald, D.S. (1992) *US-Korean Relations from Liberation to Self-Reliance: the Twenty-Year Record,* Boulder, San Francisco and Oxford, Westview Press..

[96] Whitfield and Fraser conceptualize the term "negotiating capital" as the leverage that a negotiator is able to derive from the structural conditions of global and national economic, political, ideological and institutional context Whitfield, L. and Fraser, A. (2009b) Negotiating Aid, In *The Politics of Aid* (Ed, Whitfield, L.) Oxford and New York, Oxford University Press, .

communities. Although there were several mechanisms of supervision and surveillance, corruption was endemic under both President Rhee's and the Second Republic post the Korean War.

Non-governmental agencies played a significant role in compensating for the institutional weakness of the government and checking the corruption of the government agencies. The non-governmental agencies which were about 66 private agencies not including individual donors in 1956, mainly US-based agencies, served people whom the South Korean government agencies could not or would not help and had close relationships with the US aid agency in identifying the needs of people and problems of aid delivery (Macdonald, 1992) (see Taekyoon Kim's paper).

After two devaluations, in 1953 and 1955, with little impact on curbing inflation, the US made it clear that aid levels would decline unless there was a significant reform in the exchange rate policy. The decision to reduce aid to South Korea was partly related to the US political decision to shift aid to Southeast Asia, specifically Vietnam.

However, several measures significantly compensate the negative impact of the reduction in aid. Firstly, under the PL480 programme, imported grain through aid at the request of the RoK government. Secondly, US military requirements started to be procured from Korean companies beginning with goods like tires and batteries. Although there had been a few companies which received a sub-contract from US companies since the aid began, with this measure, more Korean companies became the main contractors to the US army from 1958. This is notable in RoK industrialization since this procurement measure brought in a strong competition element between companies bidding for the contracts on the one hand, and offered the opportunity to upgrade quality controls and technology transfers on the other hand, which consequently contributed to enhancing organisational capability (Amsden, 1989) (Cimoli et al., 2009). Successful contractors such as Hyundai and Korean Airlines grew because of their work performance rather than through relationship and bribes, at least for the contracts with the US (Steers, 1999).

The RoK government started stabilization policies by reducing the money supply, which resulted in a drastic reduction in the inflation rate in 1958. However, the US, were not satisfied with the devaluations and anti-inflationary measures, started to reduce aid and unilaterally changed the US-Korean Won exchange rate which devalued the RoK in early 1960.[97] It was accompanied with the US decision to

[97] For instance the 1955 agreement established a 500:1 conversion rate, but in 1958, American officials thought the rate should be revised to 900:1 (Macdonald, D.S. (1992) *US-Korean Relations from Liberation to Self-Reliance: the Twenty-Year Record,* Boulder, San Francisco and Oxford, Westview Press.).

replace grant aid with the newly established Development Loan Fund which was decided in 1958 but delayed until 1960 because of the ongoing political crisis in RoK. This reduction of aid, replacement of grant with loan, and abrupt devaluation, as announced by the US unilaterally and accepted by the South Korean government without any meaningful resistance, had an immediate repercussion on the economic activities and resulted in the stagnation in output between 1958 and 1960.

In the midst of changing aid relationship, the planning efforts such as a three year economic development plan formulated by the Economic Development Council of the South Korean government in 1959 and approved by the cabinet in 1960 continued. The three economic development plan were undertaken mainly by Koreans who had completed training programmes abroad, especially in the United States. It could not be implemented by the collapse of the Rhee government (Cole and Nam, 1969) but provided the exercise of large-scale national strategy planning, important pursuit in the local capacity development in this form of planning, learning by doing.

Table 2. Aid Received and its importance, 1953 - 1960

	1953	**1954**	**1955**	**1956**	**1957**	**1958**	**1959**	**1960**
US Bilateral	12.8	108.4	205.8	271.0	368.8	313.6	219.7	245.2
CRIK	158.8	50.2	8.7	0.3	-	-	-	-
UNKRA	29.6	21.3	22.2	22.4	14.1	7.7	2.5	0.2
Total	201.2	179.9	236.7	293.7	382.9	321.3	222.2	245.4
Total Imports	354.4	243.3	341.4	386.1	442.1	378.2	303.8	343.5
Aid as % of Imports	58.3	73.9	69.3	76.1	86.6	84.9	73.1	71.4
Imports as a % of GNP (current prices)	12.9	7.3	9.8	13.1	12.0	10.7	10.1	12.6
Imports as a % of GNP (constant prices)	n.a.	8.8	11.2	13.0	14.3	11.79.3	10.4	
Current Account Deficit as a % of GNP	n.a.	6.2	8.7	11.7	10.5	8.7	7.5	9.3

Source: (Krueger, 1982: p.67).

5. Aid to Korea in the Transition Period of 1960 and 1961

After the collapse of the Rhee government on his resignation, one of the most important tasks to the newly established Chang government was to reverse the US decision to reduce aid. Being dependent upon the aid resources as heavily as the previous Rhee government had, his government had to show the capacity to deal with the US as well as or better than Rhee had done in aid policy field in order to increase the political support and stabilise the society ridden with poverty and unemployment. At this request, the US indicated support for the newly established Chang government by agreeing to approximately same level as the previous year but on condition that the South Korean government should carry out specific economic reforms such as the modification of the foreign exchange system, renegotiation of bilateral economic assistance agreement, including the normalization of the administration and fiscal arrangement of the aid programme, rationalization of a group of small and medium industrial plants that had been constructed with US aid funds but never brought fully into economic production, and increasing the rates for transportation and electric power to a realistic level.[98]

Although there was strong criticism from the political opposition on the renegotiated terms and conditions of the bilateral economic assistance, i.e. the provisions for US observation and review of programmes and operations, provoked strong opposition in parliament. The Chang government managed to have the agreement ratified at the Parliament in February 1961 and the US finalized the sum of aid requested by the RoK government in April 1960, just a month before the coup. The aid agreement which contained the clause to significantly undermine the national ownership in terms of control of the policy was ratified at the democratically elected members of the parliament. The desperate need for aid resources overwhelmed sovereignty issue.

One of the major changes in the Chang government was the positive attitude towards national planning. In fact the need for the long-term national planning had been consistently emphasised in the US and Korean policy circle. Various theories on the economic planning models and actual experiences of developing countries such as India had been already widely discussed and shared by academics and bureaucrats since the late 1950s (Park, 2003). Increased numbers of highly educated people, the relatively

[98] The record on the conference between the Korean delegates and the US Under Secretary to the Finance Minister, Dillon, in October 1960, also shows that Dillon, in response to the Koreans' emphasis on their problems of poverty and unemployment, repeatedly emphasized the suggestion that a works programme be established and financed by the distribution of surplus US grain under new provision of Title II of PL 480 Kim, H. (1999) *Glory and Shame of Korean Economy : Secret History of 33 Years of Economic Planning Board* Seoul, Mailgyeonje Shinmunsa.. This suggestion was translated into action in the following spring and continued for some time under the Park's military government.

developed and free mass media, at least until 1959,[99] contributed to inducing active discussions on economic planning and reaching consensus on the necessity of planning (United Nations, 1957) (Allen, 1960). The active discussion in civil society, however, was not effectively reflected in policies under President Rhee who considered planning a communist approach and disliked the idea. Various plans made by foreign technical assistance teams, such as the Nathan team under UNKRA programme and Korean bureaucrats such as the Economic Development Council, were mostly sidelined from the policy processes. The Chang government took a different view. Under pressure from the unemployed and students, it established six consultative committees who reviewed the proposals of the technical staff of the Economic Development Council. Since there were no clear criteria for the government for selecting investment projects and because information from the government on the investment programme was often inadequate, the critical judgement on the selection of projects for investment was mainly made by this consultation committee rather than Economic Development Council. Academics and private technicians who benefited from the active promotion of study abroad and collaboration with foreign academic and training institutions by the Rhee government were the key players in the consultative committees.[100]

In contrast to the "balanced growth" pattern of three-year economic development plan established under the Rhee government, whose basic motivation was the anticipation of aid, the five-year plan established under the Chang government was prompted by the severe demands of the unemployed and students for increased employment opportunities (Cole and Nam, 1969). Due to the concern with unemployment, the five-year plan had a strong emphasis on labour-intensive methods of construction, public works, realised in the project called National Construction Service. Overall, it was considered to represent an "unbalanced growth strategy" by concentrating investment in a few "leading sectors", particularly power, coal, cement, as well as agriculture. In this framework, public investment assumed a larger role than the private sector which had been stressed in the previous three-year plan (Wolf, 1962). Though the plan was completed in May, just several days before the coup and without time for implementation, it provided a core around which new plans under the Park regime were formulated. (Wolf, 1962) (Cole and Nam, 1969).

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[99] The National Security Law was passed in December 1958.

[100] For instance, contracts were signed with the University of Minnesota and with Tennessee's Peabody College providing for exchange of professors with Korean universities and for provision of laboratories and libraries needed for medical, law, engineering and other professional programmes. In 1955 the Ministry of Education cleared 1,179 men and 992 women for study abroad. The Ministry also imported a total of 1,123,726 volumes of books to the Korean libraries as a part of restoration programme of libraries.

The coup in May 1961 disrupted US aid for a few months. But aid was soon resumed when the US was assured that the new coup force were not communists or socialists trying to depart from the anti-communist alliance. However, aid was conditioned more firmly than before upon the RoK government performance in accordance with mutually agreed goals and programmes. Also, it was made clear that US aid would be gradually reduced.

With a strong pledge to address widespread poverty and social problems such as unemployment, the junta implemented expansionary measures such as public works employment, farm price supports and fertilizer subsidies, higher government salaries, industrial and agricultural loan policies and capital investment in the public sector. Also, policies supportive of the devaluation of currencies were pursued. However, the results were mixed. Despite its positive impact on poverty alleviation, there was a sharp acceleration in the rate of inflation and an increase in the demand for imports. The deficit in the balance of payment and the scarcity of dollars were the most serious problems in managing the economy and the Junta and Park government had established various measures such as the use of quotas and quantitative controls over purchases of foreign exchange, active promotion of exports, and unification of exchange rates at a realistic level to respond to these problems. Each measure could have resulted in negative consequences and were implemented to offset the negative impact of other measures and consequently resulted in positive results in the long-term perspective, as we can see in the next section.

6. Aid from 1962: Independence from Aid Agencies

In the early 1960s, when US aid began to gradually decrease and the grant elements began to be replaced with loans and surplus grains under the title of PL480, the decreased aid significantly contributed to attitudinal and institutional change. The policies generated to directly respond to this decreased and phasing out aid were to use aid resources as effectively as possible and look for alternative foreign resources. The establishment of long-term national plans, in particular the Economic Development Plan, and various institutions to facilitate comprehensive designing and implementing development plans and coordinate within and between public and private sectors, in particular the Economic Planning Board, contributed to achieving both goals. The characteristics of these institutions and policies helped the government strengthen ownership as well as development capacity. The governance in aid resource management provided a structure where these characteristics for strengthening ownership could be fully exerted and make a result. We will explain what factors contributed to strengthening the RoK government's ownership with a specific focus on Economic Development Plan, the Economic Planning Board, and the aid resource governance structure.

6.1 Economic Development Plans and Planning Bodies

A National Plan itself can be a tool for either ownership or subjugation depending on various factors. In Korea, several factors made the key national development plan, Economic Development Plan,[101] a tool for strengthening ownership. The centralised planning bodies in the government, the EPB in the 1960s and the Blue House in the 1970's, played a significant role in the government's autonomously setting the agendas, priorities, sequence and timing of economic development.

The Korean Economic Development Plan initially started with making a list of individual projects in a haste fashion. Once the US made a decision to resume economic aid after the coup, the Park government started planning large industrial projects such as a petro-chemical factory, fertilizer factories, automobile assembly plants, and an enormous tourist complex on the outskirts of Seoul listed in the plan made by bureaucrats without much consultation process. Upon the approval of the military officers of the junta, these projects were implemented by a small but growing number of young bureaucrats who had not had a proper opportunity to exert fully their potential (Kwon and Yi, 2009). As the new government started to provide clear and well-defined development goals and system, these staff began working as "responsible officers with professional training and skills" (USAID, 1959). Policy learning opportunities for academics, technicians and bureaucrats were provided also. Increasing numbers of government officers and experts, mostly young male in their thirties visited foreign countries, particularly the US, to learn new and advanced skills and knowledge and came back to teach and train fellow Koreans through aid programmes supported by the US (The American University Development Education and Training Research Institute, 1971).

One of the most important features of planning and implementation by these young government officers was that projects were designed and implemented based on the RoK government's independent estimate of the industrial needs, which were far bigger than the US aid agency's estimate but in most cases proved

[101] EDP established every five years was a major tool to strengthen ownership of the Korean government in development. Although the components vary slightly, the EDP commonly carried clear and well-defined policy objectives, key priorities and resource provisions. Single-year rolling budget system guaranteed EDP's consistency, supplementary budgeting system made it highly adaptive to the changing domestic and international environments and overall resource budget system coordinated investment and production of public and private sector Krueger, A.O. (1982) *The Developmental Role of the Foreign Sector and Aid,* Cambridge, MA. and London, Council on East Asian Studies, Harvard University.. Foreign aid, particularly development loans, was also fully integrated with other resources such as foreign direct investment (FDI), commercial loans and bank lending for the design and implementation of the EDP. EDP was not only about industrial projects but the social development such as education, health and rural development dealing directly with poverty and inequality.

right (Oh, 1995). This divergence of estimates of the RoK government and donor agencies were repeated in many critical projects in Korean economic and social development throughout the planning process of the Park period. The investment in infrastructure in South Korea, such as express highways from Seoul to Busan, was based on the RoK government's projections of the demand from the growing industries and these were always higher than the projections of the western aid agencies. For example, when the Park government built fertilizer plants, the size of the plants were always bigger than domestic demand in the late 1960s and the surplus were eventually exported. With regard to the investment in basic industries, such as steel and iron and machinery, the RoK government challenged the pessimistic views of the aid agencies and experts such as the World Bank (Amsden, 1989), (Oh, 1995).

This is a classical case of different ways to make estimates i.e. rational from the market point of view versus rational from the point of view of the common long-term interests of a nation. As Myrdal pointed out, most investments planned are not profitable from the market point of view. It is true for both the large investments creating the external economies for industries and small investments in manufacturing industries. In fact, the reason why they have not been made earlier, and why they would not be made now without the incentive provided by the state, in one form or another, is simply that they cannot be expected to produce the externality from the market point of view and a product for sale at a competitive price. (Myrdal, 1957). Many donor agencies and domestic enterprises with the market point of view, i.e. private business calculations, opposing the planned projects, argued against the government plans in this sense. The projects in the economic planning in South Korea, be they small or large scale, with various forms of incentives, were in the end able to be given protection from these market forces as were permitted to be undertaken in spite of the fact that such projects would not be remunerative according to private business calculations. Independent planning for industrial projects which were often opposed and sometimes obstructed by the US aid agency eventually turned out as a success in terms of meeting domestic needs and promoting exports as we can see in the cases of big plants of fertilizers, iron and steel and automobiles.

A second important characteristic of the Economic Development Plans was that strong tendency to achieve the local production of goods and services and preference for "private nationally owned enterprises" (Amsden, 2009). Whenever these goods and services could be supplied by domestic firms, even with a low level of quality, the RoK government preferred this production rather than import. For example, in automobile industry, in order to protect domestic suppliers, the government transferred the authority to issue import license to the association of domestic part suppliers which prevented car producing companies from importing parts with high quality and low costs in 1975 (Oh, 1996).

Thirdly, the Economic Development Plans were comprehensive. All foreign and domestic resource mobilizations, management and spending for industrial projects, public or private, were executed according to the EDP, which spelled out in considerable detail the overall and sectoral growth targets, the components of expenditure on GNP, the targets for income distribution, and the relation to the balance of payments. Social dimensions of development were also incorporated in the plans by the careful design of the employment and wage share of the projects, and social infrastructure such as education, health, transportation, communication and energy. Although the reduction of poverty was not specified as a clear indicator or target, as a blueprint for the accumulation of capital and increasing of production to push improvements in employment and social progress together with the complementary plans for social development in education, health and other infrastructure in both urban and rural areas designed by the other line ministries it aimed at reducing poverty and inequality. In addition, the budget system which placed counterpart funds under the government's Special Budget Account for investment in industry and economic and social infrastructure helped to manage foreign resources autonomously and effectively with less interference from the US donor agency (Kim, 1999).

In summary, the Economic Planning Board (EPB) established in 1961 was a command post for development, in particular economic growth, with strong power and influence on all the ministries. With the mandate to plan economic development plan, coordinate economic matters of all the ministries, and mobilisation of domestic and foreign resources, in 1963, the EPB became a de facto and de jure 'super ministry' above all the ministries in dealing with economic issues and coordinating the ministries, when the head of EPB was upgraded to the deputy prime minister (Adelman 1969). This characteristic of super-ministry contributed to strengthening the policy coherence and consistency since it was able to overrule the conservative and short-termistic macro-economic and fiscal policies of the Ministry of Finance and the Bank of Korea (Dasgupta et al., 1972) (Premchand, 1984) (Kang et al. 2008).

6-2. Exploring Alternative Foreign Resources

With the anticipation that US aid would be phased out very soon, the Park government actively looked for other foreign resources beyond US aid such as Japanese and German ODA and private loans from various countries. In fact, after 1963, US aid policy changed from grant-aid centred to concessional development loan-centred aid. Although the PL480 grains continued as a significant grant component of aid, in particular in 1962 and 1963 when a food crisis occurred because of bad weather and funge disease, grants

in dollars were gradually reduced and financial grant aid was significantly reduced from 180 million USD in 1961 to 66 million in 1964.

The Korean government's response was four-pronged; seeking new forms of aid, actively supporting and promoting public and private borrowing, promoting export and reinvestment of export gains and mobilising domestic resources.

Seeking new sources of foreign resources was sometimes accompanied with hard reality of the international politics. In the 1960s and the 1970s the RoK government secured cash and aid commitments in return for dispatching troops to Vietnam. In the period 1965 and 1970, about 1 billion USD in American payments went to South Korea which accounted for between 7 and 8 per cent of Korea's GDP in the period 1966 and 1969 and as much as 19 percent of its total foreign earnings (Cummings, 1997). In addition, the economic impact through the procurement to Korean companies in Vietnam was also significant. Many Korean companies, especially construction companies earned a lot of profit as Vietnam absorbed 94 percent of Korea's total steel exports and 52 percent of its export of transportation equipment (Woo, 1991). In 1965 the normalisation of diplomatic relationship with Japan, which had been continuously requested by the US since 1951, was another painstaking efforts to seek the foreign resources. During the negotiations, aid in the form of ODA became the major tool for facilitating negotiation. The RoK government strongly demanded reparations for Japan's colonial rule over Korea as a precondition for diplomatic normalization. These reparations, called the Property and Claims fund, amounted to 500 million USD composed of a direct grant of 300 million USD and loans of 200 million USD in 1965 dollars when South Korean total exports per year were about 200 million USD around this time (Kim, 1993; Cummings, 1997). The normalisation was ratified at the parliament despite strong campaigns by the opposition parities and civil society. The pledge from Japan strongly boosted economic planning and the resources from this bargaining were provided over a period of ten years beginning from 1966.

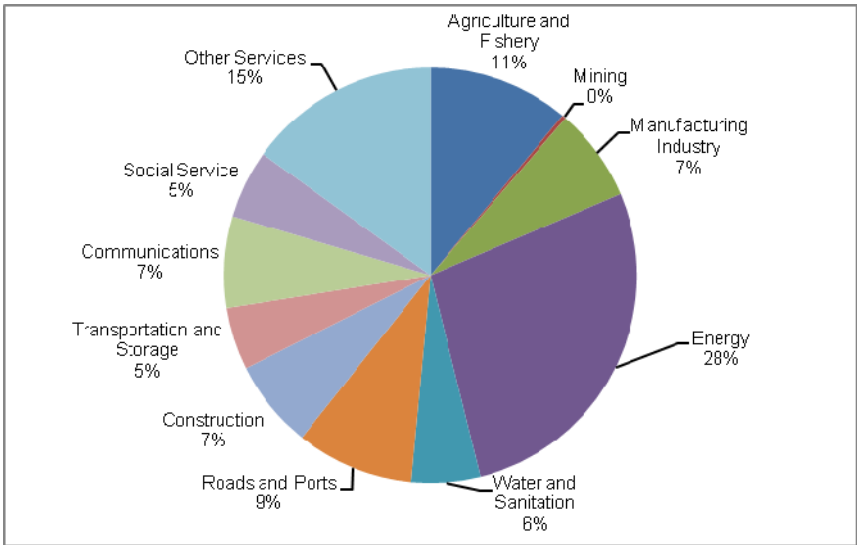
Japanese aid was particularly beneficial when major donors did not support projects planned by the RoK government. One major example is the steel mill in Pohang. This was initially included in the first EPB Five-year Economic Plan but the domestic demand was estimated to be too low to require the building of a steel mill factory and the project was excluded from the planning. Intensive effort to include the project began again in 1967 and the consortium called KISA (Korea International Steel Associates) composed of donors from the US, Germany, the UK, Italy and France was established. The project soon encountered serious problems since two major potential donors, the US and Germany, withdrew interest due to

economic efficiency considerations. The South Korean government used the Japanese assistance, and the first integrated iron and steel mill, the Pohang Iron and Steel Company Ltd. (hereafter POSCO) started operation with an annual capacity of 1.03 million metric ton. The government assumed full responsibility for financing with 52.5 million USD in Japanese loans, about 20 percent of the total reparation funds and 73.7 million USD in Japanese grant. It signalled Korea's turn to heavy industry. Thereafter, the contribution of POSCO to economic growth was multiplied since the oil shocks in the 1970s dramatically raised the price of raw materials, in particular steel and iron.

A third alternative resource to the US Development Loan Fund was public and private foreign loans. The RoK government strengthened policies to promote public borrowing from other countries than the US and abolished the approval process for public loans at the parliament in the early 1970s. The government also actively promoted private sector to secure private foreign loans. However the approach to private sector was a bit cautious since the government placed a very specific restrictions such as restricting in-kind loan, banning commercial loans with high interest rates and short-term repayment periods. Except for certain periods, such as in the early 1970s during the oil crisis, the government continuously paid attention to regulating the inflow of private foreign loans as well as public loans. The government supervised the use of foreign private loans through auditing and stipulating penalties to the private sector actors that could not meet the government criteria. Regardless of this strong regulation on the private borrowing, commercial loans increased drastically from the late 1960s and further increased in the 1970s when the government promoted heavy and chemical industries demanding large capital investment and long-term incubation periods for receiving investment returns.

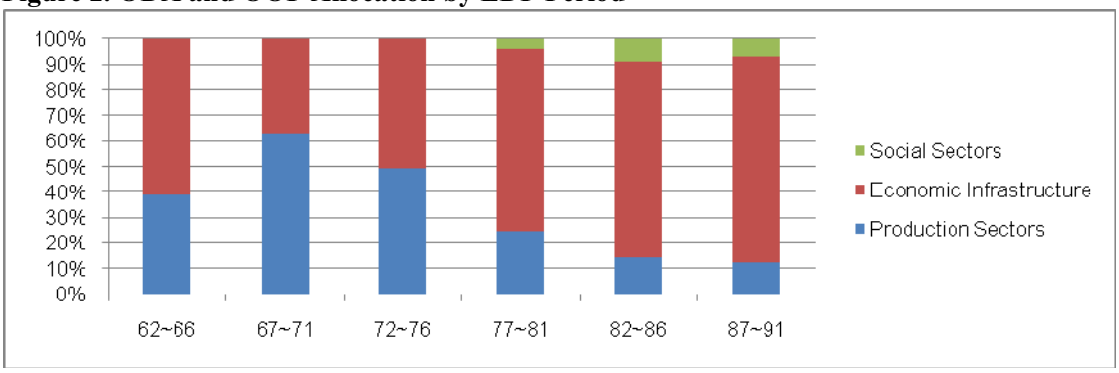
Public loans expenditure was, in most cases, allocated aligned with the policy to promote heavy and chemical industry. These public loans were concentrated on the basic infrastructure for industrial growth such as transportation, energy, industry, communications and water and sanitation. Allocation to social service, from public loans and ODA components only began in the late 1970s.

Figure 1. Allocation of Public Loans by Sector (1962-1992)



Data source: Korea Development Bank, 1993; the Ministry for Government Administration, 1995

Figure 2. ODA and OOF Allocation by EDP Period



Data source: Korea Development Bank, 1993; Ministry of Government Administration, 1995
Note: Percentage acquired only from programmable aid. Unclassified aid was excluded. Social sectors include education, health and social services. Economic infrastructures include energy, transportation and communications. Production sectors include agriculture, fishery, mining and manufacturing industry.

Domestic resource mobilisation was also significant in securing the investment capital for national industrial projects. In 1974, the government established laws to facilitate the setting up of heavy industry companies and made public offerings through the National Investment Funds and Bonds which would mobilise savings and pension funds for investment in heavy and chemical industries. The Park government strongly reinforced tax administration and in 1966 many incentives were provided to encourage book-keeping and voluntary compliance. A few specific taxes were changed to ad valorem taxes so that revenue elasticity would be increased during the inflation period. In addition income tax reform with an emphasis on income redistribution and the introduction of VAT and Special Excise Tax with an emphasis on the generation of revenues were carried out in 1974 and 1977 respectively. This tax

reform was always in line with the goal of mobilising domestic resources. To promote private savings, capital taxation was greatly reduced and a law guaranteeing the anonymity of bank accounts was enacted in early 1960 (Kwack, 1993). Under this range of policy efforts, the tax to GNP ratio was raised from 9.6 percent in the 1961-1963 period to 14.5 percent in the 1968-1970 period and 17.9 percent in 1980, and domestic savings also increased dramatically (Yoo, 2000).

The most important source of foreign currency was the growing export sector which was growing dramatically across the board as the government carried out all possible political and administrative backing for expanding exports (Cole and Lyman, 1971).[102] In the late 1960s, the rapid export growth became evident and policies related to foreign currency were framed according to the export sector's growth performance. The growth of the export industry generated the development of industries for the domestic market through polices favouring the use of domestic goods and services to be used in the development of export industries.

With this export growth, increased public and private borrowing from abroad was a mixed blessing for South Korea. During the period between 1960s and 1980s, when resources for investment was desperately needed, public and private borrowing from abroad made a significant contribution to the industrialisation. Policy space was also expanded because of the availability of alternative resources, which contributed to increased planning and implementation ownership of planning and implementation by South Korea. However, the impact of the government controls on borrowings was limited, which resulted in excessive debt by private companies to the extent that they could not survive without the government's bailout when the exogenous economic shock hit the Korean economy as a whole. The situation eventuated in the early 1980s and the late 1990s (see the Jae-jin Yang's chapter).

6-3. Aid Resource Governance

The RoK government's efforts to secure ownership in terms of setting agendas, priorities and sequences was consistently challenged by the donors, in particular the U.S., through the direct and indirect intervention into aid projects and the threat of reduction and termination of aids. Sometimes, local

[102] Two points are notable in the export growth during the 1960s. Firstly, it is the shift in the composition of commodity exports from primary-based industries such as agriculture, processed food and beverages to manufactured goods such as textiles and steel and metal products. Secondly, Japan was not as significant as the East Asian production chain argument suggests. In fact, in the period between 1960 and 1965, the share of exports to Japan fell from 61.5 percent in 1960 to 25.1 percent in 1965 while the total exports increased from 38.6 million USD to 175 million USD respectively (National Assembly (1985) National Assembly Review, Vol. 226 Seoul, National Assembly

companies co-opted by the donors competed with the companies working for the RoK government projects and disrupted the implementation of the South Korean government projects (One of the most famous examples is Ulsan Oil Refinery case (Oh, 1996)). In this sense, aid governance in South Korea was not simply two party game of government recipient and donor but occurring across the private sector also and game in which multiple stakeholders of both national and international levels made cross-national coalitions. The private sector played a significant role in this game because of the RoK government's developmental alliance with large companies. There was a consistent effort by the RoK government to align the large companies to adhere to government plans and policies through rewards and penalties. The incorporation of the companies, particularly those nationally owned private companies, into the national economic development planning was the key to maintaining the autonomy of the national planning by the RoK government (see the papers of Alice H. Amsden and Eun Mee Kim).

From 1961 to the establishment of Yushin regime in 1972, the period of heavy dependence on aid, one of the characteristics of the aid governance was the presence of multiple decision-making and veto-points. During the Third Republic under Park (1964-1972) the decision-making and veto points for aid resource mobilization and allocation and spending existed in multiple institutions such as in the Committee for Assessing the Introduction of Foreign Resources within the government, parliament and the court dealing with business practice. The existence of multiple decision and veto-points incurred relatively large costs for intervention for donors and companies' lobbying to win aid projects. Consequently, this helped the government to expand its policy space and strengthen ownership over the donors as it increased transaction costs for donor's intervention. The existence of these multiple decision-making points and veto points was not solely an intentional design to respond to donors. There was a split within the RoK government over how to manage aid and aid resources amongst politicians, experts and line ministries on the one hand and the imperative to maintain procedural democracy which resulted in the presence of these multiple decision-making and veto points, which consequently undermined the negotiating strength of donors. However, the multiple decision-making and veto points disappeared with the Yushin regime and in addition, alternative sources of foreign financing increased "negotiating capital" instead of the multiple decision-making and veto points under the Yushin regime.

Another feature of the aid governance during the whole period of the Park government was the management of the domestic and foreign resource flows and spending by the highly centralised bureaucracy. Until the early 1970s, the EPB controlled both domestic and foreign resources for development planning. In particular, the Capital Import Bureau of the EPB, with power to borrow from abroad and to guarantee loans, selected the capital-goods imports and importers that qualified for

government aided deferred payment privileges, gave incentives for foreign direct investment, and undertook an annual audit of borrowing firms (Chung, 2007). Together with the overall planning capacity, this capacity to manage foreign resources at the firm level strengthened government ownership in both planning and implementation over companies supported by the donors as well as donors themselves. Later, the Blue House, the office of the President, took over the overall command from the EPB after heavy and chemical industrialisation took off in the 1970s.

The aid governance during the Park regime can be characterised as the one of strong ownership. The existence of multiple decision-making and veto points, the availability of alternative foreign resources and the coherence and consistence of the bureaucracy in managing aid resources strengthened the RoK government as a negotiator and manager of the aid resources. Under the Yushin regime (1972-1979),[103] the aid governance had less accountability towards citizens. Key institutions for domestic accountability such as civil society, parliament, media and academics were not well functioning in terms of participation into decision-making process However, in terms of the implementation process, a variety of civil society organisations assumed the role of provision basic social services funded by both foreign and domestic resources within the corporatist relationship between the government and civil society (Ringen et al., 2011). In particular the role of women's groups in family planning achieved a great success in the 1960s and 70s in terms of population control (see Taekyoon Kim's chapter and Jinock Lee's paper)

In short, the Park government's governance was not good governance with a substantial and meaningful participation by stakeholders to check and legitimise the government's policies but it was governance good enough to autonomously control the policy choices and national planning and to implement the development plans (Grindle, 2007). Significant democratic deficit was a dark side of this good enough governance which should not be underestimated.

Overall, the RoK government's responses to the prospect declining ODA within the context of governance for resource and participation mobilisation was successful in terms of its contributions to economic and social development. Particularly important from the perspective of ownership in aid relationships, is that in planning and implementing economic and social development the RoK government played an entrepreneurial role in risk taking and insuring for damage and a strong

[103] The passage rates of the bill proposal introduced by the executive branch at the parliament were 96 percent between 1973-1979 where as 63.6 percent between 1963 and 1967 and 80.4 percent between 1967 and 1971.

developmental actor's role in protecting investment initiatives from the conservative stabilisation tendencies of donors.

The growth of industry and the reduction of poverty were accompanied by the development of other sectors such as social security and services and rural development, both of which were engineered in a very much coherent manner. Social security and services, though to a very much limited segment of the society at the initial stage, were designed to provide social security to labour in industrial sectors first with an effort to expand to rural sectors (for more details, see the chapters by Moo-Kwon Chung and Ilcheong Yi). With regard to the perennial problem of food shortage, in particular rice, the government tried to solve this by not resorting to increasing imports but instead reducing consumption through campaigns and administrative orders such as "no-rice day per week" and orders to mix rice with 20 percent of other grains and also investing in the development of high yield varieties with technical assistance from abroad. The Saemaul Movement from the 1970s was the main vehicle for generating self-sufficiency and local development among rural workers with numerous rural projects which were deeply rooted in the local context (for more details, see the chapter by Michael Douglass). Authoritarian characteristics were, however, deeply rooted in all the policy measures and this democratic deficit surely undermined the development potential which could have fully exerted under the democratic regimes.

7. *Aid Exit Strategy*

From 1969, the share of loan components of ODA accounted for more than that of grant elements first time since 1945. ODA Loans reached their peak in 1972 and began decreasing, except for a drastic surge in the 1981 crisis. Public loans including both ODA and OOF (Other Official Flows) defined by OECD DAC drastically increased as commercial loans also increased. In the early 1980s, both grants and ODA loans' share in the foreign resource became minimal (see the Appendix). Given the frequent measures of the government to set the conditions such as low interest rates, long repayment periods and long grace periods for allowing foreign loans, perhaps we can assume that most public loans were concessional at least until the late 1980s when the current account balance became positive (Krueger, 1982).

The replacement of aid with foreign borrowing and export gains were carried out by the combination of exchange rate, trade and industrial policies. Firstly, although there was a restriction on the loans with poor conditions on interest rates, and repayment period, the size of the loan was not a major concern to the government. If the projects were considered important according to the economic development plan such

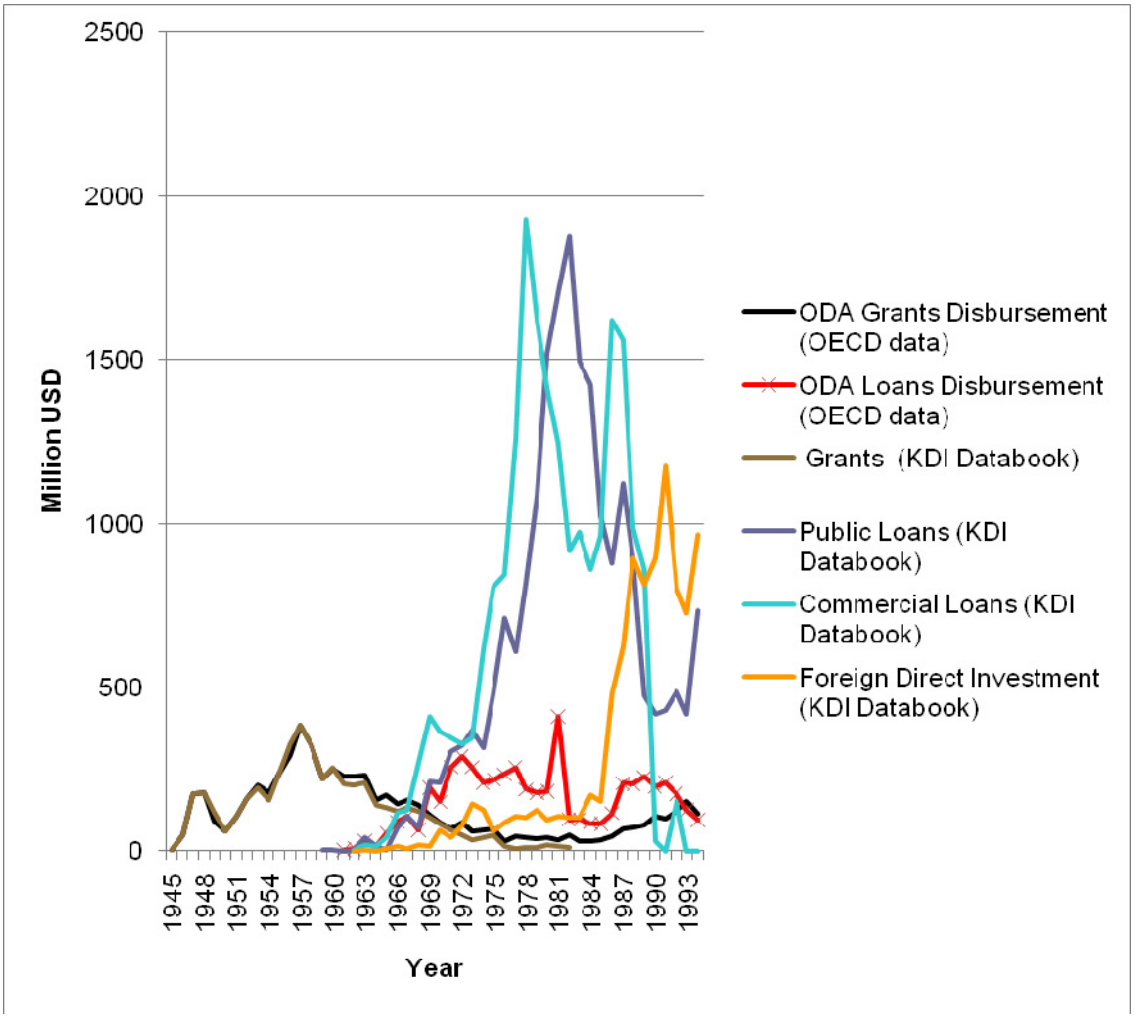
as being heavy and chemical industry and infrastructure, there was a “no limit on foreign borrowing” policy.

In the early 1970s, the government, taking the IMF’s concern about South Korean debt build-up and credit worthiness, had to undertake some stabilisation measures such as devaluation. However, this was also accompanied with a cut in domestic interest rates for the promotion of investment and a bailout of financially troubled firms as a result of the devaluation. Government policies to nullify and replace loan agreements between companies and lenders with new agreements with lower interest burdens helped the companies with a high share of domestic loans.

These measures were heterodox in a sense that the overall direction of the policy was neither stabilisation-oriented nor expansionary. Though the economy got back on track in 1973, shortly after, it was again severely affected by the oil shock. The government continued its expansionary measures through fiscal deficit and credit expansion. The current account deficit reached an historical high despite a growth in exports. To finance the deficit, the government both borrowed from abroad and depleted its foreign reserve holdings. Dispatching a massive labour force to oil producing countries in the 1970s and 80s provided an additional foreign income in the form of remittances to Korea. South Korea again reaped the rewards of borrowing and of running down its reserves in the form of positive growth to 7.7 percent in 1974 and 6.9 percent in 1975. By 1976, fast growth had resumed and GNP grew by 14.4 percent. Domestic investment in heavy industry and in related infrastructure led the economy to grow in the late 1970s until the oil crisis in July 1979 (Amsden, 1989) (For the crises, see the chapter of Jae-jin Yang).

There were also vigorous and bold policies to increase the current account surplus through exports. Facing the crises of an overheated economy from foreign borrowing and the oil crisis, the RoK government pursued expansionary measures in such ways as to increase foreign currency earnings and exports. Investment and production were never ceased and consequently made Korea grow even in 1974 and 1975 when most other non-oil producing countries were plunged into deep depression. South Korea was gradually and successfully able to reduce aid in the late 1970s preparing for a graduation from the aid recipient country list. It graduated from the lending list of ADB in the late 1980s and from the World Bank’s in 1995.

Figure 3 Inflow of ODA, Public and Private Loans and FDI



Source: (Krueger, 1982) pp.18, 26, 67, 113, OECD Dataset, (Korea Development Institute, 1995) p.756.

Conclusion

Emerging from a complete aid dependent economy being fragile state in both conflict and post conflict situation, and an underdeveloped authoritarian political regime, South Korea has became an example of economic and social progress. Its diverse experiences as a recipient country from the 1940s to the 1980s show a variety of forms and natures in the relationship between the recipient and donors. What forms of aid relationship made this aid dependent predominantly agricultural economy one of the best successes in economic and social development? What lessons can we draw from the South Korean experience in terms of aid and development effectiveness? Based on our analysis within the development cooperation effectiveness framework we may be able to articulate the following five lessons.

First, the South Korean case confirms that one of the most important resources of country ownership is human and organisational capability under the government leadership with a clear mandate for development, implementation power and negotiating capital. In South Korean context, the process of strengthening ownership involves many actors in both South Korea and donor agencies, but only when the South Korean government took leadership and centralised the establishment of development strategies, institutions, organisations and policies which reflected the popular demands, which were for economic growth and poverty reduction, and when alternative foreign resources were available, was genuine ownership secured.

It also shows that there can be a variety of levels of ownerships across sectors and ownership in one sector alone cannot guarantee sustainable development. For example, when the Rhee government secured a certain level of autonomy in deciding exchange rates and procurement processes but not in planning long term agricultural, industrial projects or social projects, aid resources did not produce outcomes in terms of industrial growth and poverty reduction but resulted in an aid dependent economy. Moreover, ownership in foreign exchange rates and procurement rather than planning became the source of corruption rather than production and redistribution. Ownership should be comprehensively taken by the recipient country cautious that an uneven distribution of ownership across different sectors could prohibit productive use of aid resources. The difference between the uneven ownership distribution of the Rhee government and the comprehensive ownership in overall development planning and procurement during the Park period can be attributed to the failures and successes of the effective use of the aid resources, respectively.

Secondly, there seems value in the capacity of the recipient country to set the agendas, priorities, sequences and timing for projects or programmes for development should be assessed not by a standard of perfection in relation to external market needs but the extent to which it reflects recipient country's contexts. This includes the opportunity to exercise the existing capability and potential capability based on the developmental will to enhance organisational capability and human capability as a means for further development gains. The technical assistance provided by the donor agencies during the 1960s and the 1970s did not reflect the reality and potential of the economic and social conditions of South Korea. The donor agencies' instructions, guidelines, advice and assessments on some vital projects in the economic development in South Korea during the 1960s and the 1970s can be said a highly sophisticated version of "theoretical tools that had been forged for the study of the developed countries" (Myrdal, 1970). The strategies made by and with the South Korean expertise and understanding, which were often disliked by donors, resulted in effective uses of aid resources. Although it is not easy to tell exactly which of the internal logic of projects or exogenous factors contributed to the actual success, we can say at least

that those projects were designed and implemented in such a way to reflect local contexts and developmental will which considers additional yields beyond the expected money return to the private or public sector. In this way, the strategies and plans for effective development should reflect economic and non-economic on the one hand and aid and non-aid factors in a very much forward looking and comprehensive manner reflecting local contexts.

Relatedly, the contrast between the Rhee and the Park governments in terms of policy coherence offers an important lesson with regard to the conditionality on a certain issue or certain sector, namely macro-economic stabilisation. The Rhee government's coherence was fundamentally undermined by the institutional separation of budgeting and spending of aid resources and neglect of planning. With the overarching economic development plan and a super ministry planning organisation, the Park government coordinated macro and micro economic process in the way to govern the market through either inflationary or deflationary policy measures. It was not the conditionality on macro-economic stabilisation but the institutions maintaining and enhancing the policy coherence and consistency that worked out under the Park government.

Thirdly, the conflictual nature of accountability must be highlighted. Accountability to whom, for what and how always involve power relationships and the priority of resource allocation. The aid governance of the Rhee and Park governments, exemplified as failure and success, were different in many senses, but the crucial difference was the nature of accountability., The Rhee government was completely dependent upon aid and the game the Rhee government played was mainly about the accountability to the US in the security domain. The mechanism to give grants to the Rhee government, such as the counterpart-funds account, was often abused by the Rhee government capitalising on US concern on the spreading communism. It resulted in an unsound macro-economic situation, distorted exchange rates and the disruption of aid flows, and consequently short-termism in planning and overall development achievements were low. In contrast, the Park government with a strong mandate for economic growth and poverty reduction utilised the US concern on the spreading communism for development purpose. The Park government was accountable to its citizens for economic growth at least and could overcome short-termism in planning by the active generation of alternative resources and long term planning.

This strong accountability to its citizens and economic growth could make donors compete or complement with each other, which consequently helped to expand the space where the RoK government could exert its policy potentials. One additional lesson related to this is that accountability to donors should be carefully examined because donors' concerns and interests themselves multiple and are

sometimes even contradictory. Furthermore, the US's multiple accountabilities to Korea, such as in security and economic development, sometimes generating conflicts with each other, undermined the achievement of the aid goals during the Rhee government.

Fourthly, the South Korean experience offers an interesting case where the institutions and policies for governance were gradually built on the institutions and policies already in place (Kindornay, 2011). Despite the power changes through unconstitutional means, the succeeding regimes used the institutions that were there, and added institutional mechanisms for planning and decision making, which were augmentations to improve domestic control and checks on self-made policy and project development. The private sector particularly large private companies were made to toe the line of government rather than being removed from the market. Being incorporated into the national planning these large private companies could gain the returns mutually beneficial to business growth and overall national development. This partnership was initiated and led by the government with a strong mandate for development.

South Korea's successful poverty reduction and economic growth in the 1960s and 1970s took place under the regime with governance that is quite different from the best practice defined by many donor agencies. The Park government, however, had a good enough governance to identify opportunities for effective interventions, build institutions based on the previous, secure the ownership across the sectors and introduce change in aid and non-aid policies and more than anything else, get the work done through this state-led partnership.

Lastly, with regard to the issue of fragile states in conflict and post-conflict situations, the South Korean experience between 1945 and 1948 has a significant policy implication to the question asking what extent the existing institutions should be maintained or abolished. In the predominantly rice agricultural economy, the distribution and redistribution of rice and significantly of land was one of the most significant economic, social and political policy undertaken in the development story. The USMGIK preserved the rice collection and rationing system while executing progressive land reform, which provided a pre-condition for further land reform and consequently contributed to generating social and economic equality. In a sense, by abolishing the institutions entrenching social and economic inequality and maintaining the system for efficient market supply, consequently contributed improvement in terms of economic and social development by increasing incomes and as land tenure gave livelihood security.

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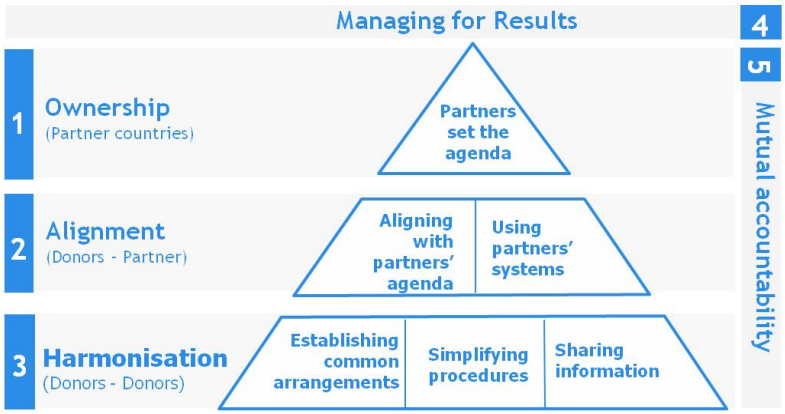
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Appendix 1.

Figure 1. Paris Declaration Framework



Source: OECD

Appendix 2. Table 1. ODA to Korea from 1945 to 1994 (US$ billions)

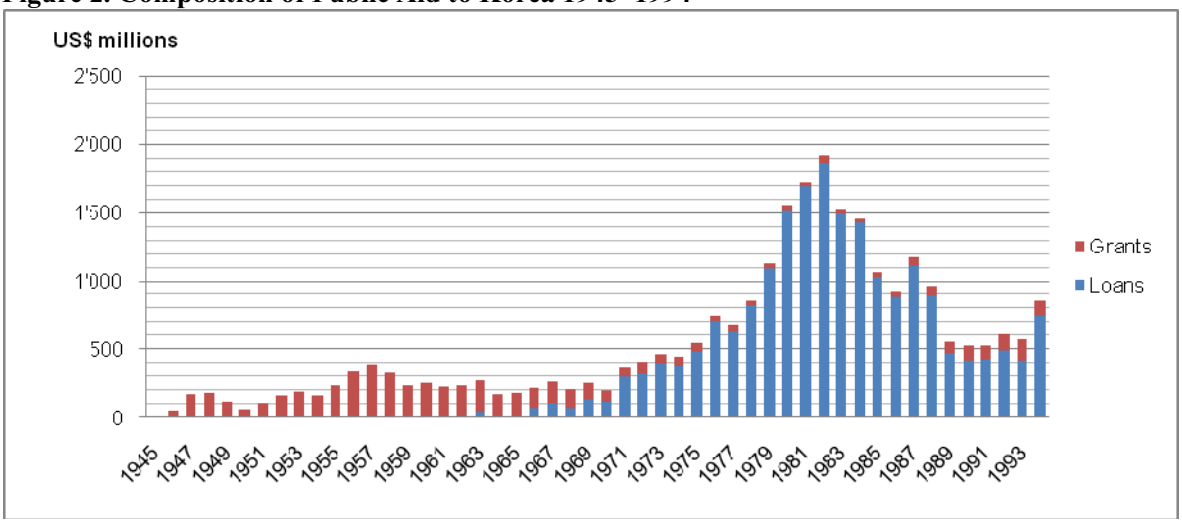
	1945~1961			1962~1979			1980~1994			1945~1994		
	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total
Bilateral	5	2,643	2,648	3,417	1,799	5,216	14,865	988	15,947	20,583*	5,444	26,912
Multilateral	0	580	580	2,296	132	2,428		94			805	
Total	5	3,226	3,231	5,713	1,931	7,646	14,865	1,082	15,947	20,583	6,329	

Source: Korea Development Bank, 1993 and the Ministry of Government Administration, 1995 for loans; Korea Development Bank, 1970 for grants before 1959; OECD-DAC Statistics for grants from 1960

Note: Amounts of loans here are inclusive of all loans of official character and provided for development purposes, regardless of whether it fits into 25 percent grant element threshold or not. Commercial loans, bank loans, other private inflow, military assistance are excluded.

* 1993's loans data was only be found as a grand total, thus it is impossible to figure out the volumes of assistance by different donor groups.

Figure 2. Composition of Public Aid to Korea 1945~1994



Source: Korea Development Bank, 1993 and the Ministry of Government Administration, 1995 for loans; Korea Development Bank, 1970 for grants before 1959; OECD-DAC Statistics for grants from 1960

Chapter 5

Institutional Linkages between Social Protection Measures and Industrialisation in Korea

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Increasing attention is now being paid to the mechanisms through which production, redistribution, protection and reproduction are closely interlinked. How to achieve strong, balanced, equitable and sustainable growth is one of the major contemporary development policy challenges. Despite this importance, the growing academic and policy interest in the areas of social welfare during the period of industrialization in Korea is a relatively recent phenomenon. Up to very recently, most research on Korean success has focused on the political and economic institutions for aggregate economic growth. The assumption underpinning this research was the trickle-down effect of economic growth.

However, literature on the welfare system of Korea, though relatively small compared to the economic-growth focused research, shows that there have been policies of redistribution, protection and reproduction as well as production. The question 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 paper is to scrutinise the institutional linkage between social protection measures and industrialisation prior to the democratisation of 1987 – without glossing

over or excusing the ugliness and oppression of the authoritarian regimes under the military dictatorship. The paper begins with the issue concerning the compatibility versus trade-off between social welfare and economic growth. It then examines the institutional linkage between social policy and economic policy at two dimensions, i.e. regime-level and policy-level. Finally, it provides the classification or various types of such institutional linkages with a focus on the main policy agenda of production, redistribution, protection and reproduction.

Symbiosis between Economic Policy and Social Policy

There has been a long-standing controversial debate as to whether the welfare state is compatible with a market-based economy. For instance:

> 'down to the last third of the nineteenth century there was widespread agreement among both capitalism's defenders and its detractors that state welfare was incompatible with the dynamics of a capitalist economy. The twentieth century saw opinion much more evenly divided. Indeed, in certain phases, there was a broadly based consensus, again shared on both left and right, that the state provision of welfare is fully compatible with, or even indispensible to, a developed capitalist economy … in the period after the Second World War, the logic of *symbiosis* between the welfare state and capitalism came to define the prevailing orthodoxy' (Pierson 1998:11-2).

However, since the 1970s, the Keynesian welfare state has been subject to various forms of criticism under the veil of its 'crisis'. The crisis of the welfare state means different things to different scholars and politicians. The New Right asserted that the welfare state was no longer socially and economically functional, whereas neo-Marxists argued that the crisis of the welfare state was inherently rooted in the capitalist welfare system through the

growing ‘contradictions’ between accumulation and legitimation. In particular, the New Right’s onslaught to the welfare state revitalised the incompatibility or trade-off proposition that social policy hinders economic growth.

This proposition, which is often dubbed as the ‘deindustrialisation thesis’, is encapsulated in three arguments. The first argument asserts that social policy contributed to the declining level of activity in the productive sectors, especially a shrink in manufacturing sectors. Because the growing social expenditures in the public sector ‘withdrew resources from the market sector and industrial production both in terms of the potential labour force (as state employment grew) and in terms of potential investment (as taxation increased to pay for the expanded state)’ (Cochrane and Clarke 1993:50-1). Even if the extreme expansion of public sectors induces the shrink in productive sectors to some extent, however, the growing public sector is not a fundamental and direct cause. Rather, the decline in productive sectors is basically attributable to the weakening competitiveness of a nation. Moreover, the expansion of public sectors in some welfare programmes such as education and training can be productive and contribute to economic development in terms of human capital improvements. Empirically, this argument cannot be applied to a society with both the low level of unemployment and the high level of public sector or social expenditures.

The second argument is that social policy created a decrease in the labour supply in relation to the weakness of work incentives for beneficiaries and taxpayers. However, such a claim that the rising level of taxation through the expansion of social policy is necessarily disincentive cannot be theoretically proved due to the substitution and income effects. According to Gough (1996), the fact that the substitution and income effects of taxes on labour supply offset each other makes the overall outcome theoretically indeterminate; income taxation had no significant effect on the labour supply of men but some negative effect on women, which can be swamped by the impact of other government programmes and the system of taxation of couples. After reviewing ten econometric studies of the relationship between the level of social spending in different countries and their economic performance, Atkinson (1999:84) concludes that ‘studies of the aggregate relationship

between economic performance and the size of the welfare state do not yield conclusive evidence'.

The third argument contends that social policy, especially the old-age pension scheme, causes a reduction in saving and investment and hence a fall in capital accumulation due to declining aggregate saving. But findings on the effect of income-transfer programmes on private savings and investment are much more uncertain, and even if there may be serious disincentives to private savings and investment resulting from old-age pensions, there are other and better ways to encourage capital formation than the reduction of state pensions (see Goodin 1988:233-5).

More recently, a key force influencing the welfare state in different regions of the world is often attributed to globalisation, more specifically its predominant neo-liberal version. In an era of economic globalisation, welfare states are coming under the intense pressures of greater labour market flexibility, severe fiscal austerity and budgetary strain, and the lowering of taxation and universal social provision. Globalisation has frequently been alleged to make social welfare much more explicitly subservient to the interest of the economy, which can be seen as another new form of the trade-off between economic policy (efficiency or competitiveness as buzzwords in globalisation) and social policy (equity).

In contrast with the inexorable logic of globalisation conjured up by neo-liberalism, however, globalisation necessitates government provision of public services (Bonoli, George and Taylor-Gooby 2000). State welfare is viable for compensating the vulnerable, like those who are outside paid employment as well as the unskilled and/or the internationally immobile, for social justice and at least social harmony – a 'compensation effect' (Rodrik 1997). Furthermore, state welfare is still important in order to maintain and improve competitiveness since the impact of social policy on competitiveness cannot simply be regarded as a negative or 'incompatibility' effect, but also have a positive or 'compatibility' one – more extensive social policy enhances national competitiveness – in many aspects (Gough 1996). In the light of policy input (expenditure and taxation), policy output (social programmes), and policy outcome (welfare outcomes), Gough highlights a number of compatibility effects: for example, macroeconomic stabilisation effects, human

capital improvement via education and training, and enhanced flexibility via greater trust and reduced transaction costs (see Gough 1996:210-24). To this end, there is no a straightforward and simple link between social welfare and competitiveness.

The trade-off or incompatibility argument is not verified because empirical evidence on the relationship between economic goals (efficiency or economic growth) and social goals (equity or egalitarian redistribution) is mixed or inconclusive. The crux of the matter for a feasible and desirable welfare state in the epoch of globalisation is how to combine economic efficiency with equity and distributive justice (see, for instance, Goodin et al. 1999:259-62). Finally, it is reasonable to argue that social policy and economic policy can be mutually reinforcing, and hence, attention should be paid to the reciprocal, complex and dynamic linkage between them.

Institutional linkage between Economic Policy and Social Policy

According to a series of case studies (Amsden 1989; Wade 1990; Haggard 1990; Evans 1995; Woo-Cumings 1999), the interventionist role played by the 'developmental state' is the root cause of the dramatic economic ascendance of East Asian countries in general and of Korea in particular. The developmental state formulated the developmental strategy that set economic growth as the fundamental goal. The developmental state then coordinated socio-economic resources towards long-term national economic enhancement and used control of the financial sector as the main policy tool for state-led export-oriented industrialisation.

The developmental strategy yielded a basic premise of the overall direction of policy, namely 'economic growth first and then distribution (or social welfare)'. On this basis, there was an ideology and practice that subordinated social welfare, 'particularly in the form of progressive redistribution and a universal and generous benefit system, to the over-riding priorities of

economic efficiency and growth' (White and Goodman 1998:17). Similarly, Holliday and Wilding (2003:13-4) argue 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 … Of course, when the chips are down, Western states have always given the economy priority over social policy, but that priority has generally been less explicit and more reluctant. It has been a stance in need of justification, rather than a policy given. There has also been much less emphasis on economic growth as the high road to welfare'.

The economy-first developmental strategy engendered essential principles and features underlying the Korean welfare system, which can be captured by the notion of 'developmental welfare' (Deyo 1992; Goodman, White and Kwon 1998; Kwon 2005; Chung 2006). Above all, an overriding concern was to impose minimum financial burden on the state by virtue of the low level of public spending in social welfare. Accordingly, the state in 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 (Kwon 1999; Shin 2000; Chung 2001). 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. Korea thus developed a welfare system which relied heavily on the occupational welfare sector in terms of the close relationship between social policy and labour control policy (Yi 2007). Family welfare – encouraged by Confucian cultural ideology (e.g. filial piety, individual self-help, and family interdependence) – negated much of the need for state support (Jones 1993). The state's role as a regulator combined with its low social spending engendered a prominent welfare role for the private sector.

The 'economy-first' developmental strategy was initiated and advocated by conservative ruling elites, i.e. bi-partite coalitions between the developmental state and major business groups, combined with the political subordination of labour. The crucial interventionist role of the developmental state was amplified through 'organisational and institutional links between politically insulated state developmental agencies and major private-sector firms' (Deyo 1987:19). The 'varieties of capitalism' approach (e.g. Soskice 1999; Hall and Soskice 2001; Ebbinghaus and Manow 2001) also describes this kind of state-business alliance as a variant of 'coordinated market economies' (distinguishable from 'liberal market economies') in which there is considerable direct and indirect non-market coordination among companies, with the state playing a framework-setting role.

Institutional Linkage at the Regime Level

Whereas firms in liberal market economies coordinate their activities heavily via competitive markets, those in coordinated market economies depend primarily on 'industry-based coordination' exemplified by many northern European nations, or on 'group-based coordination' found in Japan and 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). Industry-coordinated market economies can be further subdivided into so-called 'sector-coordinated market economies' in the European continent, which are closely related to the conservative-corporatist category of welfare state regimes, and 'national coordinated market economies' in Scandinavia, which are interrelated with the social democratic welfare regime (see Kitschelt et al. 1999:429-34; Huber and Stephens 2001:111-2).

In group-coordinated market economies, the more intense coordination between companies is within the group of companies, and coordination between large companies in

the same industry is more restrained, reflecting strong industry-based competition particularly among large companies. Group-coordinated market economies are characterised 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 seniority-based wages before the economic crisis of 1997. In fact, employers' policy preference in group-coordinated market economies, especially Korea, is closer to that in liberal market economies where 'employers' preference is to weaken organized labor as much as possible' (Wood 2001:252). Product market, innovation and work-organisation strategies in the group-coordinated market economies, such as Korea, do not rely upon collaboration with organised labour as much as do they in industry-coordination counterparts. The political underpinnings of group-coordinated market economies have long been conservative parties with a limited role of organised labour, in contrast to industry-coordinated counterparts which have either strong unions and social democratic hegemony or moderately strong unions and Christian democratic dominance but significant social democratic influence.

In the context of group-based coordination within large companies, enterprise unionism in Korea contributed not only to the fragmented structure of trade unions but also to decentralised collective bargaining practices (Choi 2000; Lee and Lee 2001). 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 (Chung 2001; Yi 2007). While trade union movements represented regular employees of large companies, workers in small and medium-sized firms found it hard to form and keep their unions in the absence of strong industry-level organisations. Due to the enterprise unionism and fragmented

bargaining structure, Korean trade unions had clear limitations in exercising their power over the making of social policy.

These distinctive features of the group-coordinated market economy of Korea are complementary to particular social policies and labour-market institutions. The large-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 industrialisation (Chung 2006). For firms like *chaebols*, '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). According to Ebbinghaus and Manow (2001), occupational benefits provided positive incentives for workers to invest in company-specific skills. The formation of company-specific skills was also promoted by lifetime employment and seniority-based wages. In short, the institutional complementarities (or elective affinities) between specific social protection and particular components of 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: 209). Social policy in 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' (Hall and Soskice 2001; Ebbinghaus and Manow 2001; Huber and Stephen 2001), but also because the overall policy regime of economic and social policies is of particular significance in the Korean case (Kwon 1999; Chung 2001,

2006; Shin 2003). With a focus on the notion of policy linkages, Shin (2003:5) argues that 'the policy choice made in economic policy subsequently has an important effect on shaping the form and content of social policy'. In a similar vein, Kwon (1999:21) observes that:

> 'economic policy took precedence over all other policy considerations, including social policy. The political rationale and institutional structure of social policy should therefore be analysed within this paradigm of policy making. It is particularly important to identify how economic strategy constrained social policy decisions and the structure of social policy institutions'.

Under the economy-first developmental strategy formulated by conservative political elites, social policy was designed to embody the overwhelming primacy of economic growth over welfare. For instance, the Basic Law of Social Security, enacted in 1963 and replaced by the 1995 Social Security Act, specified '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' (Chung 2006:156). Industrial Accident Insurance was chosen as the first social welfare programme, since it could offer social protection for industrial workers and reduce employers' financial uncertainty in the wake of industrialisation. The National Welfare Pension Plan in the early 1970s – postponed due to the oil shock in 1973 – was designed to mobilise private financial resources for massive investment in the heavy and chemical industries (Kwon 1999; Shin 2003; Yi 2007).

At the same time, social and economic goals were often compatible and closely linked, insofar as social welfare would not hinder economic development. The developmental strategy, concerned with export-oriented and labour-intensive industrialisation, depended on the effective utilisation of

human resources through maintaining a disciplined and low-cost labour force. Under such circumstances, economic development was energised by social programmes that strengthened labour productivity and promoted company training; 'To this extent, economic development and proactive social policy have been mutually supportive' (Deyo 1992:305).

Furthermore, there was the linkage between economic and social policies in terms of employment, company welfare, and the work-based, contributory insurance programmes. 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 labour 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 labour 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, held that increasing national income through economic growth would have trickle down effects throughout the population – even to the poorest people (Tang 2000; Shin 2003; Holliday and Wilding 2003).

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

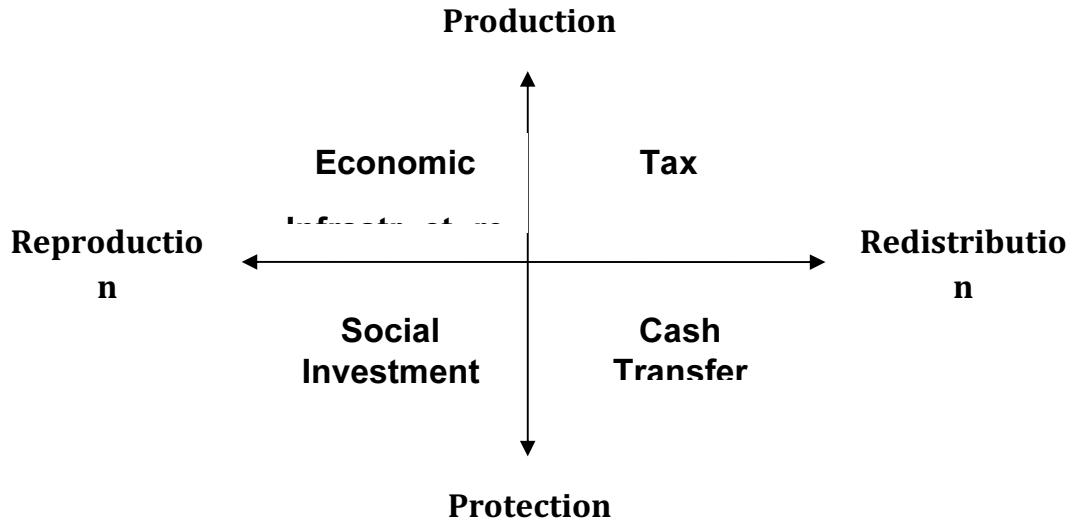
Given the state's prominent role as a low social spender, major social programmes depended on the social insurance principle under which a person should contribute first before claiming any benefit (Kwon 1999; Chung 2001). This can be referred to as the 'mandatory but privately-financed' social insurance principle in which the state's role as a provider is minimal. The Industrial Accident Insurance Programme (1964), the National Health Insurance Programme (1977), the National Pension Programme (1988) and the Employment Insurance Programme (1995) were financed from contributions paid by the insured and their employers, with no financial contribution by the state except the administration cost. The initial choice of policy design based upon the mandatory but privately-financed insurance programme was caused by and reinforced the minimum financial commitment of the state to welfare.

In this way, economic and social policies are inextricably interlocked while reciprocally influencing each other's evolution. At the policy level, social insurance programmes 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.

Typology of Institutional Linkage between Economic and Social Policies

Institutional linkage between economic policy and social policy at the two dimensions (i.e. regime-level and policy-level) might be reorganised and enriched by highlighting mechanisms for production, redistribution, protection and reproduction. Following on from this, Figure 1 provides the four classifications or arenas of the institutional linkage, namely economic infrastructure, social investment, tax credits, and cash transfers.

Figure 1. Classifications of Linkage between Economic and Social Policies



Here the main policy agenda or issues of production, redistribution, protection and reproduction are not mutually exclusive, but rather intertwined theoretically and practically. For instance, social investment is not simply confined to mechanisms for reproduction and protection, but also related to mechanisms for production and redistribution to some extent. As will be 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 credits exert a certain degree of influence on the sphere of reproduction of the labour force and the household. As Clasen (1999:161) argues, the payment of cash transfer benefits such as unemployment benefits not only provides income maintenance as replacement for lost earnings but has also economic functions which 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 issues of production, redistribution, protection and reproduction.

Social investment strategies, such as productivist social policy or workfare policy, 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 a part and parcel of an American-style 'work-fare' system (the system of working for welfare benefits) and the UK 'welfare-to-work', also called the 'New Deal' programme (a programme 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 labour market policy – which includes benefits as part of the 'productivist' – and more to do with the US workfare model and the UK welfare-to-work. Compared to the other two, Swedish active manpower policy involved 'much greater activism in terms of labour 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, i.e. promoting programmes such as training and work experience at the expense of passive forms of income support for the unemployed (see Clasen 1999:161-2). According to Kildal, (2001), while the positive incentives, 'carrots' characterised active manpower policy, it is the negatives ones, 'sticks' that characterise the new social investment approach.

Infrastructure systems play a vital role in economic and social development. Increasingly interdependent, they are a means for ensuring the delivery of goods and services that promote economic prosperity and growth, and contribute to quality of life, including the social well-being, health and safety of citizens (OECD 2007). Reliable and efficient infrastructure contributes not only to enhancing economic activity, but also to improvements in health, nutrition and education which are crucial to the reproduction of labour power. According to an OECD report (2006), insufficient economic infrastructure – i.e. transport, energy, information and communication technology, and drinking water, sanitation and irrigation – is among the most pressing obstacles to achieving pro-poor growth and the Millennium Developmental Goals (MDGs). The need for increased investments in infrastructure and for making infrastructure management and maintenance more efficient is widely recognised. By raising labour productivity and lowering production and transaction costs, economic infrastructure facilitates economic growth, which in turn helps to reduce poverty. 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, economic infrastructure is a priority on the international development agenda.

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 house purchase. This, which is referred to as a 'tax expenditure', has the effect of encouraging them to do their own saving for retirement or house purchase but it costs the government money in lost revenue (see Glennerster 1997). In a similar way, tax credits means the provision of benefits through the tax system that do not simply offset tax liabilities but may involve payment to low income people who are not required to pay any tax. This type of tax expenditures or credits can be regarded as what Titmuss (1958) called 'fiscal welfare' as one of major categories of welfare. Titmuss's classic essay on the divisions of social welfare highlighted the significance of fiscal welfare, subsidised by the state but often not identified in social policy. In addition, particular attention should be placed on tax incentives for enterprises.

The following sections will examine these three types of institutional linkages with a specific reference to the Korean experience during the industrialisation period. The reason of excluding the linkage type of cash transfers from our discussion is based on the fact that social provision in Korea used to be accused of having the low levels of income maintenance benefits and welfare budgets. Moreover, the previous welfare system did not recognise the social rights of citizens to a minimum living standard. Income support for people earning less than the minimum cost of living, i.e. social assistance benefits under the old Livelihood Protection System was not guaranteed as a right. This is attributable to developmental welfarism, including the limited government commitment to the financing of welfare programmes, and a strong emphasis on self-reliance without commitment to socially guaranteed minimum standards of provision.

In fact, the effect of redistributive policies on income inequality is still lower in Korea than the OECD average. Korea achieved a 0.03 point reduction in the Gini coefficient

following its tax and transfer policies, compared to an average 0.14 point reduction in OECD countries. Cash benefits in Korea are among the lowest in OECD countries, accounting for 4% of household disposable income compared to over 30% in many other OECD countries (OECD, 2008b). The main problem of the Korean welfare system has thus been neither an excessive welfare budget nor welfare dependency as it has been claimed for Western welfare states.

Type 1: Social Investment

The key concerns of developmental welfarism, embedded in the Korean welfare system, were the prominence of work in terms of an enterprise- and employment-centred welfare system, and investment in human resources for self-reliance. 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 labour market measures. For example, the public spending on active labour market programmes was only 0.1 per cent of GDP in 1996 (Martin 1998). During the economic buoyancy of the past decades, the Korean governments prior to the economic crisis of 1997 were content to ignore training needs and to rely exclusively on economic growth to meet employment needs.

In the course of export-led and labour-intensive industrialisation, the Korean developmental state highlighted the improvement of human capital, which would strengthen not merely the productive potential of individuals but also their self-reliance. During the heavy and chemical industrialisation process of the 1970s, the training levy system based on the Basic Vocational Training Act (1976) was the representative framework of a state-led training system. Under the centralised 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 labour market, or to pay a training levy to the government instead of in-plant training. However, as the government's guidelines on vocational training hardly satisfied the training needs of individual firms after the 1980s, most employers did not follow the government's guidelines and preferred paying the levy to training workers (Yoo et al. 2001:295). In this context, the compulsory

levy system was substituted by a new incentive system of voluntary vocational training through the Job Skill Development Programme of the Employment Insurance Programme (see Kwon and Lee 2011; Lee 2009).

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 in the absence of effective active labour market policies. Hence, Korea spent a high proportion of general government expenditures on education (17.6 per cent in 1972) in comparison with an extremely small proportion of social security expenditures (3.7 per cent in the same year) (Jacobs, 2000; Croissant, 2004). Consequently, the average educational attainment of the Korean population and work force has increased outstandingly over the past decades, 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 which are now among the top handful of nations (see OECD 2000b; 2002). However, labour market dualism, driven by the rising share of irregular (i.e. temporary and part-time) workers, has negative implications for human capital formation. Reducing dualism would improve efficiency and equity. To mitigate the impact of population ageing, labour force participation needs to be increased, and expanding the availability of childcare and maternity leave is a priority (OECD 2008a).

Type 2: Economic Infrastructure

Infrastructure is indispensable to achieving the main development targets in developing countries, such as urbanisation, industrialisation, equitable income distribution, and sustainable economic development. Effective infrastructure contributes to raising productivity and lowering costs in the productive activities of the economy, but it has to be expanded fast enough to meet the demand for infrastructure in the early stage of development (Kim 2006). During the industrialisation process, the Korean government concentrated its expenditure on economic sectors that were highly productive by expanding social overhead capital (SOC) and nurturing strategic industries.

For instance, transport infrastructure can promote access to economic and social services and augment the production and trade potential of local and national economies. In the early 1960s, investment in the transport sector was made mainly in railways; between 1962 and 1966, investments in railway projects accounted for 64.2 per cent 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, 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). However, infrastructure in the social service area, including medical facilities, has had relatively low priority in Korea. Although Korea's infrastructure is currently at an advanced level compared to other emerging industrial economies, it lags behind the advanced economies (Ro 2002).

[***to be completed***]

Type 3: Tax Credit

The Korean government had a long history of using tax credits to spur growth and economic development. A series of tax bills was introduced to encourage firms' investment and individuals' saving (Kim and Lim 2009).

Exporting companies found themselves benefiting from easy access to foreign loans, subsidized credit, tax exemptions and import and other forms of protectionism (Ringen et al. 2011).

However, Korea is currently among the OECD countries with the lowest tax burden on labour income. Only half of wage income is taxed, well below the OECD average of 84%, and only half of employees pay income taxes. The average tax wedge (income taxes plus employee and employer social security contributions minus cash transfers as a percentage of total labour costs) was considerably below the OECD average for all family types in 2000

(OECD 2008a; 2011). In this context, allowances and exemptions in the personal tax system need to be reduced or at least consolidated into a simpler structure, and any reduction in personal tax reliefs should be accompanied by stricter tax enforcement of the self-employed in order to avoid exacerbating the prevailing sense of unfairness among wage and salary earners. Given that corporate tax expenditures remain large at about one-fifth of corporate tax receipts, tax incentives also need to be mitigated substantially (OECD 2000a; 2008a).

[***to be completed***]

Conclusion

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Chapter 6

Social Policy and Its Transformative Role in a Developmental Context: Lessons from the Korean Experience

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I. Introduction

Korea had been regarded once as accomplishing a remarkable state-led industrialization and becoming one of the leading manufacturing countries in the areas of the more advanced technology industries such as electronics, automobile, shipbuilding, steel-making, and mechanics. Within only three decades since the 1960s, the nation had transformed itself from one of the world's poorest nations up to the 11th largest economy in the world.[104] Furthermore, Korea has been not only known as a country that has experienced a successful transition to a stable democracy among the new democracies, but has also established a comprehensive and universalized social security system in 2000.

As a result of the Korea's remarkable successful transformation into a rapidly modernized country in the areas of economy, politics, and social welfare, many other developing countries wish to take lessons from the Korean experience as a model case for a successful

[104] In 1950, Korea's per capita income of $146 was roughly similar with that of Kenya ($129) and Nigeria ($150), and was just slightly behind that of Taiwan ($224). Korea became a member of the OECD in 1996, and was ranked as the 11th largest economy in the early 2000s and the 15th one in 2010.

modernization. Thus, in the areas of development studies as well as social policy, critical research have deserved to be undertaken on what lessons the Korean case can give to the current developing countries.

Meanwhile, in development studies the transformative role of social policy is now emerging as a new paradigm of development, which emphasizes the mutually reinforcing linkages between social and economic dimensions of development. It is because the previous development paradigm has failed by mainly focusing either on direct economic aids for economic growth or direct subsidies to people without considering the linkages for the social and the economic. In this context, academics began to realize that the late industrializers' experiences can give some important insights in the transformative role of social policy in the development. This insight might help us develop a new development paradigm even in the face of a deepening global economy accompanied by the global poverty.

In this paper, we will elaborate on an analytical framework of the transformative role of social policy based on the late industrializers' experiences and theories of the varieties of capitalism which emphasize close institutional linkages of the welfare and the production regime. And we will analyze to what extent the Korean social policies in general have been transformative. In the other chapter in this volume, health and education policy will be dealt in this context. Thus, this chapter will focus more on the social security system and other functional equivalents including corporate welfare and other indirect within a broad concept of social policy regarding their transformative role of the Korean development. For drawing out some important lessons from the Korean experience, this paper critically examines the historical path of the development of the Korean social welfare system to reveal some important mechanism of the linkage of the role of social policy to the industrialization.

II. Social Policy and Transformative Role in a Development Context

1. Defining Social Policy in the Context of Late Industrializers

The concept of social policy is so broad that it is hard to define in terms of what it exactly refers to as a specific policy or its clear range of relevant policies. In fact, we can define social policy as various forms of state interventions affect poverty reduction, income redistribution, social problems and social relations.

Here, we focus on the transformative of social policy for the economic development rather than its specific concept since we concern not only the protection aspect but also production, redistribution, and reproduction (Yi, 2010: 60). This conceptualization has an emphasis on the aspect of social policy organizing economic, social and political institutions for reducing poverty and inequality on the one hand, and facilitating economic growth on the other (Mkandawire, 2004 and 2008). In our definition social policy can include all the measures categorized as social protection, social security or social service as long as they affect social welfare, social institutions and social relations.

Social security system is a main body of the welfare state in the advanced industrialized countries. However, if we apply strictly the social welfare system to the late industrializers, especially in the East Asian context including Korea and Japan, it is likely to dismiss the important functional equivalent programs to the orthodox social security system, which are not considered while the traditional social.

Estevez-Abe argues that "welfare state studies have long ignored public works, subsidies to rural families, market restricting regulations, and employment protections as mechanisms to protect the livelihood of citizens" (Estevez-Abe, 2008: 3). In addition, most studies of the welfare state focus exclusively on a narrow range of social spending programs and rarely ask how different countries draw upon a combination of non-welfare policies to protect their citizens' well-being (Estabez-Abe, 2008: 2-3). There are functional equivalent programs. Public works, subsidies to rural families or agricultural inputs (fertilizers), public utilities (electronic power or waters), regulations to market such as prices and employment can be instruments to protect the livelihood of citizens. Especially, agricultural subsidies protect not only rural people's jobs, but also livelihood of their families. In the Korean case, the land reform in the early period of nation-building became an important institutional base for equal distribution of income and wealth and the mobilization of human resources. These various forms of indirect social transfer programs can function well either if the a fast growing economy in the early phase of

industrialization can provide sufficient jobs even with low-wages or if some appropriate income protection measures are supplemented. Otherwise, their role of the social protection would be limited. In other words, with well-designed cash transfer programs, they can play a transformative role in social and economic development in developing countries.

However, it is true that as the industrialization phase becomes mature, the role of these functional equivalents for social protection became minor as social security system began to cover a wide range of social risks among the ordinary people based on a universal approach. It is because the indirect social transfers as income subsidies cannot cope with the increasing income gaps and the rising cost of social risks. Therefore, a comprehensive and universal approach toward a well-structured social security system needs to be developed as a next step for the economic and social development.

2. Developmental State and 'Developmental Welfare Regime'

Why some late industrializers were more successful in their industrialization and able to make social protection system transformative? The common institutional conditions for the successful industrialization has been known as the developmental state and its institutional features such as state autonomy and state capacity, which had made its own society and economy more transformative than other countries.

The concept of "developmental state" was originally characterized by Charmers Johnson in studying the Japanese political economy with a focus on the role the Japanese state played in Japan's extraordinary post-war economic growth, especially the role of the MITI, a powerful ministry that guided Japanese industrialization (Johnson, 1984).[105] Since then, there is a consensus that the developmental state has played a critical role in the unprecedented economic social transformation in the newly industrializing countries (NICs) (Amsden, 1989; Wade, 1990;

[105] The concept of the developmental state was logically derived from the idea of the German historical school with its emphasis on economic nationalism and neo-mercantilism. In his classic study, Alexander Gerschenkron suggests that later industrializers, under pressure for rapid industrialization, had institutionalized strong centralized state apparatuses and industrial classes with strong centralized banking system (Gerschenkron, 1962).

Chang, 1993, Evans, 1995; Weiss, 1998; Woo-Cumings, 1991 and 1999).[106] These scholars paid special attention to East Asian countries such as Korea and Taiwan, which were heavily influenced by the Japanese model of industrialization. It might be fair to say that there are no specific generalized theories of the developmental state, although several scholars define some important general principles of the developmental state in the East Asian context (Johnson, 1984; Chang, 1994; Evans, 1995; Woo-Cumings, 1999; Weiss, 1998 and 2000).

More important is to understand the organizational arrangement of the developmental state rather than a simple emphasis on its roles in the economic development; first is the role of a competent and autonomous bureaucracy insulated from the social interests or pressures, which is called as 'state autonomy.' Peter Evans appropriately described this state autonomy as "embedded autonomy", because it is "embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies" (Evans, 1995: 12).

While the concept of state autonomy is implying the relationship between the state and social interests, we need to carefully distinguish it from the concept of state capacity, which indicates the organizational or bureaucratic capacity and available policy instruments to implement the intended public policies. For example, an authoritarian state can be more autonomous from the social interests, but it has nothing to do with the administrative capacity for effective policy implementation. Although the Korean developmental state was shaped by an authoritarian rule, the developmental capacity does not always come with an authoritarian nature. In this line of argument, Weiss conceptualizes the developmental capacity of the state as "the ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy" (Weiss, 1998: 5).

The next principle is the formal or informal institutional link to the organized economic sector. The various institutional networks between the state and the economic sector play an important role in sharing information and technologies. In the case of the developmental state, the link between a competent and autonomous economic bureaucracy and the business and industrial classes enables state elites to incorporate these classes into the state's economic project.[107]

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[106] As Amsden put it, the developmental state "deliberately get prices wrong." These prices are "wrong" only from the perspective of neo-classical economics. Wade interprets the state's intervention into the market as "governed market" following the Taiwanese case. For him, East Asian economic success rests on "governed markets" that outgrowth of more than blind bureaucratic control.

[107] Soskice includes Japan and Korea into his CMEs in the sense that both countries have a very close relationship between the state and large business groups such as the *keiretz* in Japan and the *chaebol* in Korea (1999).

Finally, the most distinctive policy tool of the state to coordinate and control the industrial sector is the control of the financial sector by the state, which is the nerve center of the developmental state (Woo-Cumings, 1999). Finance is a crucial instrument that binds the state to its industrialists. Johnson argues that state control of finance is the most important, if not defining, aspect of the developmental state, followed by other aspects such as labor relations, autonomy of the economic bureaucracy, the combination of incentives and command structures, and the existence of big businesses. Zysman argued that credit-based financial structures in France and Japan were effective conduits of industrial policy (Zysman, 1983; Hall, 1985). By playing a coordinating role in this policy network along with the state's credit control, the government was able to push state-led industrialization.

These institutional features are also important institutional conditions for the state to perform a transformative role of social policy. In this paper, we will focus more on explaining how the developmental state designed social policies and link them to the economic development from the transformative perspective.

These previous studies on the East Asian successful industrialization have been less concerned with the developmental states' role in constructing the welfare system and how they have made it to the successful industrialization. As we will see closely at the historical process of the Korea's political economy at the next, the welfare system in Korea had developed as an integral part of its state-led industrialization, and the basic structure and function of the Korean welfare system was made through the developmentalist idea led by the state-business ruling coalition (Chung, 1992, 2002, and 2007). The Korean development state had been architecture in constructing "developmental welfare regime" throughout the industrialization process to make it support to the economic growth and industrialization.

In similar context, Pierson reviews the social policy experiences of several waves of "late industrializers" in Europe, Latin America and Southeast Asia, and explores some of the relevant issues for the study of the welfare state development (Pierson, 2004). He attempts to explain the logic under which some later industrializers favor the early adoption of social welfare measures and develop a comprehensive social welfare state with distinctive social coalitions. He also identifies certain commonalities across all late industrializers, including considerable evidence of "institutional learning" (Pierson, 2004). He argues that there are certain advantages

in being a late-developing welfare state, and a number of states have used an active social policy as a mechanism for promoting their own social and economic development.

In order to understand the transformative role of social policy, we need to use the concept of 'welfare regime' in the sense that any single social policy can play a transformative role in the economy. In fact, a cluster of social policies and related institutions and rules as a welfare regime are interacting each other, affect the economic functions of the development, become an integral part of the welfare capitalism (Esping-Andersen, 1991; Hall and Soskice, 2001).

In this paper, we call the Korean welfare regime a "developmental" one, whose institutional features can be commonly found in other East Asian welfare regimes. The concept of 'developmental' will represent a better description than "productivist," in the sense that developmentalism has been a key characteristic of the Korean case, perhaps other Asian NICs as the recent later industrializers.

3. Analytical Framework for Transformative Role of Social policy

Current developing countries are implementing a wide range of forms of social transfer programs. Nonetheless, many of them have regarded the social transfers as short-term relief programs to the victims of disaster or immediate needs of the poor. Although international donors and receiving countries attempt to use the aids for the economic development, few cases are found successful.

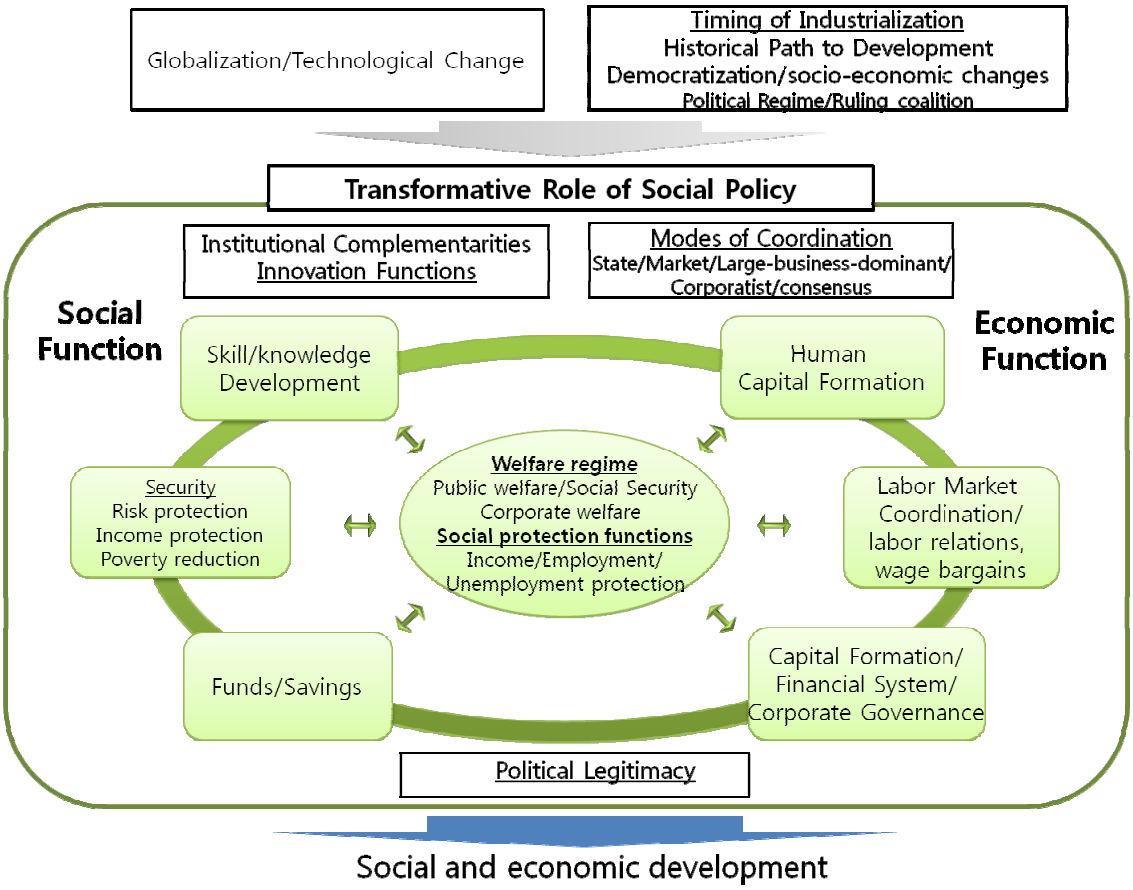
Here, we will discuss on the theoretical mechanisms of how the various forms of social policy play a transformative role. As Mkandawire has argued that we need theoretical knowledge and empirical evidences for understanding the close linkages between the economic and social development (Mkandawire, 2004). Thus, the concept of transformative social policy has been regarded as a new paradigm of social policies that affect not only the protection of poverty and social risks, but also production, redistribution, and reproduction; they organize economic, social and political institutions for reducing poverty and production (Yi, 2010).

Some institutional economic theories have emphasized the linkages between the social and economic development in a fragmented way. Today, the theoretical perspectives of the

variety of capitalism began to provide a more comprehensive picture of the relationships between the production regime and welfare regime at the institutional level by analyzing the distinctive institutional features of each country's welfare capitalism.

Varieties of Capitalism perspective argues that there are 'institutional complementarities' between the major subsystems/institutions of the production regime and the welfare regime—that is the economic-welfare nexus (i.e. skill system and unemployment insurance/employment protection (Hall and Soskice, 2001; Manow and Ebbinghaus, 2001, Mares 2001; Swenson, 2002; Iversen, 2005). It tries to find the relationships among institutional competitiveness, distributional consequences, and the political regime supporting the institutional complementarities between the economic and the social. I have tried to explain the institutional distinctiveness of the Korean welfare capitalism and its changing nature from this perspective (Chung, 2001 and 2007). And applying the logics of the VOC, Mkwantire recently suggested a comprehensive theoretical framework of the transformative role of social policy (Mkwantire, 2008).

<Figure 1> Analytical Framework of the Transformative Role of Social Policy



Based on the insights of these studies, <Figure 1> shows an analytical framework for the causal mechanisms of the linkages between social policies and the economic policy or the economic development. Mkandawire identifies three main functions and innovations between the transformative social policy and the economic development; human capital formation, capital formation, and political legitimacy (Mkandawire, 2008). He argues that the transformative social policy is innovation-enhancing, in other words, enhancing 'social capability,' through the human capital and skill formation; the alleviation of risk and uncertainty by underpinning the social pacts or coordination necessary for managing the contractual nature of labor markets; its incorporation of labor into the saving-investment regime and inducement of long-term perspectives in the financial sector; and its contribution to political stability. (This part will be a little elaborated later.)

(The below part will be condensed later.)

II. Initial Institutional Conditions for Korea's Developmental Path

1. Land Reform and Functional Equivalents to Social Security

Land reform in Korea profoundly affected class and state formations and the industrialization process in post-colonial society. Land reform was initiated by the AMG under the rising pressure of peasants and the influence of the reforms already implemented in North Korea under the communist regime and in Japan under the McArthur's government. The occupation authority resold the lands expropriated from the Japanese, but the Korean-owned lands remained untouched due to the landlords' resistance (Kim, Byong-tae, 1981: 40-47). But the full scale of land reform was finally implemented after the Korean War.

Land reform became an underlying cause for the demise of the landlords' power in politics and the economy. The early decline of the power of landlord classes in the economy prevented them from playing "any deterrent role" against industrialization (Evans, 1987b: 212). Thus land reform made economically dominant classes homogeneous and made state-business alliances much easier. In the Korean context, the political and economic weakness of the national bourgeoisie provided more leverage for state power. Land reform was also successful in dampening discontent among peasants by abolishing notorious tenancy relations and by creating small farm-size self-cultivators with more or less equitable land distribution.[108] Furthermore, the complete demise of the leftist organizations during the Korean War substantially nullified peasants' organizational power. Given the dramatically weakened voice of the peasant, Rhee was able to manipulate the rural sector in elections with the aid of local police and the administrative apparatus. In other words, the subsequent political regimes were able to be highly autonomous from the rural sector, both from landlords and peasants, and were able to pursue an industrialization policy at the expense of the rural sector.[109]

2. The Foundation of the Korean Developmental Welfare Regime (1960-1973)

[108] Land reform did not generally allow the ownership of more than three *chongbo* (approximately equivalent to 1 hectare), resulting in an equitable income distribution among peasants.
[109] For the role of the agricultural sector in the capital accumulation during the 1950s, see Lee Dae-gun, 1987.

The historical origin of the Korean welfare system might be traced to Japanese colonial rule, which had critically affected the formation of the modern Korean state (Chung, 1992). However, the actual early formation of the Korean welfare system started during the 1960s, when the military government—led by a group of young military elite with Park Chung-hee at its head—implemented comprehensive reforms in the areas of state apparatus, politics and society for the modernization of Korea.

The initiation of social welfare programs was, in essence, a political response by the military elite as it sought legitimacy during the process of transition to civilian rule rather than a response to a serious economic need. Nonetheless, the basic framework that the military government established guided the subsequent development of the social security system. The Basic Law of Social Security System 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. Although two insurance programs (medical and work injury) were proposed in 1963, only the work injury insurance program was implemented by covering a selection of large industrial manufacturers. The launch of this program also revealed that the state had established the social security system as a preemptory strategy for upcoming industrialization. The military government then went on to implement the military pension program in 1963 and the teachers' pension program in 1973. This pattern is commonly seen in the nation-building process.

Korea's industrialization strategy during the 1960s was based on labor-intensive and light industries, particularly those employing low-paid women workers. Wages remained low as a result of the abundant labor supply from the rural areas. However, industrialization created enough jobs to absorb the excess labor supply. In this context and at this time, a social welfare policy would have been extraneous and irrelevant.

III. The Heavy and Chemical Industrialization (HCI) and the Development of Developmental Welfare Regime (1973-1986)

1. HCI and the emergence of social insurance programs

The policy idea of the need for major social insurance programs was aroused again during the HCI drive of the 1970s, when the active role of the Korean developmental state in driving the HCI reached its peak under the auspice of the highly authoritarian Yushin regime. During this period, the government enacted two major insurance programs: the national pension program in 1973 and the medical insurance program in 1977.

Although the pension program was not implemented due to the economic recession caused by the oil crisis, it revealed an important implication for the institutional features of the Korean welfare system. The hidden intention behind the implementation of the pension program was the mobilization of domestic capital by channeling the pension fund into HCI investment.[110] However, the economic recession prompted opposition from business and labor because the contribution to the pension fund became a serious financial burden on those sectors. The government finally decided to shelve the program's immediate implementation. The government's intention clearly showed how the social welfare program was connected to industrialization. These events in Korea were very reminiscent of the prewar origin of the Japanese pension program (Manow, 2001).

Throughout the period of industrialization, conservative political elites and economic technocrats believed that scarce economic resources had to be mobilized for rapid industrialization and thus were very reluctant to initiate and implement social welfare programs that required state financing. Nonetheless, the political economy of the HCI drive pushed the state to play a certain role in the provision of social welfare, resulting in the state's initiation of the medical insurance program.

At the time, health costs had been rapidly rising, because the government had done nothing on the development of public health. Thus the demise of the Yushin regime's political legitimacy needed something to replace the failed implementation of the pension program. At the

[110] This idea was delivered by a U.S. economist visiting to the KDI (Korean Development Institute), which was the major think tank for economic development at the time.

same time, the big push of the HCI in the mid-1970s quickly exhausted skilled male workers, resulting in a sharp increase in wages and health costs for workers.[111] In this context the medical insurance program emerged as a policy idea among the core ruling elites. The government persuaded business and finally implemented the program in 1977 by revising the 1963 law (Chung, 1992). During this period, organized labor was not active in initiating social welfare programs. Rather, the labor movement had mainly been concentrating on claiming labor rights and wage increases.

Medical insurance was implemented on the basis of a close coalition between the state and the large business sector, initiated by the state. The program began to cover manufacturers with more than 500 employees, and the insurance funds were organized among the large business firms. This was a typical corporatist way of organizing a social insurance system, in the German and Japanese systems during their early periods of development. Although medical insurance was a public program, it was actually operated in a similar fashion to a corporate welfare program, until it finally became a universal insurance program in 1988. A large business association (the Federation of Korean Industries) became the central organization tasked with managing the funds until new public organizations responsible for them were established as a result of the gradual expansion of the program to cover small businesses. The medical insurance initially helped the core workers in the large-industry sector, rather than the neediest individuals, such as marginalized urban dwellers, farmers, and fishermen.[112]

2. Macro-economic policies and Conservative fiscal structure: The institutionalization of pro-growth Developmental Welfare Regime

Macro-economic policies and the state's fiscal structure form an important institutional base of the welfare regime, because they limit the capacity and prioritization of the state's financing to social welfare programs. During Korea's industrialization process, the basic principle of macro-

[111] At this time, the construction boom in the Middle East also contributed to the lack of skilled labor.

[112] This could be also interpreted as a tacit cross-class coalition between the large business sector and organized labor, because organized labor agreed the implementation of medical insurance in the large firms.

economic management has been that of supply-sided rather than Keynesian demand management, which had been a driving force for the expansion of welfare states in western industrialized countries. Interest rates, foreign exchange rates, and fiscal policies had been closely coordinated to promote business investment and export (Bahl, Kim, and Park, 1986; Nam and Kim, 1997).[113] However, the HCI drive, with its heavy investments from the state, created a great budget deficit and inflation, resulting in the collapse of the Yushin regime. Since then, the Korean government has maintained a conservative fiscal policy by making every effort to minimize the budget deficit. In Korea, a pro-growth nature in macro-economic management and fiscal structure became a crucial institutional factor preventing the state from financing social welfare policies. Conservative economists regarded this factor as the main reason for the economic miracles in the East Asian countries (World Bank, 1993). Thus, the financing principle of most welfare programs has tended to be the state's least financial contribution, although some programs were inevitably financed by tax.

Social insurance programs are a modern form of welfare program in a capitalist economy, at first protecting the majority of workers – and, later, all citizens—from major social risks. These insurance forms, mainly financed by the insured (employers and employees), are also very effective in reducing the state's direct role of financing. Thus, Japan, Korea, and Taiwan when launching rapid industrialization established a social insurance program to protect core skilled workers as a major welfare system. However, the income-protection levels of the program in general stayed low, due to the state's low contribution and the developmentalist idea emphasizing the work-oriented program.

3. The Emergence of the Dual Labor Market and the Problems of Wage Coordination

The labor market structure and labor relations are crucial institutional domains that link production and welfare regimes more directly than any other institutions in the production regime. Their formation and change also have political components. The western democratic

[113] In Japan the macro-economic and fiscal policy had been pro-growth-oriented until the early 1970s, with emphasis on balancing the budget (Tajika and Yui, 2002).

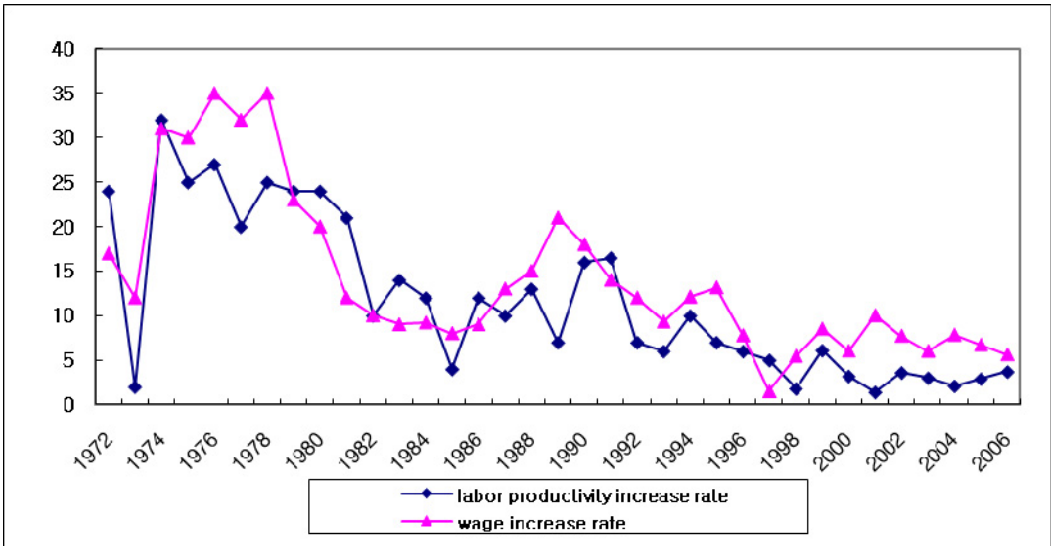
corporatist countries with open economies have made wage moderations with consensus between business and labor for the stabilization of the macro-economy and their industries' competitiveness in the world market (Iversen, Pontusson, and Soskice, 2000). Their labor organizations and wage-setting institutions for wage coordination were either national- or industry-based. This non-market coordination based on political consensus in the areas of wage-setting, employment, macro-economic management, and welfare policies has been the core mechanism of western coordinated market economies.

What kind of coordination mechanism in labor relations and the wage-setting system has Korea developed? Compared to today, the Korean labor market during the early industrialization period was more or less homogenous and not seriously segmented, due to continuing job growth and less complicated industrial structure and low-level skill needs. The heavy-chemical industrialization (HCI) of the 1970s produced a high demand for skilled male labor, but saturated it quickly due to high economic growth and the Middle East construction boom. This resulted in gaps in wages and corporate welfare between the large-business and the small and medium enterprise (SME) sectors and between the organized and non-organized sectors. In this context, the dual labor market structure gradually began to emerge.

The labor organizations during the HCI were industry-based. The military government during the period from 1960 to 1963 regulated the industry-based labor unions, easily controlling the labor by winning union leaders on to the government side. Outside of state corporatist control, democratic labor movements grew. In the early 1980s, the Chun Doo-hwan government used harsh repression to implement the austerity programs and changed the regulation of the union organizational form into corporate unionism from industrial unionism. From the democratization of the late 1980s until today, this corporate unionism has heavily affected labor relations and the labor movement, resulting in a further decentralized, fragmented, and atomized movement.

Between the HCI and democratization, wage control was instituted through a combination of state regulation and market mechanism. The state annually suggested wage guidelines for business and labor; the wages in the large business sector mainly led the wage determination as a wage pattern-setter under government guidelines. There was no attempt at establishing the corporatist wage moderation mechanism shown by typical CMEs.

<Figure 2> Wage increase pattern in Korea (%)



Source: *Labor statistics*, various years. Korea Labor Institute.

As we can see in <Figure 2>, during the HCI period, the saturated labor market pushed wages up so that they were significantly above the productivity. Then, during the structural adjustment period in the first half of the 1980s, the state repressed wages. Since democratization, the wage increase rate has mostly been a little above the productivity increase rate.

The development of the social insurance-based developmental welfare regime in Korea was not as a result of the labor movement, but as a consequence of the state's strategic policy in an implicit coalition with the large business sector, given the prioritization of mobilizing economic resources for the growth-first strategy and conservative fiscal structure toward social welfare.

4. Skill Regime, Corporate Welfare, and Dualist Welfare Regime

One of the important factors contributing to the successful industrialization of the East Asian developmental state has been the existence of a good quality labor force. Not only did the state centralize control over the education system in order to develop a strong sense of national unity

or nation-building, but it also carefully designed the education and vocational system, making both closely articulated to the process of industrialization.

The most important institutional spheres in the production regime critically shaping the welfare system are known as skill formation (vocational and education system), labor market structure, and industrial relations (Estevez-Abe and et al., 2001; Crouch and Sako, 1999). As businesses produce high-quality products based on high technologies and skilled labor, they begin to demand a high-quality vocational training system to produce highly skilled workers. Unless the state provides such a training system, or business and labor create a socialized skill formation system as in the German case, business develops its own training system and corporate welfare to keep highly skilled workers.

The HCI drive during the 1970s has critically changed the state and business relationship by consolidating the large business group industrial structure in Korea. The state quickly established vocational high schools and public vocational and training institution organizations for the provision of highly skilled workers. This strategy was effective in the sense that the technological level of production was a low-skilled Fordist mass production. However, from the 1980s, with the rise of the Chun government, which began to liberalize the Korean economy, the government's efforts to build a high-quality skill formation system for matching skill needs according to the changing industrial structure were weakened. Instead, the government began to shift its concern to the public demand for increasing higher-education opportunities. Consequently, the government abandoned upgrading the vocational system to meet the rapidly changing business needs for high skills, and instead expanded the universities.

On the other hand, as the labor market became tightened as a consequence of rapid industrialization, large business firms in the heavy chemical industrial sector increasingly needed to secure highly skilled workers and began to provide their own on-the-job training programs and corporate welfare. The development of corporate welfare in Korea began to rapidly increase when democratization started in the mid-1980s. Given the low level of state welfare and the tightened labor market for skilled workers at this time, democratization loosened the state's control of labor unions, increasing the bargaining power of the large business unions. Large businesses formed strategies to keep skilled workers by providing on-the-job training, lifelong employment, and various corporate welfare plans.

Corporate welfare in Korea was not conducted purely voluntarily by the part of the business sector. The state encouraged corporate welfare and often regulated it by law, because it believed that the state's low welfare could be complemented by corporate welfare. At the same time, the state intentionally induced employers to utilize labor control via regulated corporate welfare. This is a very similar pattern to that in Japan, although the skill formation, the lifelong employment system, and the level of corporate welfare are not as sophisticated as those in the Japanese business sector.

As it is well known, the expansion of corporate welfare exacerbates dualism in the welfare regime. The large business sector tried to maintain cost competitiveness by transferring its cost to the unorganized sector of the labor market with the employment of low-wage irregular workers and subcontracted small and medium firms with low-price contracts. Thus, the labor force of the large business sector receives a greater benefit from both the public and private sectors, while workers in small and medium businesses and the urban marginal sector receive lower public benefits with poor corporate welfare, if any. In this way, dualism in the labor market as well as in the welfare system has been intensified in Korea.

5. Rural Development and Functional Equivalents

In addition to the orthodox form of the social security policies, some policies can function as welfare policies. They are functionally equivalent to those that Estevez-Abe argues for in the Japanese case (Estevez-Abe 2008). For example, during the 1970s the entire rural sector had been co-opted by the authoritarian state's rural mobilization strategy. By the early 1970s, rural life had deteriorated as a consequence of rapid industrialization based on the sacrifice of the rural sector. In 1971, President Park initiated the New Community Movement (NCM, *Saemael Undong*) in order to modernize the rural area. The government orchestrated the NCM by utilizing an extensive administrative network and subsidizing grain prices, cements, fertilizers, and high-yield varieties (Chung, 1992). The government created the Grain Management Fund, a dual price system that subsidized farmers while maintaining low food prices to urban consumers; the Fertilizer Account had another government subsidy to the rural sector,

through which the government purchased fertilizer and sold it to farmers at subsidized prices. These measures critically improved the rural economy and consequently the farmer's welfare.

IV. Democratization and the Expansion of the Developmental Welfare Regime (1986-1997): Dualist and Regulated Welfare Regime

More critical timing in the expansion of social welfare policies happened with democratization from the later part of the 1980s. The successful industrialization by the authoritarian developmental state triggered democratization in Korea. Many commentators inside and outside the country regarded this early period of democratization as a critical point in the development of the welfare system in Korea (Wong, 2005; Haggard and Kaufman, 2008; Seong, 2001). Democratization had clearly affected the expansion of state welfare, which had stagnated during the previous authoritarian regimes. However, the quality and degree of welfare expansion depended upon the coalitional base in the democratic transition.

In the face of the strong opposition movement against the Chun Doo-hwan regime's extension of non-elected rule, the Chun government declared "three welfare programs": the minimum wage law, the implementation of the pension program, and the expansion of health insurance coverage for farmers and fishermen. The newly elected Rho Tae-woo government implemented the minimum wage law in 1987, the 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. In this way, medical insurance became the first universal social insurance program in Korea.

Democratization in Korea meant the dismantling of the previous authoritarian developmental state, though the transition to democracy had been carried out by the conservative ruling coalition, mainly inherited from the previous coalitional base of the military-conservative-large-business sectors; Roh Tae-woo, the official successor to the previous authoritarian Chun

Doo-hwan regime, became president in the division of democratic groups in the election. Roh Tae-woo's administration, the first democratic government to set in motion the transition process of democratization in Korea, did not have clear ideas about social welfare and simply followed the developmental line of the previous welfare system framed by the economic and social bureaucrats. That is, there was no real power shift in the social base of the democratization, except for the installation of formal democracy.

The subsequent Kim Young-sam government was basically liberal and market-oriented, and was based on the Grand Conservative Coalition, although Kim Young-sam himself was the first civilian president since democratization. Although the Kim Yong-sam government was very successful in eliminating the military elites in the political arena by various political reforms, it began to emphasize globalization strategy by transforming the state into a more liberalized form by deregulating and liberalizing the economy. Although the Kim Young-sam government declared the welfare state part of the globalization strategy, it was more or less political rhetoric; there was no significant attempt to transform the Korean welfare system qualitatively except for the gradual expansion of the previous developmental welfare system and the implementation of the employment insurance program.

After the severe austerity program which was implemented during the early 1980s, the Korean economy began to gain stability and enjoyed its most prosperous period, before the labor market tightened and exposed signs of a skills mismatch. In response, the government implemented the employment insurance program in 1995, with coverage for firms with more than 30 employees. The policy-making process and the program structure of the employment insurance still consistently revealed the developmentalist nature of other insurance programs; state bureaucrats and a small group of professionals dominated policy-making; workers in relatively stable work places who possessed contribution abilities were covered, and the large business firms were able to receive the benefits of the training programs.

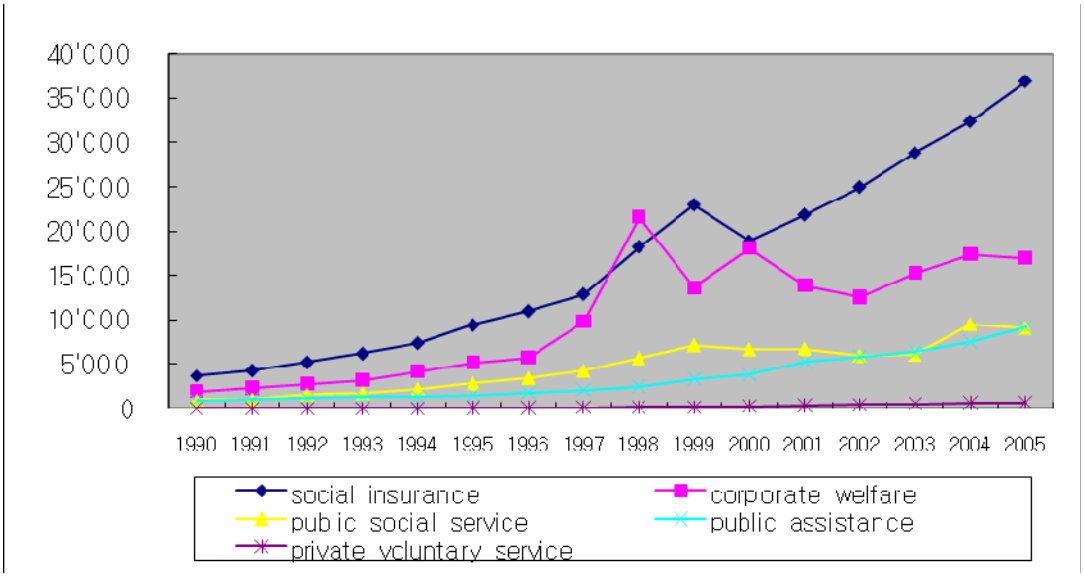
Until the mid-1990s, just before the financial crisis struck in 1997, Korea had formally equipped four major insurance programs. However, the government had paid far less attention to upgrading other social welfare programs. The public assistance program aided only people deemed unable to work by a very strict means test. Social service programs were far less developed. In the areas of social welfare services, the government only subsidized the non-profit

welfare service organizations providing the minimum level of protection for the poor under the tight regulation of provisions. It did not try to build its own public infrastructures of social services to provide comprehensive and high-quality social services. This unbalanced structure of social welfare programs was a typical feature of a developmental welfare regime in Korea.

<Figure 3> reveals the relative size of welfare expenditure between public and private. Corporate welfare expenditure is not as low as social insurance expenditure. Corporate welfare gradually increased and sharply rose during the financial crisis. This might have been due to retirement payments for fired workers during the structural adjustment. At this point corporate welfare had been stabilized.

The labor movement during Korea's industrialization mainly focused on the worker's rights, impending wage increases, and the improvement of the working environment under the harsh repression by the state. Corporate labor unionism, based on the large business groups established under the authoritarian regime, became a significant institutional barrier to seeking solidarity within the labor movement as well as to any attempt for corporatist coordination of various economic and welfare issues, including wage-bargaining.

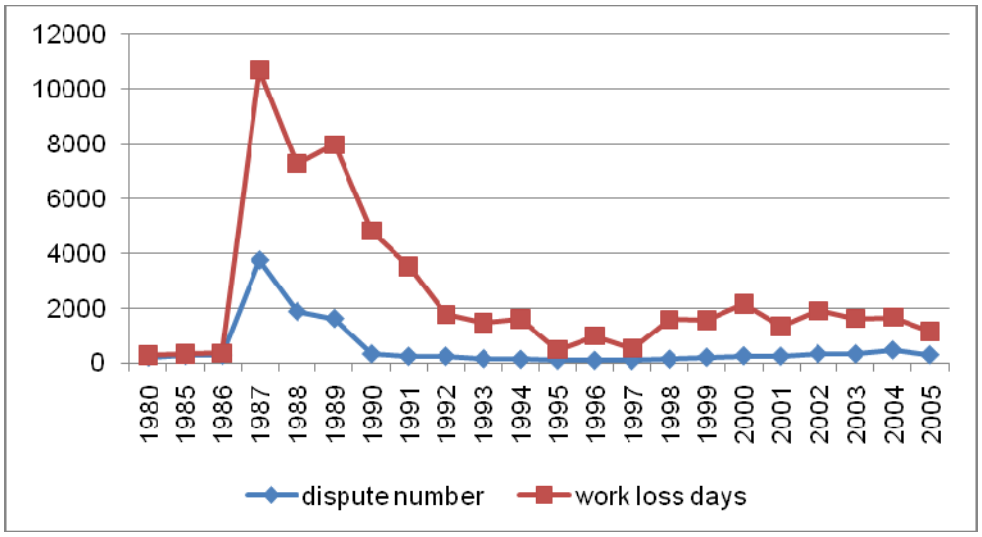
<Figure 3> Comparison of Public and Private Welfare (1990-2005) (million won)



Ko and et al. (2007). P. 107.

The democratization in the late 1980s became a historic juncture in the changes in labor relation, labor market structure, product strategy, and skill formation in Korea. The labor movement since the democratization had not attempted to reorganize from corporate to industrial unionism. As soon as the repressiveness of the state was relieved, labor disputes sky-rocketed and then decreased (see <Figure 4>).

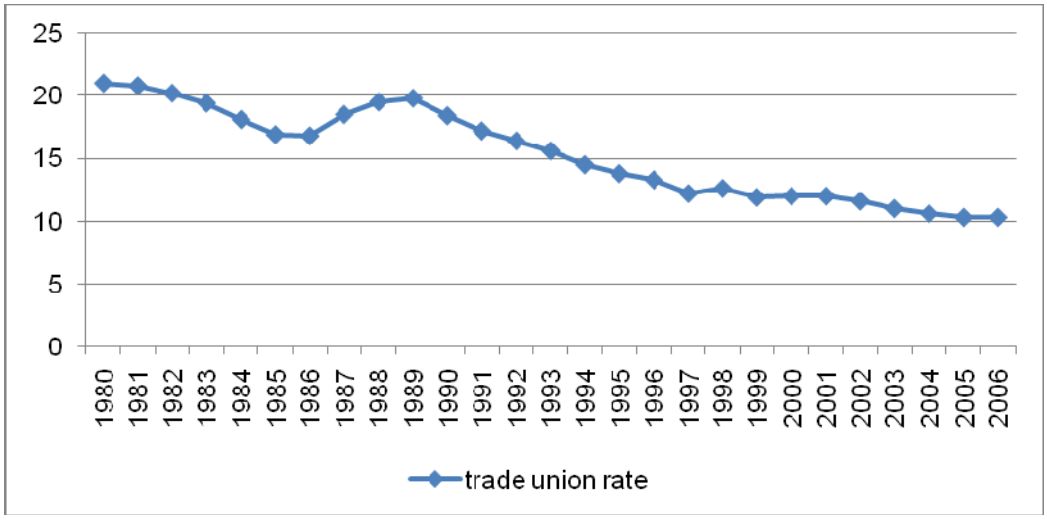
<Figure 4> Labor Dispute Trend in Korea



Source: Labor Statistics, Korea Labor Institute.

The labor movement in Korea has been mainly led by the large-business trade union. As we can see in <Figure 5>, the labor organizing rate was gradually declining as the union rate if the SME sectors continued to decline. Immediately after the democratization, the trade union rate rose again, to 20 percent in 1989; in recent years the rate has gradually declined to 10 percent. Most SMEs' workers are not organized. Although organized labor has been small until now, the power of the labor movement has been very strong because a few strong labor organizations in the large-business manufacturing sector, such as automobile, machinery, and ship-building, led the overall labor movement and wage-bargaining.

<Figure 5> Labor Union Density

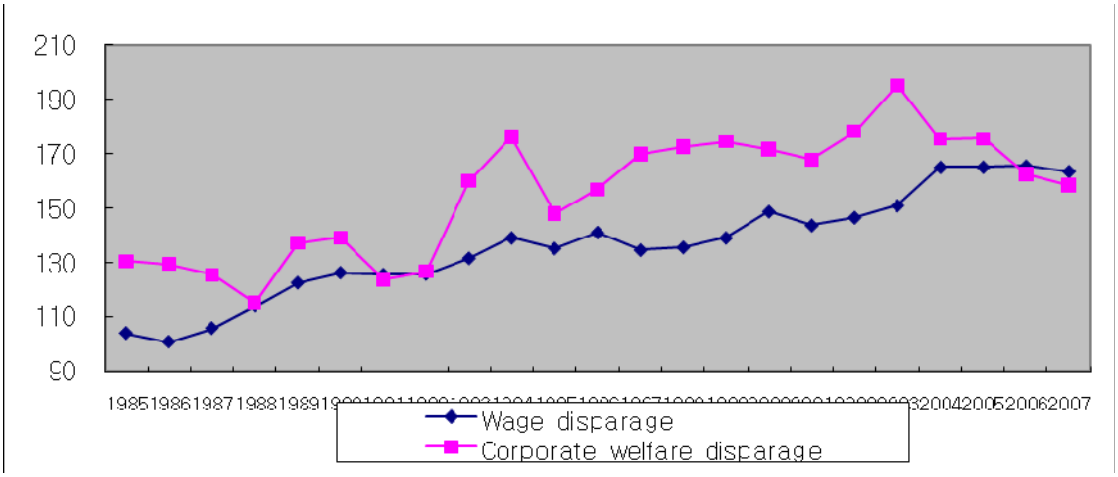


Source: *Labor statistics*, various years. Korea Labor Institute.

In particular, early democratization intensified the dualist labor market. Coinciding with the saturated labor market, the rigidity of the internal labor market had been strengthened, too. Since the democratization, wage bargaining had been led by the large-business corporate labor unions. They are, in a sense, the pattern-setter in wage determination in Korea. This mechanism of wage determination has affected the various areas of the production and welfare regimes. First of all, it widened the gap in wages and corporate welfare as well as employment security between the large corporations and the SMEs. This became an institutional base for recent polarization in the labor market, wage, and employment pattern.

Dualistic labor market structure and corporate unionism aggravated bi-polarization within the working class. <Figure 6> shows the trend of disparages in wage and corporate welfare between large and small and medium-sized firms. Overall, trends continue to be widening in both areas. Wages have been more or less moderated by the government's efforts. However, disparities in corporate welfare increasingly widen, because the large business firms need to retain highly skilled workers, and the labor unionism in those firms is very strong.

<Figure 6> Disparages in Wage and Corporate Welfare between large, small, and medium-size Firms (thousand won)



Source: *Labor statistics*, various years. Korea Labor Institute.

In fact, the smooth transition to labor market flexibility is made possible with the complementary institution of a well-functioning social safety net. However, the previous "developmental welfare regime" based on the insurance program provided very limited protection for workers, especially in income and unemployment protection. While blue- and white-collar workers in the large business sector benefited doubly from the major insurance programs and corporate welfare, the workers and the marginalized had been excluded from both welfare benefits (Chung, 2006). This developmental welfare regime was only able to make a supplementary complementarity when the economy created jobs due to high growth rate.

To summarize, the early democratization allowed the continuous expansion of the previous developmental welfare regime rather than a substantial change in quality based on the coalitional change toward the popular sector. <Table 2> summarizes the main institutional features of the Korean developmental welfare regime as an ideal type, as well as a reference for comparison with other East Asian welfare regimes.

V. Economic Crisis and New Challenges: Continuity and Change of Developmental Welfa re Regime (1997-2007)

1. Financial Crisis and the Reforms of Korean Welfare (1997-2002)

The financial crisis of 1997 became a major challenge to the Korean economy as well as to the developmental welfare regime. In other words, the shocks of the financial crisis and the International Monetary Fund's role in the structural adjustment of the Korean economy implied a direct impact of the globalization and a challenge to the Korean political economy.

Following the IMF's guidelines on the Loan Agreement, the newly elected Kim Dae-jung government implemented a comprehensive reform package in four areas: the financial sector, corporate governance, the public sector, and labor relations and social welfare. Consequently, the far-reaching neo-liberal economic reforms not only brought about massive unemployment and widespread poverty, with related social problems, but also affected the production and welfare regimes.

Neo-liberal Economic Reforms and Changing Production Regime

The extensive neo-liberal economic reforms since the financial crisis have now transformed the production regime into being formally much closer to the neo-liberal model. The Korean economy has been opened and is now operating in response to market signals more than ever before. In particular, the reforms of the financial and corporate sectors took away a powerful instrument from the state in controlling the financial sector and thus guiding business investments. The overarching and intensive industrial policies of the past developmental state are now no longer possible. Economic volatilities have intensified, and business investment patterns have become passive and very sensitive to the market's short-term signals. While the labor market became more flexible overall, the rigidities within the organized internal market were strengthened. Employment practices became short-term based with the increasing portions of

irregular workers within firms. However, as the large business groups played an important role in the competitiveness of national economy and production size, they also began to play a dominant role in coordinating the various areas of the economy. Thus the Korean production regime and economy are turning into a "large-business coordinated market economy" from "the state-dominated coordination" established during the HCI drive.

Nonetheless, the government is still playing an active role in coordinating and upgrading the economy. The institutional practices by major actors (such as state bureaucrats, the chaebols, and organized labor) have not yet radically changed into those shown in the liberal model, which often relies on previous practices and non-market coordination mechanisms. Some institutional legacies of the developmental state remained throughout the reform process, coming to life for coordination efforts whenever necessary.

In this context, there are interesting and controversial issues regarding how to explain the institutional changes and what the institutional changes would mean in a real sense.[114] In terms of formal institutional changes, the Korean economy is now becoming quite similar to the liberal model. However, in terms of the changes in informal dimensions of institutions and actual practices, some institutional legacies established in the previous era of the developmental state still remain as adapted forms and are playing a coordinated role in certain areas.

Does this mean that the Korean production regime is converging to the liberal model or transforming itself into another kind of coordinated economy adapting to changing environments? During the past industrialization period, especially the "big push" led by the authoritarian developmental state, the major actor coordinating the economy had been the state itself. In other words, the state had a heavy hand in directing business investment, controlling labor interests and demands, and managing the macro-economic policies in favor of rapid industrialization. The state manipulated both business and labor with a crafty mix of state-directed intervention on the one hand, and the deployment of market disciplines and competition

[114] There are interesting debates about which institutional change — either formal or informal institutional change – is "real" (Culpepper, 2005). In explaining the changing financial sector, he argues that "although legal reform is often a necessary condition for institutional change in coordinated financial system, such reform is not a sufficient condition because shared beliefs can persist in the face of formal legal change" (Culpepper, 2005: 176). According to him, the sufficient condition for institutional change is "joint belief shift," that is, changed ideas and practices rather than change in the formal rules.

in the areas of business production and wage determination on the other (Chung, 1994; Chang, 1993).[115] This double-pronged coordinating strategy might be a unique feature that can be found in the East Asian developmental states.

After the economic crisis of heavy chemical industrialization during the 1970s, the state began to intentionally liberalize the economy. Democratization, underway since the late 1980s, accelerated the liberalization process. Therefore, if the state could not directly coordinate the economy either as a result of intended liberalization or democratization, alternative coordinating mechanism has to emerge to replace the state's direct role. The new coordinating mechanism could be the market principle (as in the liberal model) or a non-market mode of coordination based on political consensus among the major actors (as in the non-liberal market economies).

For example, some non-liberal capitalist countries such as Germany and Japan, which had successfully been industrialized by the authoritarian developmental state, had developed consensus-based coordinating institutions and mechanisms in place of the state's more or less direct interventions since their democratization. After World War II, Germany was able to institutionalize the democratic corporatist institutions based on the relatively balanced power relations between business and labor, while Japan developed the non-liberal coordination mechanism based on the hegemonic power of large businesses under a conservative ruling coalition (Streeck and Yamamura, 2001).

However, the specific idea of neo-liberalism is not the same as that in today's Anglo-American model and has been shaped by particular historical sequences of the ruling coalition in the process of liberalization — the early democratization by the conservative ruling coalition, the financial crisis, and the power shifting ruling coalition.

'Productive Welfare' Reforms under the Kim Dae-jung Government

[115] Valenzuela interestingly suggests that many authoritarian regimes had used a dual strategy for controlling labor: on the one hand, the state controlled the organized labor under the state corporatist framework; at the same time, it employed a market strategy by placing labor in the harsh market discipline (Valenzuela, 1986).

There were basically two steps to the welfare reforms. The first was to implement emergency measures to relieve the rapidly increasing number of unemployed as a result of the drastic economic adjustment; the second was to undertake more programmatic reforms of the previous welfare system.

The immediate measure undertaken with agreement by the IMF was the rapid expansion of coverage under the employment insurance program from businesses with 30 employees in 1997 to all employees except temporary and part-time workers in 1999. This meant that unemployment benefits covered virtually all regularly employed workers. At the same time, the government initiated a large-scale public works program in order to absorb the unemployed. Overall, the government's crisis measures concentrated much on the expansion of the various labor market programs. Government expenditure on labor market programs peaked in 1999 at 2.7 percent of GDP. An OECD analysis reported that the Korean government's efforts to relieve unemployment were quite impressive in comparison with other OECD countries (OECD, 2000).

The second stage of the reform was systematic, compared with the emergency measures. The Kim Dae-jung government initiated a series of institutional reforms in the areas of social insurance and public assistance programs in order to institutionalize a comprehensive and universal social welfare system, labeling this "Productive Welfare." This aimed at a "productive" contribution to the economy not only by protecting a minimum level of living, but also by increasing employment and productivity.

First of all, coverage of the existing social insurance programs was expanded to the marginal sector previously excluded from the current benefit structures: the national pension program began to cover the entire public, including the urban poor and the self-employed, in 1999. The work injury insurance program also expanded its coverage from businesses with five employees to all employees. 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 spite of strong resistance from the business sector and conservative professionals that had supported the previous, fragmented corporatist system, the National Health Insurance Act was passed in the National Assembly in January 1999.

Coverage expansion to the self-employed in urban and rural areas, as well as irregular workers from the previous regular worker-based insurance programs, is certainly an extraordinary achievement in the sense that inclusion of the urban informal sector in the contribution-based social insurance was administratively a very difficult task. At the time, this achievement had been praised by commentators inside and outside the country who looked simply at the formal institutional nature. However, the real effective coverage could not reach its official and legal responsibility. As <Table 1> shows, only half of them were actually able to receive the benefits, although the legal descriptions of the coverage of the four insurance programs virtually cover the entire 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 contributions (Chung, 2002). In addition, collecting contributions was difficult due to infrequent and inaccurate reporting of income and the nature of the informal workforce itself.

<Table 1> Actual receiving rate of major social insurances

Year	Total employee (thousand)	Non-agricultural employee		Social insurance real application %			
		Thousand	Total %	Public pensions	Health insurance	Workers' safety insurance	Unemployment insurance
1985	14,970	11,165	74.6	5.5	44.1(51.1)	40.3	•
1990	18,085	14,629	80.9	31.2	1)	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)	•	57.2	14.6

1) Health insurance began to cover the entire people from 1989, but it is difficult to estimate the number of the non-recipients caused by not paying contribution. It is roughly estimated that actual receiving rate of health insurance is more than 90 percent.

Source: Kim Jin Wook (2010).

This problem clearly manifested itself because Korea's segmented labor market structure, with a large informal sector, was not institutionally compatible with the strict contribution-based social insurance programs that were a strong legacy of the Korean developmental welfare regime. This discrepancy between legal coverage and the actual benefits will persist unless the state subsidizes the contribution of the marginal sector or undertakes significant structural reforms of the current social insurance system[116]. However, both alternatives require a greater financing role by the state. Then, given the fact that these problems were clearly expected by the government bureaucrats and that the state's subsidies to the insurance payments for low income were virtually unfeasible due to fiscal constraints, we need to ask why the government chose expansion of the insurance coverage instead of other measures.

Another significant reform under productive welfare was the public assistance program. 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 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.

[116] A basic example will be the reform of the pension program from the current unified insurance system to the two-tier system: basic pension system and income related insurance program.

Similar to the insurance programs, the formal legal right of this new public assistance program also did not guarantee the minimum income protection for all needy individuals. In the actual implementation, many low-income individuals remained unprotected, because the benefit entitlement at the regulatory level of implementation was subject to unusually strict income and wealth criteria, and even took into consideration the availability of family supporters. As revealed in its policy-making process, the growth-oriented economic bureaucrats and the conservative mass media and academia consistently opposed the NBLSS, because they believed it would undermine work incentives, particularly among those who have the ability to work (Ahn, 2000). Even after the law passed, they pushed to keep specific benefit levels low.[117]

Reflecting this ambiguous and transitional nature of the institutional changes in the welfare system, the actual interpretations of "productive welfare" were also different depending upon a person's ideological position. Some progressive reformers involved in the policy-making assumed the concept of the "productive welfare state" originated from the Scandinavian model, especially the Swedish model, where economic and social welfare policies are closely linked via active labor market policy with universal income protection (Esping-Andersen, 1990), while a majority of law-makers, bureaucrats, and conservative professionals understood it as a political rhetoric of "workfare" of the liberal welfare model. As we have seen in the actual policy-making process in the NBLSS, some progressive professionals and civil movement groups initiated the comprehensive reforms as a reform agenda and joined in the policy-making process, but the real players in the policy-making were the conservative bureaucrats and law-makers.

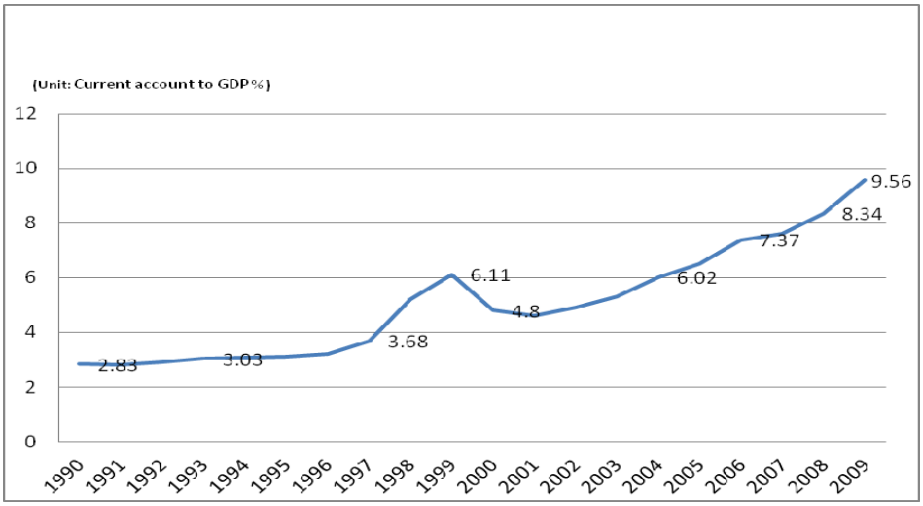
Finally, the reform of social services, which were known as the most important institutional basis of "productive welfare,"—the original idea of which came from the Scandinavian welfare states — remained untouched. Instead, the Kim Dae-jung government initiated some gender policies by creating the Ministry of Women as a fulfillment of his electoral pledge. This implied an important institutional base for gender policies in the future.

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[117] In spite of the formal expansion in the coverage of major insurance programs and the introduction of a new public assistance program, the overall income support level is still very low. The newly integrated health insurance does not contain a sickness benefit, only covering part of necessary medical services. Unemployment benefits were received by only a small percentage of the unemployed due to strict regulation (OECD, 2000b).

<Figure 7> shows the trend of Korea's public social expenditure according to the OECD criteria. Overall total public social expenditure is gradually increasing, but still below 10 percent of GDP. During the financial crisis, the social expenditures sharply grew, but a few years after the crisis ended, total social expenditure lowered. The main reason for the sharp rise was the increase of the mandated retirement expenditures.

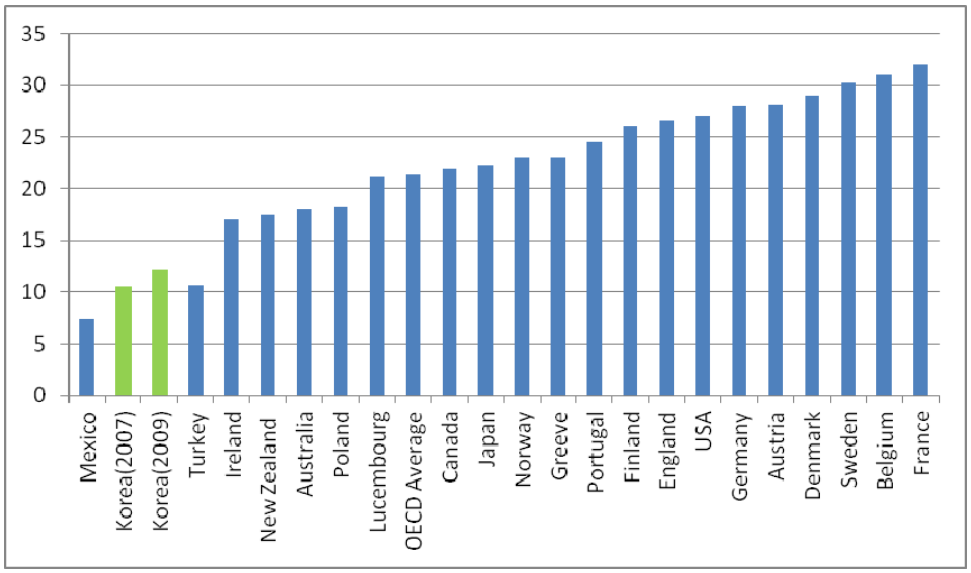
<Figure 7> Trend of Public Social Expenditure in Korea (% of GDP)



Source: OECD, Social Expenditure Data.

<Figure 8> reveals that the Korea's gross social expenditure (including the private expenditure) is still very low compared with the other OECD countries.

<Figure 8> Gross Social Expenditure, International Comparison (2007)



Source: OECD, Social Expenditure Database.

The Kim Dae-jung government's welfare reform certainly helped a large portion of the unemployed and the poor ("created" by the drastic neo-liberal economic structural adjustment), and contributed to political and social stability during the crisis. On balance, however, "productive welfare" was an updated version of the previous "developmental welfare" because, as we have discussed, the idea and principle of developmentalism embedded during the past state-led industrialization is still predominant. It can hardly be called a "paradigmatic change," showing a great departure from the previous Korean developmental welfare regime in its characteristic sense of change. Nonetheless, these series of welfare reforms clearly show that the Korean state was expanding its role in social welfare under the pressures of globalization, confirming the divergence or the compensation view that globalization and an open economy require more social welfare and a larger role for government (Garret, 1998; Rieger and Leibfried, 1998).

To summarize, the main features of the reformed "productive welfare" still maintained a high level of commodification and a strong workfare nature very similar to the past developmental welfare regime and the neo-liberal idea of workfare. This is because the previous developmental welfare regime had developed with an elective affinity with the Esping-Andersen's liberal welfare model in terms of its functions on the economy and the distributional

effects, although the idea of developmentalism had nothing do to with liberalism. However, its formal institutional structure in Korea was much closer to the European conservative-corporatist welfare model in the sense that it was a heavily social insurance-based Bismarkian model, with emphasis on the protection of industrial workers. This is the main institutional feature of the Korean developmental welfare regime.

In this context, we need a qualified explanation for this change. The "Productive Welfare" reforms under the Kim Dae-jung government can be interpreted as a critical juncture in the long-term process of the development of the welfare regime in Korea, particularly the impressive and increasing role of the state in welfare and the changing style of policy-making toward participation and consensus. However, this change contains a strong institutional continuity in terms of its core principle and function to the economy and society, which were "developmentalist idea," workfare-oriented, and the regulated role of the state with the least contribution of the state financing. Thus, it can be interpreted as a "punctuated evolution" rather than "punctuated equilibrium" in terms of the institutional change (Campbell, 2004).[118] Furthermore, in spite of a great achievement in the formalistic sense, the reformed productive welfare could not function as a social safety net and has significant institutional tensions with the changing production regime, especially with the dualistic, segmented labor market structure. This required another step in the welfare reforms, as shown in the next government.

In order to understand this path-dependent and new path-shaping nature in the current changes in Korean welfare capitalism under the limitations of the Kim Dae-jung government's Productive Welfare reforms, we need to understand the political nature of the Kim Dae-jung government and the reform politics of its Productive Welfare. The attainment of political power by Kim Dae-jung, supported by the popular sector, has dramatically shifted the balance of power in state-capital-labor relationships. As mentioned above, the economic crisis made this shift more plausible by weakening the business and conservative groups' power. Above all, the most interesting factor in the Korean context is that civic movement organizations retain a critical role in making and reforming social welfare policies.

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[118] Campbell distinguishes a "punctuated evolution" from a "punctuated equilibrium" in the sense that in many cases of the radical institutional changes turned out to have many aspects of institutional continuities if those changes are more specifically analyzed from a historical perspective (Campbell, 2004).

After the democratization of the late 1980s, civil society in Korea was rapidly strengthening. In relation to the social welfare system, activists in the People's Solidarity for Participatory Democracy (PSDP) contributed to the basic shaping of the social welfare reform model under the idea of solidarity and protection for all. The PSDP has advocated for the reform of the old social assistance program by criticizing its dehumanizing nature. The social welfare reform movement was initiated by the PSDP. The government frequently consulted with powerful civil movement organizations regarding the critical reform issues and policies related to the interests of a majority of citizens. This implies that democracy in Korea was transitioning from a formal state to a participator one, at least in the area of social welfare.

However, in Korean society, a majority of policy-makers and social elites were still subjects to the developmentalist idea, which is that the social welfare program should not undermine the institutional base. The best example of this is revealed in the policy-making process of the National Basic Livelihood Security Law (the NBSL) (Ahn, 2000). Economic bureaucracy and conservative mass media and academia consistently opposed the NBSL in that it would undermine work incentives, in particular in those who have the ability to work. Even after the law passed, they have been very cautious to keep benefit levels low.

In order for the current social welfare system to function for social integration with protection, the programs should be further reformed. This might require a greater power balance between the state and society, along with the deepening of democracy.

2. Roh Moo-hyun Government's Vision 2030 and Social Investment State (2003-2007)

The election of Roh Moo-hyun as president was another important historical event in the developmental process of Korean social welfare policy. With a marginal victory in spite of the revival of the conservative forces in the later part of the Kim Dae-jung government, progressive forces have barely held on to political power and been able to succeed to the major reform policies, including the pro-welfare line of the productive welfare.

Due to the economic recession, deepening polarization, and rapidly rising youth unemployment at the time of the presidential election, there was a high expectation for further social welfare expansion and reforms. However, in its early period, the Roh Moo-hyun government not only had put its reform priority on the political agendas for a hegemonic strategy, but also confronted many other serious non-welfare challenges, such as the North Korea nuclear crisis, the military dispatch to Iraqi, the Korea-U.S. relationship in foreign affairs as well as the strong opposition of the conservative groups against the four reform acts in domestic affairs. Therefore, the Roh Moo-hyun government began to engage in its welfare reforms in its later period of office.

In addition to the polarization of the labor market and income distribution as a consequence of the extensive neo-liberal economic structural adjustment carried out by the previous Kim Dae-jung government, Korea faces two other serious social challenges affecting the transformation of the welfare regime. These factors began to critically affect the reform politics and the design of the upcoming welfare regime in Korea in the Roh Moo-hyun government.

First, Korea has suddenly become a rapidly ageing society. According to demographers, Korea will age much faster than other OECD countries: in 2000, about 7 percent of Korea's population was over 65; in 2050, senior citizens will constitute about 37 percent of Korea's population. The speed of the population ageing in Korea is also extraordinary mainly because of the dramatic increase in life expectancy, from just over 52 years in 1960 to over 77 years in 2004.

The second serious challenge to the Korean welfare regime is vulnerability to new social risks rapidly emerging as a result of the changes in the industrial and demographic structures, combined with deepened labor market flexibility and dualism. The change in the industrial structure toward a knowledge-based economy placed importance on continuing education and training throughout life due to rapidly changing technologies and skills. Today, knowledge and skills obtained from the formal education system no longer guarantee job stability for life. The changing demographic and industrial structures also demand that women actively participate in the labor market. In this sense, the provision of child care services is very important for women's participation in the labor market, as well as for increasing the fertility rate.

However, the traditional social welfare policy that has mainly focused on income protection cannot protect these new social risks. Therefore, building an extensive life-long education and care service system is necessary, as is the enhancement of income protection for those vulnerable members of the labor market. This means that Korea needs a new dimension to its social welfare system in which social care service will play a more important role in social protection. Therefore, the question of who among the state, market, and family will provide the extensive care services and pay for them will be a crucial touchstone in characterizing the institutional features of the welfare regime in the future.

Being aware of its belated drive for welfare reform and the significant demographic problems and the rapid rise of new social risks, which could jeopardize the growth potential of the Korean economy, the Roh Moo-hyun government initiated a comprehensive reform plan with the long-term aim of gradually improving the existing social programs, while introducing new ones.

With this expected crisis for the future Korean economy, the Roh government envisioned Korea as a "world trade country" and thus initiated a national strategy to improve the current status of the national economy and social welfare toward an advanced level. One way to accomplish this goal was a series of free trade agreements, including the recent Korea-U.S. one. At the same time, the idea of paradigmatic change in social welfare has emerged. President Roh claimed that the country's economy was in the process of transforming itself from input-led growth to an innovation-driven model. He emphasized that the most urgent issues to be addressed were the gaps between big and small businesses, high-tech and traditional industries, regular and temporary workers, the capital and provincial regions, and high and low-income families.

The government announced Vision 2030 in August 2006.[119] Projecting the status of Korea's economy and society in 2030, it is a comprehensive long-range development plan. The political rhetoric behind the initiative is that Korea is shifting its growth strategy to be more balanced and equitable by putting greater emphasis on investment in human resources and the

[119] Vision 2030 was created by the experts of 13 think tanks, including the Korea Development Institute, the Korea Labor Institute, the Korea Institute for International Economic Policy, and the Samsung Economic Research Institute with professors from universities nationwide.

buildup of an advanced social welfare system to better cope with new challenges in the twenty-first century.

The Roh Moo-hyun government also invented a new vision of the state, called the "Social Investment State," concentrating on human resource development as the future paradigm of social welfare. This terminology and idea of social investment originated from Anthony Giddens' "The Third Way" under the Blair government in the United Kingdom, in which the future model of the welfare state is placed between the traditional Keynesian social democratic model and the workfare-oriented liberal model (Giddens, 1993).[120]

However, this vision and the idea of the social investment state did not attract much attention from the public and thus political support from the majority of the people. The conservative parties and groups criticized the plan as radical and unfeasible, but the leftist sides as still neo-liberal. Furthermore, the conservative mass media intentionally downgraded and disparaged the values of the plan and the concept of the social investment state. And there was a claim that the plan should be initiated during the earlier tenure of the Roh government, thus the timing of the announcement was too late. The Roh government had already been discredited and had little power for its implementation. After being publicized, intense debates about the appropriateness of the concept of welfare as social investment were conducted among some academics and NGO activists. The ideological parallel, without the consensus for developing specific action plans, continued until the term of the Roh Moo-hyun government ended.

While the Roh Moo-hyun administration established a long-term and comprehensive welfare initiative with Vision 2030, it began to improve some existing social welfare programs and create new programs. These reforms would be a part of the long-term vision as well as the agendas that have been continuously raised since the Kim Dae-jung government. The most impending reform agenda was the reform of the National Pension Program. As mentioned above, a distinctive achievement of the Kim Dae-jung government's productive welfare was to universalize the national pension program by expanding its coverage to the entire population under a unified insurance structure. However, it had serious innate defects in terms of long-term

[120] The idea of Giddens' "The Third Way" had been a popular discourse about the future model of European welfare state during the 1990s.

financial sustainability and protection of the low-income old aged, due to the program structure with low contribution and high benefit and a low rate of actual benefit coverage.[121]

There had been a series of policy debates regarding how to reform the current pension programs.[122] However, the reform efforts turned out to be a small scale of parameter reform that lowered the benefit level for delaying the time of the deficit and introduced a pension assistance program for the low-income old aged. In addition to the reform of the national pension program in preparation for the progression of society into old age, the Roh government enacted the long-term care insurance program in April 2007, and scheduled it for implementation beginning in July 2008. The idea of the long-term care insurance program was originated by the Kim Dae-jung government.

As we have seen, universal social insurance programs achieved by the Kim Dae-jung government have been crippled by institutional tensions within the labor market and liberalized economic system. Insurance-based social protection with a strict contribution rule regarding benefit cannot protect against the increasingly widespread new poverty problems of the working poor. They are mainly irregular workers and people in the marginal sector. There is also a rapidly increasing demand for care services. However, these problems have not yet been significantly resolved by the Roh Moo-hyun government. Besides the ambitious long-term plan, the actual achievements of the Roh Moo-hyun government were gradual improvements based on the previous problems and institutional features.

VI. Conclusion: Lessons from the Korean Experience

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[121] Although the NPS was reformed in 1998 by reducing the average replacement rate to 60 percent and raising the contribution rate to 9 percent, it was estimated that the scheme would have a deficit in 2036, exhausting its fund by 2047. Ensuring financial sustainability—defined as a reserve fund large enough to pay two years of benefits—through 2070 would have required boosting the contribution rate to nearly 20 percent by 2030.

[122] A bill was introduced in the National Assembly in 2003 to reduce the replacement rate from 60 percent to 50 percent in 2008, accompanied by a rise in the contribution rate to 15.9 percent by 2030. However, this proposal was blocked by the National Assembly. Finally, in December 2006, a compromise was approved by a committee in the National Assembly to lower the replacement rate to 50 percent (an annual accrual rate of 1.25 precent), while boosting the contribution rate to 12.9 percent by 2018.

We have examined a historical pathway to the development of the Korean welfare system from the perspective of the transformative role of social policy incorporating the variety of capitalism perspectives. We have focused on what Korea has done in a distinctive way for linking social policies to the economic development under the conceptualization of the transformative role of social policy.

As we have seen, the Korean welfare system, what I call as 'developmental welfare regime,' became an integral part of the successful industrialization and the production regime in Korea by supporting the successful industrialization. In this process, the developmental state had played an active role in coordinating the labor market, industrial relations, skill development, and the minimal security of income and risks, and enhancing the political legitimacy of the authoritarian developmental state whenever necessary.

In retrospect, the Korean developmental state played a certain role in adapting to the social and economic problems in each phase of the industrialization. First of all, it has tried to mobilize effectively human capital and skill development during the early and HCI industrialization phases. From the beginning of the nation-building the rapid expansion of the universal education was a prime goal of the government, which became later an important resource for cheap and good quality of labor in the early industrialization. During the HCI, the government quickly established vocational schools for the expected supply of the skilled workers, and encouraged and regulated the companies to implement on-the-job training. Although the government's support and cooperation with the large business sector in the industrialization process were very effective, it resulted in the structural imbalance in the labor market today. And as we have seen above, the entire social security system and the regulation of the labor market and wage moderation aimed at being work-oriented and in favor of the business sector.

In fact, the main role of the income protection and poverty reduction of the Korean developmental welfare regime, which has been known as the traditional role of the social welfare system, has been minimal. Those functions had been actually performed by the continuous and high economic growth with increasing employment and other functionally equivalent policies, which were closely related with the economic growth strategy inducing the mobilization of labor force into the productive sectors. For example, land reform was the unintended consequence to enhance more equal distribution of income and the effective mobilization of human resources

during the early industrialization process. And during the early 1970s, as the discrepancy between the rural and urban income increased, the government implemented the rural development movement (*Saemael Undong*) to help the income generation based on a self-reliance model by subsidizing to the purchase of fertilities and the grain prices to improve the productivity of the grain yields. The government had persistently chosen work-oriented policies such as public works for the income protection of the marginal and the poor.

Another strategy that the Korean developmental state has chosen was to minimize the state's financing to the social welfare. Industrialization and economic growth have been the national priority, and all the available resources aimed at being mobilized to the economic development projects. To achieve this goal, the government used two strategies; social insurance programs were the first priority in the development of social welfare system. Social insurance programs are effective to protect employed workers with the minimal state financing because the contributions of employers and employees are the main sources of the financing. When the insurance programs started, they began to protect the core workers in the industrialization and then extended their coverage to the groups who can pay the contribution. This strategy had been administratively very practical. Finally, social insurance programs were gradually able to expand their coverage to the marginal sector such as the farmers in rural areas and the self-employed in urban areas.

Second, the government widely used the private sector welfare resources with the government regulations in the social service areas. The government did not directly build the public infra-structures for the social service sector except the elementary and middle education sectors. Even in the education sector, the government encouraged the establishment private schools with providing tax privilege and preferential benefits in order to meet the lack of the public schools for the universal education. But the government highly regulated the curriculum and education fees, which have no actual differences from the public schools. When the government expanded the coverage of the health insurance program, it also encouraged the non-profit private hospitals with preferential privileges in tax and the loosened ownership regulations. This strategy was very efficient from the government's perspective, which had to mobilize all the national resources to the economic investment during the industrialization process.

Although the level of income protection and redistribution of social security system was minimal, the Korean social insurance system has played an important role for the risk protection

of the workers and citizens, as the industrialization matured and majority of people were exposed to major social risks. The work injury program played a preemptory role in protecting the income compensation due to the industrial accidents. It had done an important risk protection for the workplaces in cases of the unexpected work injuries from the beginning of the early industrialization in the 1960s. The health insurance program, which began to implement in 1977, now cover the entire people and greatly contributed to enhancing health status of the ordinary people with quite equitable access to the health care, although the actual protection rate of the health cost was not sufficient for the marginal people.

The employment insurance program was a typical case for the preemptory policy-making in the expectation of the future changing labor market structure in 1995. Therefore, during the financial crisis in the late 1990s after a few years of its implementation, the employment insurance program had greatly contributed to protecting the income loss of the unemployed. The government was able to quickly expand its coverage to the employees with small and medium enterprises who were hit hard by the neo-liberal economic structural reforms. The relatively effective protection of the unemployed was not possible without the previous implementation of the employment insurance.

Democratization with mature industrialization provided important political and socio-economic conditions for the expansion of social security system to protect the workers and other ordinary citizens from the main social risks such as sickness, old-age, work injuries, unemployment, and recently the long-term care of the aged, although the actual income protection function was very limited. However, the democratization with the conservative ruling coalition could not transform the previous developmental welfare regime into the European type of welfare regime with more income protection and redistribution. It was a mere expansion of the coverage and remained at a minimal risk protection.

In spite of all these positive contributions to some extent to the transformative role of social policy to the industrialization phases, the Korean welfare regime is today in crisis to meet new challenges such as the labor market polarization and rapid old aging with the lowest fertility rate, as we have seen above. Today the social service infrastructures heavily relied on the private sector could not quickly and effectively respond to the rapid rise of the new social risks today. And the formally universalized social insurance system with the strict contribution rule could not actually protect the increasing size of the irregular workers and the marginal people in the

informal sector. It is mainly because the developmental process of the Korean welfare regime has been based on the conservative developmental coalition between the state and the large business sector. This coalition was effective in the rapid and successful industrialization period. However, it created a dualist and regulated welfare regime today.

Korea is again experiencing a critical historical juncture, where old institutional features and ideas are being dismantled or readapted, and new ideas and institutions are being shaped by globalization, democratization, and demographic changes. Korea will be undergoing another transition period to cope with the new challenges and has to find out a new way of adapting to the current challenges.

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Chapter 7

Change and Continuity in Social Policy Responses to Economic Crises in South Korea: 1979~81 vs. 1997~98

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I. 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, Korea was ranked the 15th largest economy in the world with a per capita income of $29,792, surpassing Italy, Spain and New Zealand (IMF, 2010). Moreover, since the country entered democratic transition in the mid-1980s, Korea has become a "fully functioning modern democracy" (CIA, 2008). Based on these economic and political resources, Korea is now regarded as entering the club of advanced countries.

Korea has been touted as a "model" of successful case of economic development. But contrary to the popular image of sustained rapid economic growth, Korea suffered economic crises, not to mention cyclic downturns. Among others, the 1979-81 economic crisis and the 1997-98 crisis were the most acute ones. GDP shrank while inflation and unemployment soared. Income distribution deteriorated and poverty increased. But 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 successful in that they stabilized the inflation-ridden Korean economy and paved the way for a market-driven economic development. TIn the 1997-98 economic crisis also witnessed the same successful government actions. Neoliberal economic reforms upgraded the Korean economy to the extent that Korean firms can shed easily off the external shocks of the current global financial crisis and they even outperform Japanese counterparts for the first time in the history of modern Korea.

Although plenty of literature contributes to elucidating the successful story of Korean economy and government roles in economic hard times, it comes short of exploring the social policy responses to economic crisis in Korea. This paper will explore this neglected dimension through a comparative case study of the two worst economic crises in Korea: the 1979-81 and the 1997-98 economic crises. First, it will present and compare the policy responses of the conservative Chun Doo Hwan government (1980~1987) under the authoritarian regime and the progressive Kim Dae Jung government (1998~2002) of democratized Korea to the same shock of economic crisis. Second, it seeks to understand the change and continuity of social policy choice of these governments: why a great expansion of social security system was made under President Kim and why this great expansion was tarnished by growing inequality. 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 principle of social insurance and fiscal conservatism espoused and firmly entrenched during the Chun period constrained the Kim Dae Jung government's pro-welfare move.

The main body of this paper consists of three parts. The first part will present, ~~will~~ describe and analyze the Chun Doo Hwan 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 will discuss the Kim Dae Jung government's response to the 1997-98 economic crisis, focusing on the rapid expansion of social insurance programs and introduction of the new comprehensive public assistance program. This part will also analyze the performance of the social security system. The third section will discuss the factors behind the change and continuity of the Korean welfare state and present some policy implications for developing countries.

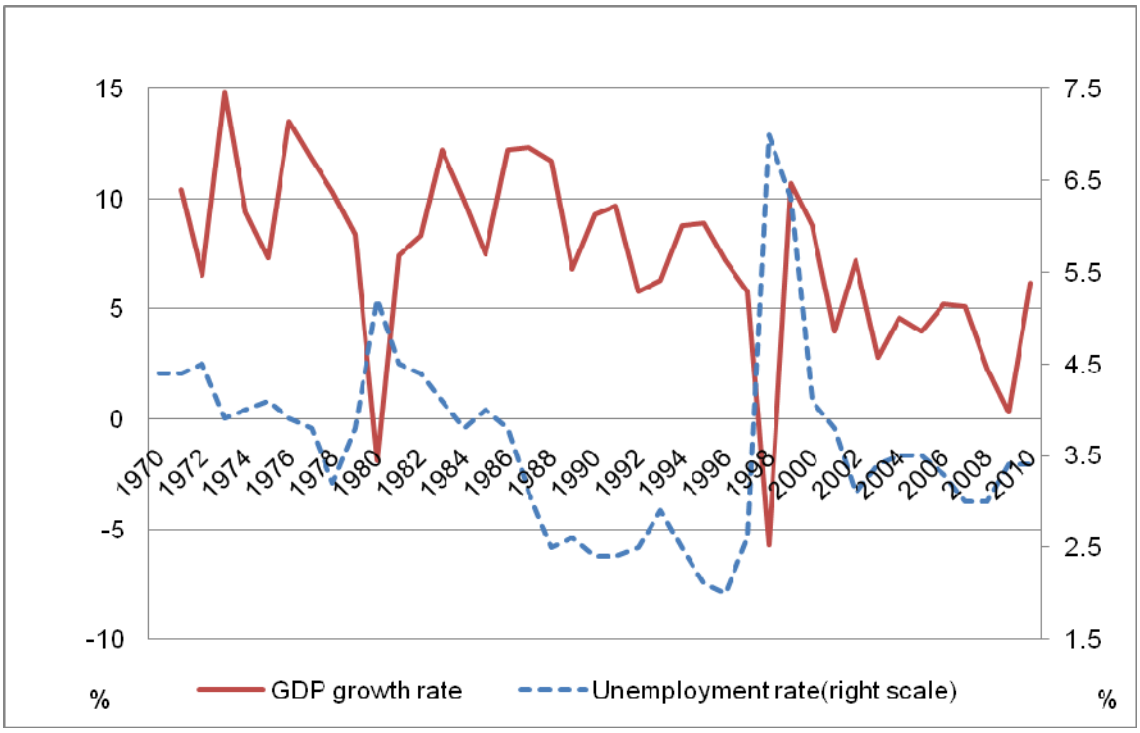
II. Social Policy Responses by the Chun Doo Hwan Government

1. 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. Growth rates averaging 9.9% during 1962-1978 fell to 2.2% in 1979-1981. Even in 1980, the Korean economy experienced the first GDP contraction by 3.3%. Inflation soared to 26.4% from an annual average 16.1% from 1962-1978. Real growth in exports fell from 27.4% annual average during 1962-1978 to 7.5% during 1979-1982. 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% to over 5% in 1980 (Moon, 1988: 68-69) (Figure 1).

Figure 1. GDP Growth Rate and Unemployment Rate (1970-2010)



Sources: www.kosis.kr (accessed on May 22, 2011)

Exogenous shocks including the second oil shock contributed to the outbreak of economic crisis, but there is a broad consensus that economic mismanagement over the 1970s was also to blame. From the mid-1970s, Korea pushed forward with ambitious heavy and chemical industrialization (hereafter HCI) drive. Disregarding the inflationary consequences, from 1977 to 1979 the Park Chung Hee government (1961-1979) allocated 80% of total investment in manufacturing to heavy industries through the state-owned banking sector via so-called "policy loans" (World Bank, 1980: 12). Excessive credit expansion created inflationary pressure. It also aggravated labor shortages. Wage increase outstripped gains in productivity. During 1975-1980, real wages rose by 13.4%, while productivity increased by 11.2%. The sharp surge in wage rates in the latter part of the 1970s was later blamed for inflation and a weakening of Korea's international competitiveness. Moreover, the HCI drive fostered *Chaebol* (family-owned business conglomerates in Korea) which 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 firms 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: 69).

In April 17, 1979, the Park government announced the Comprehensive Measures for Economic Stabilization, which not only included 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 fully implemented, because of a series of traumatic political changes: the assassination of President Park in October 1979 and a brief democratic opening followed by the seizure of political power by General Chun Doo Hwan in 1980.[123]

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 % 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 % 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, by which farmers received average annual grain price increases of 20 % during the 1970s; increases were cut to 14 % in 1981 and frozen in 1982. A similar cut was also made in the Fertilizer Account and thirty other public funds. Even the "untouchable" defense budget was subject to incremental trimming. Fiscal restraint was accompanied by tight monetary and credit controls (Moon, 1987; Haggard and Kaufman 1995, Chapter 3; Haggard and Moon 1990 and 1993).

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 merger, particular products were assigned to specific firms, and foreign participation was

[123] 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.

invited. As to the reduction of economic concentration, the government enacted the Monopoly Regulation and Fair Trade Law in April 1981 (Haggard and Moon, 1993: 83-84).[124]

2. The Consequences of Fiscal Conservatism and Social Policy Responses

The economic crisis and fiscal stabilization had a negative impact on social spending. Although the Chun government provided emergency relief for the needy including 200 billion won (2.5% of 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 (EPB, 1981: 79).

Moreover, 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, recalls:

> "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 time. He regarded it as the greatest achievement of his government. Therefore, Chun had inbred reservations about social expenditure" (Interview with the author, August 17 2007 in Yang et. al. 2008: 126).

Under such conditions, it is hard to expect any noticeable development in the social policy area. Although the early years of the Chun regime witnessed a series of new welfare laws including the Senior's Welfare Act (1981), a Welfare Law for the Handicapped (1981), and Social Work Act (1983) as the government sought to establish its 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 Doo Hwan

[124] 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.

period was “the off season” for the development of social welfare in Korea (Lee, Hyekyung, 1993: 73).

However, it does not mean that the Chun government did nothing at all. The Chun government sought to escape from 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 Scheme (NHIS), the most popular program of social insurances, was extended rapidly to firms with 100 employees in 1981 and finally up to firms with 5 employees or more in 1986, covering 47.4 percent of the entire population. (Yang, 2007; Cho, 2008: 86).[125] Also, in close cooperation with business, the Chun government expanded the Industrial Accident Insurance and promoted corporate welfare. In 1982, the government extended coverage of the Industrial Accident Insurance to include workplaces with 10 employees or more, and increased work injury benefits to head off civil suits by under-compensated injured workers, following the policy recommendations made by the Korea Employers Federation (KEF) (KEF, 1981: 186-188; 1982: 206-207).

Also the Chun government 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 to 49 employees, working clothes and workers’ asset-building savings (WABS) programs were recommended as a minimum standard for corporate welfare. On top of these, a dining hall, rest rooms, and shower rooms were recommended for firms with 50 employees or more. A fitness center, reading room, dispensary, and scholarship for workers’ children were added to the list of corporate welfare for firms with 100 and more employees. For big companies with 300 employees or more, the list expanded to include a co-op store, friendly society, and commuter bus. Larger companies with more than 1,000 employees were encouraged to offer employees’ stock ownership and housing loans. The tax incentive was not only available

[125] Several pilot programs were also conducted to extend coverage to farmers and fishermen in the rural areas and the self-employed in cities. Yet, President Chun blocked a movement in the MOHS 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. 125 Business opposition to the integration movement was critical in his decisions (Yang, 2007; Cho, 2008: 86).

to employers. Employees also benefited from it. For example, the WABS (workers' asset-building savings) was tax-free and 15 percent of the cost of purchasing corporate stocks was eligible for tax-exemption (Yang, 2004a: 98).

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 and forced wage restraint. It was also an effective attraction to lure skilled workers given that the government had imposed wage restraints that leveled wages among competing companies. According to Choi (1992: 55), recruitment of workers (59.5 percent) and improvement of 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, 1993). There is no doubt that relatively affluent large company employees benefited most. Along with the state's sponsorship, corporate welfarism began to be rooted in the Chun period, signaling a widening gap between the large and small businesses in the future.

III. Social Policy Responses by the Kim Dae Jung Government

1. The 1997-98 Economic Crisis and Social Consequences

On November 21, 1997, at the height of the Asian financial crisis, the Kim Young Sam government (1993-1997) asked the IMF for stand-by loans, admitting its inability to service its debt payments. 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 dollar in 1993 to a record low of 2,000 won at its peak in late 1997. As Figure 1 above 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% of GDP in 1998 from a string of balanced budgets in previous years. By any account, it was bigger economic crisis than the 1979-81 case. The Korean economy had collapsed again after a decades-long economic miracle (Mo and Moon 1998).

Table 1. Poverty and Inequality Pre- and Post-Economic Crisis in Korea

	1996	1997	1998	1999.1/4	1999.2/4	1999.3/4
Headcount Poverty Index (urban)[a]	9.6	8.6	19.2	-	-	-
Wage Income Share[b]						
- 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[b]	4.63	4.49	5.41	5.85	5.24	5.29
Asset Income Ratio[c]	-	17.1	-			38.6
Gini Coefficient[b]	0.291	0.283	0.316	0.333	0.311	0.310

Note: Wage Income Ratio = Highest 20%'s share/ Lowest 20%'s share; Asset Income Ratio = Highest 10%'s share/ Lowest 10%'s share

Source: Moon and Yang (2002a: 142).

The economic crisis not only undermined economic performance, but was accompanied by serious consequences for social equality and welfare. Table 1 shows growing poverty and inequality. While the headcount urban poverty index rose from 9.6 in 1996 to 19.2 in 1998, 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.

2. Social Policy Responses by the Kim Dae Jung Government[126]

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 (NCNP) won the December 1997 presidential election-. The election was more than a power shift; it was a landmark event that ushered in a new political landscape, representing the completion of Korea's long transition from conservative one-party dominance to a pluralist

[126] This part draws on Yang (2000: 243-245) and Yang (2011).

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 liberalise the economy as agreed with the IMF and World Bank. These are basically threefold. First, restrictions on capital movement and foreign ownership have been lifted in an effort to induce foreign investment in Korean assets. Secondly, the government facilitated the laying-off of workers in order to increase labour 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 within sister companies of the *chaebols*. In short, the core of these policies may be best understood as the rejuvenation of the Korean economy by means of neo-liberal reforms (Mo and Moon, 1998).

But, at the same time, the center-left Kim Dae Jung government sought to complement the liberalisation measures with an internal strategy of compensation for those groups which are most at risk. It tightened the nation's loose social safety net by expanding the coverage and the benefits of the four major state-administered social insurance schemes and by thoroughly overhauling the public assistance program.

Due to the mass unemployment and related social problems, programs protecting individuals against unemployment are growing at the fastest speed. The government poured more than 13.4 trillion Won (equivalent to 8.6% of the FY 1998 and 1999 government budgets or US $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 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 thirty employees. Since 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 5 or more workers, and finally in October to all employees including part-time and temporary workers. Duration of benefits has also been gradually extended from two months to one year, while the qualifying period was shortened to three months from one year of work history (Moon Hwa Daily, 20 August 1999).[127]

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[127] This pattern was followed by injury insurance at work which is one of the oldest and most mature social insurance schemes in Korea. Industrial accident insurance law covering 7.5 million workers in industrial firms with 5 or more employees was

The state-administered pension and health insurance schemes made another impressive expansion. The National Pension Scheme (NPS), which began by covering private sector employees in 1988 and then expanded until it covered 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 National Health Insurance (NHI) also contributed to the tightening of the nation's social safety net. The NHI, 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 (National Federation of Medical Insurance, 2000; The Korea Herald, 5 August 1999).

The four major social insurance schemes generally base eligibility for regular contributions. The social safety nets are therefore insufficient and inefficient for urban and rural marginals who usually do not have contribution history. For these poor groups, the Kim Dae-jung gGovernment rejuvenated public assistance programmes with fresh legislation to guarantee a minimum standard of living regardless of age or work capacity. Under the old scheme, the allowances were not available to households including at least one person aged between 18 and 64 deemed capable of working, even if their incomes were less than the minimum cost of living. Although the new public assistance program, the National Basic Livelihood Security Scheme (hereafter the NBLSS), requires a strict means test and recipients to continue to seek or train for jobs, it marks a turning point from the Elizabethan Poor Law-style public assistance in which the state distinguishes the deserving from the non-deserving poor and protects only the former (Ministry of Planning and Budget, 1999; Ministry of Health and Welfare, 1999).

IV. Discussions

amended to include an additional 1.6 million workers in small businesses with 4 or fewer employees from July 2000, and with this amendment, small business employers are also eligible to be covered (Ministry of Planning and Budget, 1999).

1. Democracy and Change in Social Policy Response

The Korean cases verify that the impact of economic crisis 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. Such emergency measures were all the government did for them as public works, temporary increase in social assistance and expanding job opportunity in the Middle East. The Kim 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, J., 2001).

Unlike the Chun government, however, the Kim Dae Jung government made a considerable stride toward a welfare state in economic hard times (Kim, 2006; Ramesh, 2003; Kuhnle, 2004). Social insurance coverage was expanded to cover the entire working population, public assistance program was beefed up, and fragmented health associations were unified. These measures were beyond emergency social welfare responses to economic crisis.

The pro-welfare turn was associated with power shift to progressive political forces for the first time in Korean history. The 1997-8 economic 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. The Kim Dae Jung presidency marked a substantial power shift; it was a landmark event that ushered in a new political landscape, representing the completion of 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 the Roh Tae Woo (1988-1992) and Kim Young Sam presidency (1993-1997) after the 1987 democratic opening (Yang, 2011).

Under the auspices of the center-left presidency, progressive social forces came to the fore in social policymaking 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 PSPD (People's Solidarity for Participatory Democracy) and the KCTU, a democratic peak labor organization. Core members of the policy network share 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, Ho Keun, 1998).

In a word, democracy brought about a new playing ground for pro-welfare political forces. In democracies, as Garrett's work (1998) strongly implied, there is no other way for politicians but to respond to growing demands on social policies and electoral competition which 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: Chapter 6). South Korea in the late 1990s was the case in point. Without democracy and power shift to the progressive political forces, continuity rather than change would have dominated social policy responses to economic crisis.

2. Strong Principle of Contributory Social Insurance, Fiscal Conservatism and Continuity of Social Policies

Substantial improvement was made during and after the 1997-98 economic crisis under the leadership of President Kim Dae Jung. But, this change was also accompanied by path-dependent continuity.

Among others, it should be noted that the Kim government's social security system was built on a strong social insurance principle. Although the coverage was legally expanded to cover all workers, without contribution history nobody could claim benefits. In fact, coverage remains restricted to those regularly employed in the formal sector despite compulsory inclusion of all workers. Since the principle of self-financing is strictly enforced, contribution evasion of payroll taxes is the norm rather than 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 Scheme, 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 and more workers, and 64 percent in workplaces with less than five employees. For daily workers, the average compliance rate in 2004 was less than a quarter. Given these factors, the proportion of all wage and salary earners who were actually insured remained at around half of all workers.

Table 2. Effective Coverage Rate of Social Insurances and Retirement Allowance

(August 2008, %)

		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

Note: Large firms are enterprises with 300 and more employees. SMEs are abbreviation of small and medium-sized enterprises with less than 300 employees.
Source: Calculation by author based on Korean Statistical Information System (http://www.kosis.kr)

This emphasis on contributory social insurance stems from the developmental state period when the developmental state channeled government's financial resources into economic development. Social welfare should be provided on 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 reaction to distributive demands, the Chun government gradually but steadily expanded social insurance coverage without any state funding. In short, these tendency reiterated in the Kim Dae Jung government although the coverage expansion was rapid. The Kim government did not provide any financial subsidy to the target contributors in marginal sector. Thus, there remains a large loophole in the social safety nets.

Such strong fiscal conservatism also can be found in the strict criteria of tax-based cash transfer program. The introduction of the NBLSS was a remarkable achievement. But it was tarnished by strict means test and family responsibility rule by which the applicant's children or parents should fall below a certain income threshold.[128] Due to this 'family responsibility' criteria, about 0.6 million households or 1 million poor people, most of which are elderly, are not permitted to receive social assistance benefits. The strict means-test and benefit criteria of the

[128] If the income of applicant's close kin is below 130% of the national minimum standard of living set by the government, the applicant is eligible for public assistance. If not, the applicant is ineligible because close kin are regarded as capable of taking care of the applicant.

NBLSS leaves 70.1% of those below the government-set official poverty line unprotected (PSPD, 2009).

3. Policy Implications for Developing Countries

We can draw some lessons 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 to stabilize employment. Public works have been an effective counter-cyclical measure for income assistance and employment creation in Korea. Even in the Kim Dae Jung government, public works function as a core safety net for marginal workers due to the limited coverage of unemployment insurance and public assistance. For example, the Kim 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., 2001). Even in the recent global economic crisis, the Lee Myung Bak government generated 400,000 jobs through public works in 2009. But it should be noted that public works were 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 are indispensable.

The second lesson is the necessity of pre-emptive introduction of social security schemes, especially unemployment insurance and pension programs. 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 simply because of immaturity. For example, the Employment Insurance Scheme (~~the~~ EIS) was designed to provide full benefit (i.e. 50% of former wage) for a maximum duration of 7 months to an unemployed worker with a 22-year contribution record. Given that the EIS was introduced in 1995, nobody could claim full unemployment benefit. The National Pension Scheme (~~the~~ NPS) was also futile. The NPS could provide early-retirement pension benefit, b~~. B~~ut it~~the NPS~~ required a 20-year contribution record. Since the NPS was introduced in 1988, it could not function as social safety nets for retirees. In short, the introduction and expansion of social security schemes when they were in need wereas belated in Korea. A pre-emptive early introduction of income maintenance schemes is recommended for developing countries.

The third lesson is to combine tax-based scheme with statutory social insurance programs. As Table 2 above strongly demonstrates, the actual coverage of statutory programs for workers at small and medium-sized enterprises is significantly lower than at larger firms. Especially, non-regular workers including short-term contract, part-time, daily, and on-call workers are the least covered by contributory social insurance schemes. They are at the bottom of the welfare ladder and they should have been the main beneficiaries of the Korean welfare state. Given the general tendency that the unskilled marginal workers are the usual victims of economic hard times, constructing social safety nets for the so-called informal sector must take the center of the social security system.

As Ginneken (1999) persuasively argues, 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 (and have) set up health and other social insurance schemes that better meet their needs and contributory capacity. In addition, special social assistance schemes are necessary to protect the most vulnerable groups outside the labor force. These social policy responses require state funding. There are many policy options, one of which would be government-sponsored matching contribution. It would increase compliance with contributory social insurance programs. In addition, it would be better to combine statutory social insurance programs with 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.

V. Conclusion

This article analyzed social policy responses by the two Korean governments to the similar economic crisis. The authoritarian Chun government's social policy responses 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 progressive Kim seized power in 1998, pro-welfare forces used the newly opened window of opportunities to push forward with significant welfare reforms. These reforms went beyond the functional necessities to compensate the victims of neoliberal economic and labor market reforms. The welfare reform agenda initiated during and after the transition to democracy were re-energized by the new social policy networks that emerged during the Kim Dae Jung years. In short, democracy and partisanship helped expand the Korean welfare state in economic hard times.

Nevertheless, the Kim government's pro-welfare policies could not break the old mold based on strong contributory social insurance principle. Thus, the great coverage expansion was tarnished by high levels of contribution evasion among the underprivileged and further by immaturity itself. However, it does not mean that the social welfare initiatives by the Kim government were useless. In fact, fighting against the current global economic crisis, the Lee Myung Bak government could enjoy a larger reservoir of policy tools such as the EIS, which was expanded rapidly under the Kim Dae Jung's presidency. The Lee government was swift in deploying effective measures (ILO, 2010/11). Korea's recent experiences strongly suggest that pre-emptive actions to construct social security system are desirable and it must be complemented with tax-based schemes. Social insurances alone will end up with a large loophole in the social security system, especially in developing countries where a large informal sector exists.

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Chapter 8

The Development of Social Service: Education and Health Policies in Korea[129]

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Introduction

The factors enhancing the quality of life, in particular the qualitative aspects summed up as education and health, have been explained in various ways ranging from emphasis on the biological hereditary characteristics and culture to heavy investment in education and health services. Except for those of biological hereditary characteristics which present science and technology have not found any convincing evidence of, most explanations share two methodological problems which are a quantified input-output bias and a silo approach. Firstly, the quantity of human resources and facilities of health and education systems, most frequently used as input indicators of health and education, cannot explain full details of the "conditions" i.e. various factors influencing the level of healthy, literate and knowledgeable life, and their improvements, to produce outcome of health and ability,. Explanations in terms of expenditure in money terms allotted to these activities are even more limited in explaining the conditions. The input-output model with an emphasis on the investments in education and health sectors on the one hand and a neglect of other factors making unequal social structure is not only fallacious in a technical sense but also immoral politically. Various social determinants of education and health should be taken into account in explaining the conditions of health and education(Balogh, 1964) (Commission on Social Determinants of Health, 2008). Secondly, neither health nor education can be dealt with in isolation. Health status and attainment of ability and attitude in education are so closely interdependent with other factors that reforms in the fields of health and education are necessarily social reforms that cannot occur in isolation(Myrdal, 1968; Gan and Gong, 2007). These methodological problems became a source of a wrong assumption that economic growth automatically results in the enhancement of education and health conditions. Although it sounds natural that economic and social development develops together, not every developing

[129] I really appreciate excellent assistance by Fiona Morgan in data collection and useful comments and editing service from Olive Cocoman and Sungmi Kim.

country with a high literacy rate and good health indicators achieved economic growth or income-poverty reduction. Sri Lanka in the 1980s had a high literacy rate but recorded low economic growth. Cuba with a health statistics equal to that of the Northern industrialised countries also did not achieve rapid economic growth. Botswana, despite its rapid economic growth and comparably high level of health and education indicators, still suffers from the persistent income poverty. Many empirical cases highlight the fact that neither element of economic growth, enhancement of health and education and reduction of income poverty and inequality alone is necessary or sufficient for the advancement of the other (Mehrotra and Delamonica, 2007). It shows the necessity to take a holistic approach to education and health development encompassing not only the factors in the sectors but also the linkages between factors across the sectors.

The case of South Korea which achieved economic growth, education and health development, and reduction in income poverty and inequality within a very short period can offer an interesting case for a research from this holistic and linkage-focused approach. For instance, when South Korea was liberated from Japan, it had already a comparatively higher number of schools and medical facilities than other developing countries with similar or higher national income levels. However, the literacy rate was very much low and the level of health was in extremely poor conditions. What factors made these facilities contribute to or obstruct enhancing the level of education and health in the 1950s prior to the industrial take-off in the 1960s? Under the Park regime in the 1960s and 1970s, the educated and healthy workforce is widely agreed to have been a driving force for a rapid economic growth. However national health insurance, a vital health system for enhancing the level of health was in a very much rudimentary state covering only 26.4 % of total population in 1979 while compulsory and free universal education was limited only to the primary school level during this period. However, the infant mortality reduced from 96 in 1960 to 17 out of 1000 live births in 1980 while the proportion of students of middle school ages in middle school grew from 33 % in 1960 to 95% in 1980, with the sharpest increase in the 1970s and only 20 % of adolescents of high school age was attending school in 1960 but by 1980, nearly two thirds were (Seth, 2002)(See Appendix 2, Table 2-2) . What were the institutions and policies to make economic growth and social development, specifically in education and health development, at the same time?

In the 1980s and 1990s, South Korea by achieving universal national health insurance and universal compulsory education at both primary and middle school level with higher advancement to high school and higher education became a successful case in both economic and social development. Were there radical shifts to be discerned in education and health policies resulting in the achievement of universal access to health and education?

Given the different natures of problems faced by developing countries in the 21st century such as pressure on the free trade, privatization and marketisation of basic services and global economic crises, it is difficult to say that the Korean experience can be readily replicable. However, explanations on the factors affecting the conditions of health and education based on the Korean experience can help us to understand the need to widen our scope of policy options and help developing countries to design and implement polices that are complementary and coherent.

This paper will explain the nature of the Korean development experience in the education and health service sector with an emphasis on its relations with various systems for economic growth and reduction of income-poverty and inequality. It will particularly show how synergies among three factors, i.e. enhancement of education and health, economic growth, reduction in income poverty and inequality have been created and sustained with a focus on the policy measures affected health and education. It will also pay attention to the role of foreign aid, in particular the US aid, in developing education and health which was a major source of resources for developing both systems just after the liberation and the Korean War. We will identify and examine the moments of critical changes, which we may call transformative moments, in the education and health sectors to explain what institutions, organizations and policies were established and accumulated for generating the significant changes in these sectors and also consider how the changed systems were maintained.

In the following section, we will explain our conceptual framework based on the concepts of dual synergies and transformative moments. This will be followed by the section of the unique features of education and health in Korea. The following sections will explain the development of institutions and policies to cause the features of education and health development in Korea with a focus on the period between the liberation and the late 1980s when the current education and health system were consolidated. In the conclusion, we will draw lessons from the South Korean case for developing countries with a special attention to the factors limiting the policy options to achieve universal access to education and health services such as privatization of services.

Dual Synergies to Transform and Maintain Education and Health Systems

Why can people in some countries lead a healthy, literate and knowledgeable life and others cannot? How did South Koreans become successful in leading healthy and knowledgeable life? The answer that because those education and health services directed to create a healthy, literate and knowledgeable life were developed in those successful countries including South Korea may be a half-truth since the degree of development of those education and health services, in particular in terms of input, does not produce an

equal distribution of benefits and consequently an overall increase in the quality of health, literacy and knowledge (UNICEF, 1998). This is because the healthy, literate and knowledgeable life of individuals is not only a result of education and health sector's development, but of various factors and a complex process including other sectors also. Political, social and economic factors intertwined with exigencies in time and space are accumulated in both individual and societal space and time to impact the overall outcomes in health and education.

Searching for more comprehensive answers to the questions above within the policy context leads us to the question of how cross-sectoral synergies are created and what institutions, organizations and policies create those synergies in health and education sectors. The process of creating synergy between sectors can be conceptualized as a combination of two processes; organizational synergy creation process and the functional synergy creation process. The organizational synergy creation process is a series of interactions within and between the public and private sector. In this process a specific form of positive synergy is created when the clear division of labour is successfully overcome, inputs are pooled to produce greater output than the separate output, and dense networks within and between sectors are utilized effectively. For instance, a synergy created within the context of government and civil society is the one based on complementality and embeddedness (Evans, 1997). The functional synergy creation process is composed of dynamic interactions within and between a society's production, redistribution, protection and reproduction. The positive synergy is created when the interventions affect all these functions in the way to increase welfare in an equitable, democratic and sustainable way. This functional synergy can be resulted from a coherent social policy intervention concerning all these functions such as transformative social policy (United Nations Research Institute for Social Development, 2006).

Among these functions, production is particularly important in the context of development and specifically of education and health development since it is the dimension where policies direct focus on innovation and enhance productivity for growth of resources for other functions such as redistribution, protection and reproduction (Mkandawire, 2007). It should be noted, however, the process of increasing innovation and productivity, the sources of prolonged growth, is not placed only in the education and health but also in the linkages between the education and health on the one hand and other sectors such as labour market, industrial, trade, fiscal, foreign exchange, and other social policies measures such as pensions and unemployment benefits on the other. For instance, protection from international competition together with promotion measures for access to both domestic and international markets is also a part of this process, since without these resources for innovation and productivity enhancement increase may be either wasted or channelled abroad. The extent to which the institutions, organizations and policies make

linkages between these sectors determines the extent to which people exert its creativity and innovative knowledge and skills and enhance innovation and productivity, and consequently the degree of economic and social development.

Industrial and fiscal policies to mobilize resources and make an investment in the productive sector are also important in making these linkages. They are particularly important when we consider the recent trends of privatization and commercialization of basic social services which increase risks to overall welfare. The arguments for privatization and commercialization are based on the assumptions that privatization and market mechanisms can mobilize resources, encourage investment and consequently reduce budget and fiscal deficit. These assumptions ignore several crucial facts from the perspective of functional synergy. A reduced budget and fiscal deficit cannot be achieved since privatized public facilities in education and health sectors often result in a huge loss of social benefits through exclusion of low income groups from the services. The exclusion of people from the basic social services, in particular the deficiency or poverty in the dimensions of health, education and water, is highly correlated to low employment possibilities which in turn mean loss of potential revenues. The involvement of the private sector may increase investment, but this increased the concentration of investment and benefits for a certain income group which can afford the costs. It is very often the source of social instability causing a huge social cost. The volatility and high management costs of private sector have been already well known, in particular in the water and energy sector (Hall et al., 2005). Resource mobilization and its investment also clearly show the linkages or feedback loops between basic social service and other sectors.

Institutions, organizations and policies in organizational and functional processes are path dependent and, in terms of time frames, composed of two conceptually different periods, firstly “critical juncture moments” or “radical shifts” and secondly “stasis periods” or “long continuities”. In the moments of critical juncture or radical shifts, institutions, organizations and policies dissociated from the past are formed while in the latter, institutions, organizations and policies are more or less reproduced (Pempel, 1998; Streeck, 2005). The former is an unsettled moment in the sense that the past constraints on the institutions, organizations and policies are broken or relaxed and opportunities expand so that purposive action may be especially consequential (Swidler, 1986; Katznelson, 2003). These are mostly the moments which qualify political, social and economic transformations. This “unsettled” situation or transformative moments can be made by either exogenous shocks or endogenous cumulative changes which contribute to breaking down or relaxing the constraints on institutions, organizations and policies. Under a certain

circumstance, the unsettled moments creates a new environment where certain factors such as leaders or personal charisma matter more than institutions and political economy (Jowitt, 1992).

Many studies have attempted to find the origins of these different natures of changes in many ways ranging from focusing on the periods of drastic change of outcomes, be they aggregated economic growth or social indicators, to explain the mechanisms to govern social and national change to emphasizing the changes of formal laws and regulations (Polanyi, 2001) (Louglin, 2004; Streeck, 2005). In reality, these radical shifts and long continuities are not easily captured because of short time frame of historical analysis on the one hand and far-reaching impact of small often seemingly insignificant adjustment on the other. In particular from the perspective of synergy creation across the sectors, the changes, be they radical shifts or long continuities, are the result of complicated interactions within and between sectors and attributing the result to a specific factor is virtually impossible. Our approach is, therefore, to identify both formal and informal institutions, i.e. rules of the game to shape the attitude and behaviour of users in health and education which affect education and health outcomes. Transformative moments in our project are, therefore, not the changes in results but the changes in institutions resulting in changes of attitudes and behaviour of users.

Characteristics of Institutions and Policies of Education and Health

In this section, we will identify unique features of education and health development in South Korea in comparison with other developing countries with similar national income level in the 1940s, 50s, and 60s, which will be explained in terms of the institutions and policy choice shaping them in the next sections. First is the early enhancement of education and health levels. The focus of the research on the development of levels of South Korean education and health and their systems has been usually placed upon the 1960s and the 1970s when there was a dramatic economic growth. Although it is true that the 1960s and the 1970s were the era of both rapid economic growth and remarkable development of the levels of education and health and their systems, before these periods, the level of education and health in terms of outcome such as enrolment rates and infant mortality rates were already relatively high. The infant mortality of 96 in 1960 was already lower than other developing countries with a similar national income (see Appendix). Although universal coverage of primary education was only achieved in the early 1970s, the literacy rate was already high and gross enrolment ratios of all school levels were also higher than other developing countries except for only one or two countries in 1950 (McGinn et al., 1980) (UNESCO, 1993). How could a post-colonial and war-torn country like South Korea in the 1940s and 1950s could have a relatively high level of education and health? Is it due to the colonial legacy as is often pointed out as a cause of an overdeveloped state apparatus? What drove the development of basic

education and health systems even under the circumstances characterized by widespread poverty and scarce resources?

Secondly, the efforts for war recovery from the early 1950s made a great contribution to rebuilding physical facilities and mobilizing human resources for education and health. In terms of increases in the number of primary schools, however, Korea was not different from other developing countries. The increase of the number of doctors was in very much gradual pattern until the early 1980s. In education, what makes Korean case distinctive from other developing countries was a larger number of secondary and tertiary schools, and higher proportion of age group enrolled in secondary and tertiary level schools in the 1950s (Harbison and Myers, 1964) (also see the Appendix). Also there was a higher number of education facilities for training teachers. Given the smaller recurrent expenditure on education than those of other developing countries (McGinn et al., 1980), we can ask how South Korea was able to have a higher number of secondary and higher education institutions and higher number of institutions to train teachers. In health, although there was an increase in the number of doctors and hospitals, from 3,197 and 161 in 1940 to 9,201 and 14,678 in 1961 respectively, hospitals and doctors were highly concentrated in urban areas where just a third of the total population lived, which could have caused a serious inequality in access to health service. The increase of doctors and hospitals was in a very much gradual fashion which could not meet the increasing demand either. Despite the lack of absolute numbers of doctors and the concentration of hospitals and doctors in urban areas, the level of health and health system was drastically enhanced. How was the Korean government able to manage health issues with scarce physical and health resources and their concentration in rural areas?

Thirdly, the predominance of the private sector in curative care and secondary and higher education is an interesting feature of the Korean education and health system (Woessmann, 2006) (Hanson and Berman, 1998). The South Korean experience in education and health development offers an interesting case for the debate on the role of the public and private sector in health and education service provision. In both curative health, secondary and tertiary education service provisions, private service providers are bigger than the public providers. The private sector has been growing as the levels of education and health have been enhanced. How could South Korea restrain negative aspects attributed to private sector provision such as health inequity, low quality of public sector service provision, brain drain to private sector and hollowed-out public sector? What were the institutions and policies to make private sectors' provision of education and health services conducive to equitable and sustainable development of education and health?

Fourthly, cultural explanations on health and education, in particular education, emphasizing the long-term continuity and its impact on the outcomes do not pay a due attention to the critical changes of institutions shaping the strategic decisions and behaviour of providers and users. This tendency is often found in many literatures explaining education development in Korea. They begin with Korea's long history respecting education and tradition of Confucian literarti. However, it is difficult not to come across such a tradition and history in other countries and Korea is not an exceptional case in terms of tradition and culture in which a few chosen high strata in society monopolized the cultural and academic works and accumulated knowledge. Wherever the colonial system to exclude people from education was broken down, the aspirations for education was exploded too(Adesina, 2009) (Myrdal, 1968). The government policies together with political, economic and social conditions did play a significant role in determining the trajectory of education. Did all the governments in Korea play the role of keeper of the tradition and culture cherishing education? How did they interact with culture and tradition?

Transition of Education and Health from Colonialism to Independence

After liberation, one of the most important tasks to the governments, the USAMGIK (USA Military Government in Korea) between 1945 and 1948 and the Rhee's First Republic since 1948 was to fill the gap of the institution left by the Japanese colonialism in every corner of society. In education the critical gap left by the departure of the Japanese was the lack of trained manpower. Illiteracy was widespread in Korea, the overall illiteracy rate in 1945 was estimated as 78 percent, but even more critical was the shortage of teachers and others with a modicum of secondary education. In 1939, Japanese teachers accounted for 40%, 80% and 76% of the teachers of primary, secondary and higher education respectively and the number of Korean graduates of secondary and higher education was too small to fill the vacancies of many organizations, in particular teaching jobs. The colonial education policy which made Japanese the standard language and banned the Korean language in the campus seriously undermined the utilization of Korean with modern science and mathematics through the colonial education system (Sorensen, 1994).

In the heath field, the public sector such as provincial hospitals which were at least well distributed across the country and contributed to regional health equity were gradually dismantled due to the lack of financial resources. Doctors could not get the salary as high as the one they had received under the Japanese colonial regime. They could not enjoy the social status as the colonial officials either[130]. The under-supply of medical equipments, medicines and increasing burden of public health and sanitation in

[130] It is reported that subsidies to the provincial hospitals which accounted for 34% of health budget in 1928 reduced to 7% under the USAMGIK.

the midst of the transition from colonialism to liberation worsened the working conditions of the doctors in the public sector since the public health which had been taken care of by the police force under the Japanese colonial regime became additional duty for them. They moved from the public sector to the private sectors in urban areas and in particular, to the capital city, Seoul. The departure of the Japanese landowners and the limited land reform, despite its impact on increasing equality and reducing poverty, could not generate large enough demand for medical services to keep doctors in rural areas. The concentration of doctors in urban areas, in particular in the capital city area, was serious to such an extent that only 10 or 20 percent of doctors resided in the rural areas where about two thirds of the population lived (Chun, 2011).

Although the share of aid resources for education and health was very small, 1.7% for medical goods and 0.2 % for educational goods of total aid between 1945 and 1948(Kim, 1985), the USAMGIK made an effort to recover the systems of education and health in various ways. One of the most important policy efforts was to recruit teachers and transfer the authority to local education committees to allow them to manage schools based on the local contexts. The decentralization of education authority was not effective in terms of local people's participating in policy-making process but was helpful in recruiting teaching staffs since local education committees were able to make various terms and conditions reflecting the local conditions such as the flexible work hours and varying amounts of salaries. Another set of policies of both the USAMGIK and the Rhee government to increase the teaching staffs was to lower the education requirements of primary and secondary school teachers, support in-service training and establish colleges to specifically produce teachers. The quality of teaching staffs was improved as higher education expanded. The improvement was particularly fast in the secondary education (see Appendix 4, Table 4). The policies paid off. From 1945 to 1948, the number of elementary school students rose 82 percent, and the number of secondary school students increased 183 percent. In the same period, the number of available teachers increased 55 percent, 569 percent and 268 percent at the elementary, middle and secondary levels, respectively (Krueger, 1982). To respond to the explosion of demand for education, in particular higher education for which Koreans could not get many opportunities under the Japanese colonialism, the schooling structure was changed from the early career-fixing system to the 6-3-3-4 system. Career choice which had been made in the lower secondary level under the Japanese system was made at the upper level of secondary school now. This change was significant in terms of peoples' attitude towards education. Parents who could afford costs wanted their children to have higher education and children themselves preferred entry to the labour market as this was associated with more chances for higher educations and higher salaried jobs. This system continued under the Rhee government with accompanied curriculum change. The Rhee government, following the USAMGIK's education policy,

further shifted emphasis of skill development from the middle school to high school. The emphasis on the general education rather than specific skills affected the attitude towards specific skill trainings and people gradually started treating vocational schools for specific training as education with inferior quality. Under the circumstances those who decided to complete school education before the upper level of secondary education did not have many chances to develop a specific skill and took less skilled jobs. The enrollment ratio increased at both primary and lower level of secondary education but not the level of specific skills. The lack of investment in manufacturing industries was also a turn-off factor leading to discourage the learning of specific skills since not many jobs for those technicians were available (see the chapter of Yi et al. on Aid Effectiveness in this volume).

One of the significant developments under the Rhee regime was the establishment of the Basic Education Law in 1949. It stipulated 6 years of compulsory free education beginning at age 7. It also included the Citizens' schools (*kongmin hakkyo*) for adults who had been unable to receive education. It was accompanied with mass-literacy campaigns across the country. Literacy of adults in the Korean alphabet increased to 71 percent within three years and elementary school enrolment ratio continuously increased from the liberation except for a temporary decrease during the War. This increase was due as much to public attitudes toward education that every child including girls, should get primary education as to state initiative(Seth, 2002). Improved conditions in rural areas as a result of land reform played a significant role in increasing the enrolment of elementary schools, in particular female enrolment in elementary school (Kim, 1973; Kwon and Yi, 2009).

This increase was not realised without costs incurred to the individual household and quality of education. Semi-compulsory school supporters' association fees (huwonhoebi, later renamed as parent teacher associations fees, *Sachinhoebi*)[131] which was under the control of the school heads was charged to supplement small state support, compromising the principle of free state-supported compulsory primary education. The share of the school supporters association fees was substantial in both public and private schools and even more than half in both public and private universities throughout the 1950s (Kim et al., 2007). Classes of primary school frequently exceeded 100 pupils in size, and schools sometimes operated two and three shifts a day in crowded urban areas (Sorensen, 1994).

[131] Although it was miscellaneous in absolute terms at the lower level of schools, it was burdensome to the poor. A newspaper report of a fifteen-year-old girl who committed suicide because her parents could not pay *huwonhoebi* highlighted the problem and stimulated the decentralization of education to mobilize local resources for education.

The expansion of the private sector, in particular at secondary and tertiary level education was significant after the liberation. In 1945, the share of private schools of all levels was only 19 per cent. The share of private schools reached about 40% with rapid increase of private schools of secondary education and higher education in 1952 and accounted for 44.4 % of total middle school students and 50.7% of total high school students in 1965 (UNESCO, 1955; Korea Institute of Curriculum and Evaluation, 2009). Under the Rhee regime, the expansion was the consequence of the government's heavy investment in primary education rather than secondary education, land reform and the promotion of higher education without investment. Although the government wanted to promote higher education through various ways such as the exemption of university students from the conscription, most of the education budget (more than 75%) was spent on primary education. The incentive of the private sector to invest in secondary education and higher education came from the land reform. In the late 1940s, both the USAMGIK and the Rhee government regarded land reform as an imperative for political reasons (Cumings, 1981) and landowners were desperate to regain the value of the land. Knowing that the compensation would be small and delayed, land owners established education foundations or donated the land to established foundations which could get higher and fast compensation by the "Law on Special Compensation for the Land Owned by Education Foundation[132]" (Cho, 2003; Hong, 2006) (Seth, 2002) since they could maintain the ownership of the land through the ownership of the Foundation. This meant land reform and education policies created new resources available for education investment. During this period of transition from colonialism to liberation, the foundation of the Korean education system of universal primary education based on the public sector and secondary and higher education heavily dependent upon private sector was established. The public consensus on the importance of education, in particular primary education, made people willingly accept the costs for schooling without strong resistance.

Health issues, in particular public health such as maternal care, pre and post natal care, disease control and sanitation were paid far less attention in the Rhee government. The Department of Public Health, which was the biggest department of the USAMGIK in terms of the number of staffs and facilities, was reduced to a bureau under the Department of Social Affairs when the First Republic launched in 1948. Attention was paid more to other questions such as resurgence of communist guerillas and food poverty. Redirecting attention to health issues was partly related to anti-communism since in contrast with the deteriorating health conditions in South Korea, the free and universal health care was declared in North Korea in 1946, which undermined the legitimacy of the USAMGIK and the Rhee government in the eyes of the citizens of the South who were in bad health conditions. Although there was an attempt to

[132] Education Foundation was called Hakkyo Beobin which is tax exempt corporate bodies formed to establish degree-granting institutions consisting of a founder or patron and perhaps several board members.

strengthen the public health sector for public health issues and primary care for the poor, the priority of the health budget was always low. Interesting is that those departments with more resources such as the Department of Interior, Department of Transportation and the Post Office Department started establishing their own hospitals for their own staffs. The production capacity of the medicine and medical equipment was also in extreme poor conditions. Most medicines and medical equipments were dependent upon aid from the US. Domestic production of pharmaceuticals existed but due to the poor quality became the source of illness and frauds rather than health care (Chun, 2011).

During and after the Korean War, there was an institutional division between the public health and curative care in Korean society. The establishment of the education system for medical specialist rather than general practitioners accentuated this division (Cho, 1990) (Lee, 1969).

The government assuming the role of public health and, with regard to the curative health care, attempted to rely on the private sector as we can see in the National Medical Law (1951) which facilitated private sector investment by changing license system for hospitals and clinics to reporting systems (Lee, 2010). Increasing demand for health care was also met by the increasing number of private pharmacists which played the role of general practitioner. Despite a law established in the early 1950s for the separation of prescription and dispensing of drugs, the government deliberately did not impose this on health sector. Without prescriptions from doctors, people could have easy access to pharmacies to get drugs. In fact, the pharmacists mainly provided the health service to the poor by supplying the drug without prescription and medical doctors provided medical service such as treatment, prescription and drug sales to the rich (Cho, 1990). Together with the deterioration of the public health sector mentioned above, the development of a health sector dependent upon private sector resulted in a fragmented market systems of high cost hospital care and low cost pharmacist drugs.

Alignment of Education and Health with Industrialization

The general tendency in explaining the success of South Korea during the Park regime is to focus on the process of wealth creation rather than the process of building capacity to create wealth. One of the aspects of the Park regime which has been paid less attention to is how the Park regime understood the fundamental rights to education and health and translated them into instruments for growth. This aspect is also related to one of the most critical questions of development community; how to build institutional mechanisms to help people to identify their own individual ambitions with the nation's striving for development and resolve the collective action caused by the conflict of individual and collective values (Myrdal, 1968).

It is interesting to see how the two regimes of the Rhee and Park were different in terms of attitude towards education. President Rhee did not seem to be very much concerned about education as a means for increasing productivity and innovation. His main concerns in governing education were to prohibit extra-money collection from parents by teachers which exists even until present, and to promote the 'Koreanisation' of education such as the simplified spelling of words in the national language. President Rhee himself did not consider the weak education system a serious problem to developing the economy and in his 1959 budget speech he even proudly pronounced Korea as a "country of schools". In contrast, President Park viewed education as a "key factor to determine the prosperity" of the present and future Korea and in his annual budget speeches in the late 1960s education received special consideration for economic development (Kim, 1973).

One of the most interesting approaches of the Park government towards education was his determination to change the attitude of people towards work. His perspective towards history, tradition and culture was revolutionary in the Korean context. He described the 5000-year history of Korea as a Pandora's box of evils. To him it was a "retreat, crudity and stagnation" and a subject to be completely "renovated" (Park, 1962). He emphasized that South Korean "education should the one…to develop the character of productive human being" (Park, 1999). Motivated by the rivalry with the North Korea whose recovery from the War appeared to be faster, he wanted desperately to change people's attitudes towards education from academic oriented one to practical and more skill-learning oriented one.

Acknowledging the importance of education and strong public demand for education, he thought the education of liberal arts and social sciences education "excessive" (Korean Federation of Educators' Associations, 1969). However, translating the "education zeal" of South Korea[133], in particular under the education system with an emphasis on liberal arts and social sciences into an instrument for economic growth of the nation with the emphasis on practical vocational education and training which was, Park thought, a critical means to reduce poverty. This was a difficult job to even the authoritarian government of President Park. He was not totally free from the need to maintain popular support, nor was the state totally insulated from pressures by interest groups such as middle and upper class Korean families who

[133] Costs borne by the parents during this period would be one indicator of the education "zeal". Despite its investment, parents of students had to bear the cost burden significantly. According to the estimate of the UNESCO (1965), average annual pupil expenses borne by parents was higher than the government cost burden per pupil at secondary school and only slightly lower than the government's at both primary and higher education levels. When it includes extra costs incurred after school hours such as cram schools, educational expenses borne by parents, the total expense could be very much higher. {UNESCO Regional Office for Education in Asia, 1965 #7}

had a particular interest in the higher education skewed to liberal arts and social sciences rather than science and technical fields. The result in education policy domain was, therefore, more of a compromise between economic rationality and the public demand for schooling (Seth, 2002).

The Park government's major tool for education policy to create wealth was five successive five-year plans for educational reconstruction that ran concurrently with the five five-year economic plans. Within the framework of these education plans a series of policies were designed or implemented. The policies, however, were not always what the government intended to make but the result of compromise between the government and stakeholders and interest groups in the education field as follows.

As soon as it came to power, the Park government pledged to reverse the trend of education from liberal arts, social sciences and natural sciences to technical and vocational training. The First Five-Year Education Plan aimed a radical change from the 5:3 ratio of academic to vocational enrollment in secondary schools to a 7:3 vocational to academic ratio by 1966. At the tertiary level, the number of students in humanities, arts, social science, law and journalism departments would be drastically cut while science and technical fields would be strengthened. In the first half of the 1960s, the government made a series of plans to convert more than a half of all high schools to vocational schools while establishing vocational schools, training vocational school teachers and increasing the classes for vocational subjects in all levels of schools as well as vocational schools. There was also a plan of compulsory job placement of graduates of these vocational schools suggested by the ruling party. The opposition to these government's plans was from the relatively well organized upper and middle classes benefiting most from the previously established general education regime such as educators, the press, parents and private secondary schools and colleges. They argued that the government's policy towards vocational training would restrict access to the prestigious academic track, one of the most important ways of social advancement (Seth, 2002). The poor who would have benefited most from these government policies by gaining vocational training and quickly entered the labour market during the industrialization process, was not organized well enough to have their voice heard in the public debates. The wage gap between the high school graduates and university graduates which was still large was one of the reasons for the opposition of the upper and middle class and the silence of the poor.

In terms of the number of vocational schools, the government's policies achieved limited success in the 1960s. Although the increase of vocational high school students vis-à-vis academic high schools did not meet the government target, i.e. at least two vocational school students for every academic one, it rapidly increased in the 1970s to reach 0.87 in 1970. It decreased slightly in the mid 1970s but in 1980, reached

0.81 in 1980 (see Appendix). The number of vocational junior college were also increased and strengthened (Kim and Lee, 2006).

In addition to education policies to promote vocational training, policies in other areas contributed to increasing enrolments in vocational schools and strengthening vocational education and training in the midst of rapid industrialization in the 1960s and 1970s. Firstly, the government's income policies reduced the income and occupational welfare benefits gap between different years of education[134] (Yi, 2007) (Kim, 1979) (Park, 1984). The wage gap between the university and high school graduates started rapidly decreasing from the mid 1970s and reached a bottom in the 1980s. Secondly, compulsory military service, which every male in their late teens and early twenties, without physical and mental handicap should serve for more than 2-3 years, played a significant role in the 1960s and 1970s. Until 1972 all males, regardless of levels of school education, had to serve in the military. The admission condition to military service was increased as the general education level increased such as more than primary education between 1972 and 1979, and more than middle school education and high school education in 1980 and 1982 respectively. Since in the 1960s and 1970s, some skill disciplines such as construction, machinery and administration were far developed in the military, the active education and training courses played a significant role in producing and developing technicians[135] (Hwarangdae Research Institute, 1992). Thirdly, government's policy to involve private companies in skill education and training was also a major factor. The companies participating in the vocational training schemes where half of the costs were provided by the government increased from 15 companies in 1967 to 81 companies in 1971. Companies which could not participate in the schemes had to donate financial resources for the training schemes (Yi, 2007) (Kwon and Yi, 2009). Fourthly various benefits to skilled workforces such as various types of certificate systems for employment and further education, benefits in military service, and special scholarships designed and delivered by the government helped the promotion of vocational education and training. Whether these efforts had a real impact on the attitude towards work is a contested issue[136].

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[134] Although it was reported that in the 1970s there was high increase rate of the income of university graduates as against the high school graduates most of whom were vocational high school graduates, it turns out that the widened income gap from the income gap within the group of university graduates rather than the income gap between university graduates and high school graduates **Kim, D.** (1979) Changes in Employment and Income Structure and Income Distribution, In *Income Distribution and its Determinants in Korea*, Vol. 1 (Ed, Chu, H.) Seoul, Korea Development Institute, pp. 270. **Park, S.** (1984) *Sources of Wage Difference of Education Degrees and Changing Process,* Seoul, Korea Development Institute.

[135] A rough estimate on the contribution of military to skilled labour force is that in 1970, about 25% of all the skilled workforces were produced by the military. **Hwarangdae Research Institute, K.M.A.** (1992) *Civilian and Military Relationship in Korea,* Seoul, Korea Military Academy.

[136] One of the few researches on the attitude towards work in Korea shows the those who born before independence and the mid-aged workers in the 1960s and 1970s did not have a positive attitude towards intrinsic value of work. However, they had a great consciousness about the economic value of work.

However, given the fact that as industrialization increased, the share of workers rapidly increased. Despite long working hours and the risks of industrial accidents, we can say that people took to the industrial work without a serious resistance. The labour movement resisting poor working conditions and low payments did exist but was not a serious threat to the government (Chun, 1999). In the 1970s, when the heavy and chemical industrialization began, strong demand for technicians stimulated higher level technical education as well as low and medium skills and techniques which stimulated much more vocational training-oriented education.

While there was limited success in changing the structure and nature of schooling and education in favour of vocational training and education, the problems of general secondary education became serious in the 1960s. Severe competition for entrance to middle and high schools and the high costs for education outside schools for preparing exams became a political issue. The reasons for these problems were from both the lack of secondary schools and increasing demand for secondary education, in particular the elite middle and high schools which were considered the best way to enter the good universities. The government responded to these problems in two ways; removing exams barriers to specific schools to allow the free flow of students to upper level education and increasing secondary schools' capacity to accommodate more students through public subsidies to private schools and the encouragement of private schools (Kim, 2002). Both measures demanded a deep penetration of the government in a unified examination system, curriculum, school administration, allocation of teachers, students and facilities and increased its power over the private schools. Under this system, in theory there should not be a tuition fee difference between the same level of schools and the government strongly regulated the level of tuition fees and both public and private middle and high schools had same level of tuition fees. Heavily dependent upon the government policies to regulate school teachers, students, facilities and curriculum, private schools could not make a meaningful resistance to the government. The division between the private and public schools were overcome by the deeply penetrated intervention by the government having the sole authority over the management of personnel and finance[137]. In 1968 and 1974 policies to remove entrance exams to specific schools, which were called "school equalization policies", were implemented for middle and high schools. It increased the enrolment in general secondary education and the government concerned with the vocational education and training controlled the enrolment of the secondary education with tight control on the quota of the entrants to the university which continued until the mid-1990s with some modification (Kim and Lee, 2006). However, the number of entrants was

[137] The authority over the management was transferred to private schools in the early 1980s.

gradually increased and the large number of the highly educated unemployed was absorbed when the heavy and chemical industrialization became intensive in the mid-1970s.

With regard to health, the Park government had two strategies for the enhancement of a healthy life; insurance for curative health service and government's provision of public health service. In both strategies, the government which devoted most national budget resources to industrialization established various forms of public-private partnership. In the curative health domain, particular attention was paid to those working in manufacturing industries and therefore largely those in urban areas. Industrial Accident Insurance covering the workers was the first social insurances implemented after the coup and the National Health Insurance implemented in the late 1970s covered those workers in the companies and factories with over a certain size. Apart from government officers and teachers of both public and private schools, comprehensive health care schemes were always designed and implemented for industries and urban areas first and the private hospitals were selected to provide service within the insurance schemes. The payment system and rate, i.e. a user fee for service rather than global budget and the relatively higher rate of fee, i.e. 75 % of the already inflated market rate was pushed by the private hospitals and consequently accepted by the government (Association of Korean Health Insurance, 1997) (Kim, 2009). The fee-for-service system and the high level of fees which continued even after the universalisation of national health insurance became one of the sources for financial difficulty of the Korean national health insurance.

The public health including public sanitation and primary care was also a major concern of the government in the 1960s and 1970s. When it came to power, the Park government increased the number of public health centres and strengthened their functions such as immunization, family planning, tuberculosis control, sanitation administration, and the provision of primary medical services to the poor. The number of sub-counties (of which there were about 1,500 in South Korea) without public health centres decreased to zero in 1964. Until the late 1970's, these facilities played a major role in controlling communicable diseases and delivering primary health care and public health services such as immunization and sanitation (Mcguire, 2001). However, staffing the public health centres was one of the most difficult tasks under the financial constraints. The government utilised a compulsory conscription system strengthened under the Park regime to staff these public health centres. The government established a law to offer the graduates of medical schools with medical doctors' certificate an option to serve the public health centres as public health doctors instead of taking military service. A law was also 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 (Korean Policy Studies Society, 2002). This

contributed to strengthening the public health centres at a low budget costs. Strong enforcement of laws, rules and regulations did contribute to having the graduates of medical schools toe the line of the government policy since they could not have many ways to avoid military service as they had had under the Rhee regime. Although these policies did not achieve a significant impact due to factors including the shortness of the period of duty, low morale of the doctors and more than anything else the small absolute number of graduates of medical schools, they contributed to establishing the social norm that the medical services are a public good which the government can control. This provided a foundation for a conscription system of medical doctors for public health in rural areas in the 1980s when the absolute number of medical schools was drastically increased. The system of public health doctors became successful from the 1980s and contributed to eliminating the villages without doctors in rural areas.

With regard to public health, it is notable that active civic groups working on communicable diseases and parasite infection played a significant role in translating the government's concerns on public health into actions. Civil society groups established research centres and action groups to deliver information and treatments and actively lobbied the government to make legislation on public health issues. The government supported these activities by helping them to carry out national surveys and allowing civil society to engage in mobilising foreign aid (Seung et al., 2003). Thanks to this government and civic groups alliance against communicable diseases and parasites, both tuberculosis and parasite infection rates have been consistently reduced since the 1960s. Birth control initiated by the government also achieved success through coordinated policy implementation between the government, civic groups and community organisations such as the Association of Family Planning and the women's organisation under the New Village Movement established nationwide from the early 1970's (Askew and Khan, 1990)(see the Paper of Jinock Lee in this volume).

Heavy reliance on the private sector to deal with both curative and public health issues were not without problems. In the mid-1960's, the private sector continuously grew and had higher quality of facilities than the public sector. The salary gap between public and private sector doctors widened and specialists either opened their own clinics or got jobs in the private sector. The dual structure of health provision composed of a private sector with high fees and earnings and a public sector concentrating on research, prevention of communicable disease and medical treatment for a very limited number of the poor, was consolidated in the 1960's resulting in severe inequality in access to health care. Responding to this, in the early 1970s, the government incorporated the curative health care services for the poor into the public health centres and public hospitals by giving provincial hospitals a status of public corporation with independent budget authority. It also promoted the construction of public health centres in small and remote villages by

designating health facilities as one of the main targets of the New Village Movement. The result was mixed because while accessibility increased, the quality did not improve. Many public health centres were still run without doctors and adequate equipments due to the lack of human and financial resources.

Table 1. The Salary Level and the Share of Doctors in Various Medical Facilities in South Korea in 1968

Year	Doctors of non-national public hospitals	Doctors of National Hospitals (11%)*	Doctors of Private University Hospitals (8.9%)	Doctors of Private Clinic (69.8%)	Others (10.3%)
1968	44,000 won	72,000 won	120,000 won	120,000 won plus (estimates)	120,000 plus won (estimates)
1969		11%	8.9%	69.8%	10.3%

* This figure includes the number of doctors working for both non-national and national hospitals in public sector. Given the large share of non-public hospitals, it is assumed the average leve of salary for doctors in public sector is below 72,000 won.Source: (Cho, 1990).

The major concern of the government was the regional inequality of the health service due to the concentration of private hospitals in urban areas and the weakened public sector in rural areas. Responding to this, the government started making an effort to directly stimulate investment from the private sector in order to address the issues of a lack of supply and low quality of health services in rural areas. It changed the regulations in 1973 on the establishment of hospitals and allowed any individual with capital, even without a medical doctor license to establish hospitals. It also encouraged large *chaebols,* large conglomerates usually of a family group, to establish hospitals (Yi, 2007). The increasing demand for health care in the rapidly growing economy provided the private sector with incentives for the investment in populated zones in the province. Private clinics also expanded facilities and transformed themselves into hospitals with support from the government.

Quantitative Adjustment in Education and Long-term Continuity in Health

The authoritarian Chun government succeeding the Park government was the one to make a quantitative adjustment in the education system by replacing the entrance quota of the university with a graduation quota. The whole idea was to widen the opportunities for accessing higher education, one of the most important aspirations of people, but at the same time control the quality of the university by limiting the quota of graduates. This policy of “admission over quota, graduation according to quota” was accompanied with several measures to reduce the burden of education costs such as the total banning of private tutoring out of school, and to tighten the control of the entrance system of the university such as

reforms of examination systems for university entrance. However, the policy did not bring about a major change in terms of contents of education such as those by President Park but resulted in the dramatic increase of entrants such as 49.2 percent increase in the enrolment of the university in the early 1980. The graduation quota was not complied with by the universities fearing losing tuition, protests, campus disturbances and the wrath of parents (Seth, 2002). The government ceded to the pressure from the universities and public by allowing flexible graduation quota in 1983 and then abandoning the quota in 1987, which consequently drastically increased university students and graduates. Under the circumstance the 1980s witnessed an impressive progress in the number of students. Middle school enrolment went from 95% in 1980 to 98 % in 1989, high school enrolment from 63% of the high school age population to 86 % in the same years, and the proportion of college age- people entering higher education grew from 16 to 37%. The policy to make middle school education compulsory in 1985 was implemented when the enrolment rate already reached universal level.

This quantitative adjustment had a positive impact on the health sector. Together with the increase of the admission rates, the government liberalized the education of medical doctors, which consequently encouraged the establishment of medical schools in the early 1980s (Lee, 2004). This increased the number of medical doctors from 1,940 in 1979 to 2,770 in 1987 (Seo, 2010). With this increase of medical doctors, the Public Health Doctor System in rural areas had been re-strengthened in the 1980's and in addition, a special law on health care for agricultural and fishing villages was passed setting up more than 1,300 primary health care posts in remote areas, staffed mainly by qualified nurses (Kwon, 1986). Pilot programs of residential health insurance in several rural areas tested the function of primary health care in the public heath sector. The rate of doctors stationed at health centers and sub-health centers of the village level gradually increased and reached 100 per cent in1989.

This increased physical and human resources helped the coverage of national health insurance gradually. Throughout the period of the Chun regime the coverage of the national insurance coverage continuously increased, mainly insuring the workers of the formal sector to increase the political support. The expansion of the national health coverage was carried out in such as way as to reduce the number of fragmented insurance societies and expand the pool of providers. Smaller numbers of insurance societies with increased membership size could access more providers than before. The rapid increase of the health coverage came with the Rho government in the late 1980s, democratically elected but minority government in the parliament. The Rho government as well as the opposition parties controlling the government preferred to have a gradual expansion of the existing national insurance system rather than a radical change for political reasons (Wong, 2004). The health provision dominated by private sector also

gave the practical difficulty in making a radical change in insurance system. The “additive health reform” (Wong, 2004) which means increasing health insurance societies covering farmers in rural areas and self-employed in urban areas were actively implemented in the first two years of the Rho government and consequently universal health insurance was achieved in the late 1980s.

Conclusion

It is not that Koreans had to start from the scratch to develop education and health. When it was liberated, there were institutions and organisations left by the Japanese with which the governments could utilise when they started to build a nation. The major task was to fill the substantial gap left by the Japanese colonial regime such as trained teaching and medical staffs. The USAMGIK and the Rhee government were successful in keeping and encouraging aspirations for education by raising resources through land reforms and heavy investment in primary education. In particular land reform has contributed to encouraging parents to send their children to the schools and established incentive for private sector to invest in secondary and higher education. Health was the area where the least investment was made. The lack of resources reduced the public sector and pushed the health personnel to the private sector. The structure of health delivery, i.e. expanded private sector concentrated in urban areas, was established in the 1940s and 1950s and those living in the rural areas accounting for two-thirds of the total population had a difficulty in getting access to the health service.

Major changes in the institutions and policies affecting the health and education took place during the period of the Park government. The institutional and policy changes were not confined to health and education but other policies for redistribution such as income policies which reduced the gap between the high school graduates and university graduates and consequently facilitated enrolments of the vocational high schools.

The Park government’s policies to change the institutions and policies affecting attitudes and behaviour were based on various forms and nature of public-private relationships to create synergies. The forms of mechanisms to create synergies 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 mobilise and employ the private sector to achieve the government goals and targets within the framework of economic development plan. The redistributive policies which had a long term impact certainly contributed to achieving governments’ goals and targets in education and health. Although the expansion of secondary and tertiary education and health care did not always match

what the economic planners would have desired, the government was firmly in charge of the primary education and could steer the secondary and tertiary education and health care in the way that does not undermine social solidarity.

The role of military in South Korean education and health development is notable. The military, one of the most important institutions in South Korea, became a significant tool and resource for education and health development when the planners actively employed the military staffs for overall development purpose.

The experiences of education and health development in South Korea show that enhancement of conditions of education and health is the results of specific forms of mechanisms to create synergies of different organisations and resources, in particular those in private and public sector on the one hand and of redistribution and production policies. It should, however, be noticed that the specific forms of creation of synergies have created new demand for new forms of polices to create synergies when the aspirations for education and health are elevated and economic conditions are improved. The recent crises over the financial difficulty due to the high price of health delivery and increasing youth unemployment with higher education are issues demanding innovative ways to create a new type of synergy to solve the problems.

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Appendix 1.

Table 1. Numbers of Medical Facilities, 1915, 1920, 1930 and 1940

		1915	1920	1930	1940
Doctors	Korean	209	402	921	1918
	Japanese	627	604	796	1269
	Foreigner	36	29	32	10
	Total	872	1035	1749	3197
Doctors (with his own clinic)	Korean		5	116	365
	Japanese	74	70	89	65
	Foreigner	7	1	13	6
	Total	81	76	218	436
Traditional Doctors		5804	5376	4594	3604
Public Hospital		27	27	44	56
Private Hospital	Korean owned	62	18	8	20
	Japanese owned	171	71	47	63
	Foreignor owned	31	23	24	22
	Total	264	112	79	105
				1938	1939
Public primary school teachers (1938)	Korean			8520	
	Japanese			5745	
Public high schools (1938)	Korean			112	
	Japanese			446	
Government colleges (1938)	Korean			70	
	Japanese			184	
University (1938)	Korean			145	
	Japanese			474	
Students per 1,000 of Korean population (Primary school)	Korean				55.2
	Japanese				142.8
Students per 1,000 of Korean population(High Schools)	Korean				1.31
	Japanese				32.7
Students per 1,000 of Korean population(Professional schools)	Korean				1.18
	Japanese				12.10
Students per 1,000 of Korean population(Colleges and teachers' seminaries)	Korean				0.27
	Japanese				7.20
Universities	Korean				0.0093
	Japanese				1.06

Source : Annual Statistical Book of General-Governor of Korea (Each Year) cited by Matsumoto, T. Sanitation and Medical Activities in Rural Areas during the Japanese Colonialism (syokuminti jiki rousonniokeru eisei iryoujigyouno tenkai, Sankei Ronsou, vol.34(4), 1-35. (UNESCO, 1954)

Appendix 2. Developing countries with similar income conditions to the Republic of Korea

We selected countries of which first five years of available income data (PWT 6.3) can be caterogised as low income countries according to the share of low income countries in the currently used World Bank classification. The Republic of Korea's first available income data is 250.24 USD in 1953 which is categorized as low income country. In order to find out developing countries with similar income conditions to the Republic of Korea, we selected countries with one or multiple years of income records categorized as low income country between 1950 and 1963. The following is the list of countries and their GDP per capita.

Table 2-1. Developing countries with similar income conditions to the Republic of Korea

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Bangladesh	no data	no data	no data	no data	no data	no data	no data	no data	no data	316.14	340.91	336.92	352.08	368.24
Benin	no data	no data	no data	no data	no data	no data	no data	no data	no data	159.99	172.22	172.50	163.01	169.73
Botswana	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	146.30	153.49	161.20	165.33
Burkina Faso	no data	no data	no data	no data	no data	no data	no data	no data	no data	132.80	154.66	152.93	166.35	160.91
Burundi	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	127.84	108.52	117.83	124.20
China (Version 2)	no data	no data	92.22	96.13	98.08	101.84	113.10	121.38	134.06	132.26	130.23	116.72	120.04	126.45
Congo, Dem. Rep.	146.31	181.40	190.19	207.78	217.36	229.53	243.54	244.44	246.13	251.21	274.14	244.85	298.63	322.20
Congo, Republic of	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	216.69	220.05	257.38	270.42
Egypt	233.96	254.95	231.57	230.34	242.69	240.96	248.30	268.48	274.92	290.45	291.75	303.99	311.94	321.78
Equatorial Guinea	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	187.58	192.28	201.06	256.31
Ethiopia	98.80	120.52	126.67	134.90	133.99	134.71	142.25	143.10	147.20	154.34	161.38	167.52	171.82	175.19
Guinea-Bissau	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	126.99	124.72	125.08	147.38
Guyana	248.08	290.40	262.81	251.24	299.95	301.26	305.15	370.54	368.77	346.07	425.22	435.73	350.52	344.95
India	119.83	133.20	138.97	145.34	149.44	149.79	156.63	160.05	174.03	177.29	188.36	194.72	201.59	214.02
Indonesia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	151.22	153.41	162.51	154.11
Iran	no data	no data	no data	no data	no data	281.45	300.24	340.61	374.42	411.77	445.29	428.72	435.06	476.37
Korea, Republic of	no data	no data	no data	250.24	254.82	270.71	274.87	309.24	320.10	318.92	314.63	324.71	322.65	356.57
Lesotho	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	131.01	134.24	151.86	163.95
Madegascar	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	245.73	250.79	258.88	256.14
Malawi	no data	no data	no data	no data	108.38	113.87	120.03	131.28	134.28	128.93	139.64	138.33	140.65	140.52
Mali	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	143.99	140.59	135.81	142.45

Mauritania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	165.11	149.85	157.47	169.35
Mozambique	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	233.36	237.35	257.37	262.17
Nepal	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	206.39	209.24	213.55	215.53
Nigeria	177.66	199.00	217.42	220.69	237.02	227.84	223.09	229.96	246.25	259.42	311.55	292.89	297.25	316.31
Pakistan	171.76	181.89	177.05	180.32	179.78	171.25	181.40	185.08	186.65	199.03	196.05	202.75	206.97	218.03
Panama	290.33	291.79	310.22	334.95	345.31	354.38	359.56	382.34	396.71	422.57	418.82	468.73	512.01	530.04
Papua New Guinea	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	162.22	177.06	187.35	190.68
Philippines	250.41	270.59	294.08	330.09	347.48	356.72	382.17	397.85	419.63	441.88	444.59	451.15	447.92	461.89
Sri Lanka	282.63	323.14	287.59	293.62	327.69	350.07	319.39	318.66	340.49	355.71	371.41	369.31	386.67	372.16
Sudan	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data
Syria	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	144.31	151.78	181.73	144.74
Taiwan	no data	168.56	191.77	208.01	216.19	226.56	230.25	250.66	267.16	280.35	298.41	316.56	340.32	376.86
Tanzania	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	94.46	88.48	97.31	100.49
Thailand	185.15	195.29	191.27	176.40	185.12	173.99	180.08	205.11	210.87	231.55	254.59	262.59	279.56	297.31
The Gambia	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	241.09	221.95	221.08	226.74
Togo	no data	no data	no data	no data	no data	no data	no data	no data	no data	no data	167.10	181.54	180.24	190.15
Turkey	258.49	336.19	363.59	405.89	362.55	388.49	394.24	487.70	525.77	498.05	491.19	496.77	522.57	562.88
Uganda	149.92	194.08	195.74	158.15	166.67	162.35	167.58	188.62	182.54	187.11	188.72	178.24	191.82	200.98

PWT 6.3. Red coloured : categorized as low income countries. Yellow coloured: categorized as middle income countries.

Figure 2-1. Growth of GDP per Capita between 1950 and 2007 in Developing countries with similar income conditions to the Republic of Korea in their pre-industrialisation period

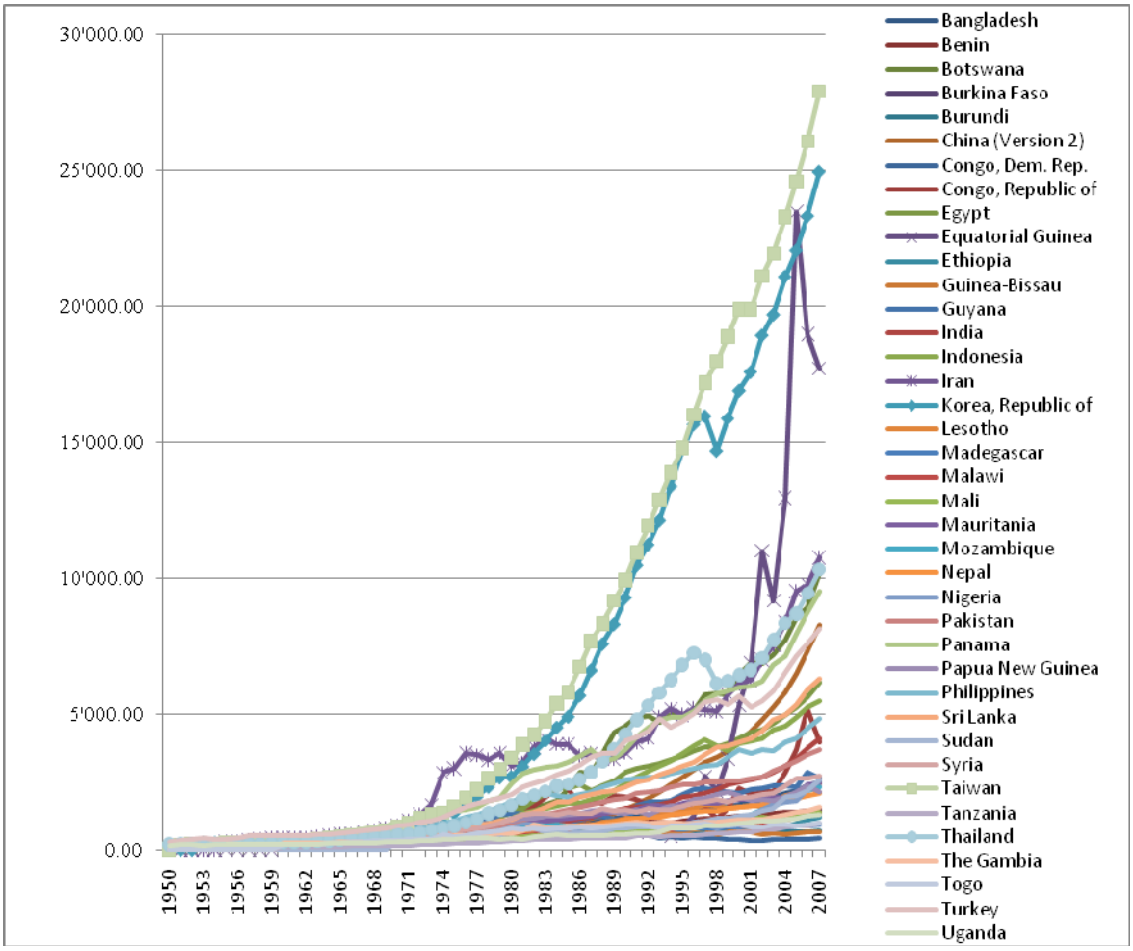


Table 2-2. Trend of Infant Mortality between 1960 and 2009 in Developing countries with similar income conditions to the Republic of Korea in their pre-industrialisation period

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
Republic of 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

UNICEF Childinfo Statistics by Area/Child Survival and Health
http://www.childinfo.org/mortality_imrcountrydata.php

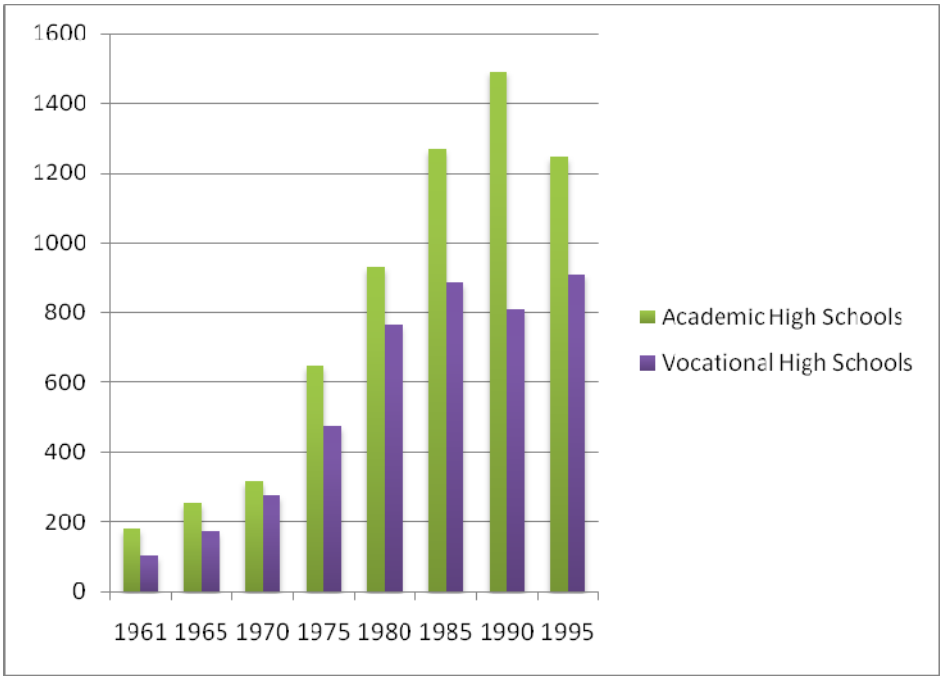
Appendix 3. School Enrolments in Korea 1961 -1995 (in 1,000s)

Table 3. School Enrolments in Korea 1961 -1995 (in 1,000s)

	Primary School	Middle School	Academic High Schools	Vocational High Schools	Higher Education	Ratio (Vocational high school students / Academic high school students)
1961	3885	621	180	102	134	56.67
1965	4941	751	254	172	106	67.72
1970	5749	1318	315	275	201	87.30
1975	5749	2026	648	474	297	73.15
1980	5599	2471	932	764	615	81.97
1985	4856	2782	1266	885	1277	69.91
1990	4868	2275	1490	810	1490	54.36
1995	3905	2481	1246	911	1756	73.11

Source: Republic of Korea, MOE, Gyoyuk Tonggye Yeonbo (Statistical Yearbook of education), 1971, 1981, 1996, Seoul, Mungyobu. (Ministry of Education, 1971,1981,1996)

Figure 3. Middle and High School Enrolments in Korea (1961-1995)



Appendix 4. Higher Educational Background and Average Years of Education of the Elementary, Middle, and High School Teachers in 1952, 1964 and 1970

Table 4. Higher Educational Background and Average Years of Education of the Elementary, Middle, and High School Teachers in 1952, 1964 and 1970A

		1952	1964	1970
Elementary Teachers (total)		36,100	75,455	101,095
	Secondary School (%)	98.4	84.1	59.4
	Junior College (%)	1.5	12.1	32
	College or University(%)	0.1	3.8	8.6
	(Average Years)	11.3	12.2	12.8
Middle School Teachers		7,817	17,337	31,207
	Secondary School (%)	36.7	7.6	6.3
	Junior College (%)	42.7	37.7	24.5
	College or University(%)	20.6	54.7	69.2
	(Average Years)	13.7	15	15.3
High School Teachers		4,931	13,036	19,854
	Secondary School (%)	25.3	3.3	7.3
	Junior College (%)	51	13.8	8.4

	College or University(%)	23.7	82.9	84.3
	(Average Years)	14	15.6	15.6
Total		48,848	105,830	152,156
	Secondary School (%)	81.1	61.6	41.7
	Junior College (%)	13.1	16.5	27.4
	College or University(%)	5.8	21.9	30.9
	(Average Years)	12	13	13.7

Source: (Kim, 1973)

Chapter 9

The Korean Developmental Alliance between Business, Labour and Government[138]

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I. Introduction

South Korea's phenomenal economic development in the second half of the 20th century from one of the poorest "basket case" countries to an economy boasting 13th in the world has led to a new global role for South Korea. In January 2010, South Korea ascended to membership of the Development Assistance Committee (DAC) of OECD as the 24th member signaling its growing role as a major donor of foreign aid. In November 2010, South Korea successfully hosted the first G20 Summit Meeting to be held in Asia with two new initiatives including the development agenda. In November 2011, the fourth and final High-Level Forum on Aid Effectiveness (HLF-4), which is the highest-level forum on aid hosted by the OECD and the World Bank, will be held in Busan, South Korea.

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In searching for a responsible global role, the South Korean government has announced that it will provide foreign aid with a "South Korean Model of Development Cooperation." There are two intertwined questions in this quest: (1) What is the South Korean model of development, which was attained during the 20th century; and (2) What should be the South Korean model of development cooperation relevant in the 21st century?

The first question is an important one when we try to answer the second question. It is not just an academic debate about different modes of economic development, but a very practical one since the South Korean development model is sought after by less developed countries. South Korea's development represents a model of hope for many of these countries: (1) South Korea's rapid economic development in the 1960s-1980s; (2) followed by democratization in the 1980s; and (3) these two achievements in the face of severe security tensions with North Korea after the Korean War (1950-53). The triple challenges of poverty –i.e., lack of economic and social development, lack of democracy, and fragile security – are real obstacles for less developed countries of the 20th century, and thus they are looking to South Korea for an alternative model for development. The second question has become important with South Korea's ascension to OECD/DAC and its motto for "Global Korea." The Korea International Cooperation Agency (KOICA) has provided numerous programs on South Korea's development experience through training, education, and technical cooperation, and the Korean Development Institute (KDI) has provided lessons of South Korea's economic development program through its Knowledge Sharing Program (KSP). Thus, even before scholars were ready to agree on a model of South Korean development cooperation, practitioners in official development assistance (ODA) agencies have begun to "export" the South Korean development model.

The paper is organized with the following three questions and goals: (1) what has been the developmental alliance among the state, business and labour during the early phase of development when South Korea was trying to reduce poverty and attain development; (2) what are the global and domestic political economy contexts that have changed in the 21st century as we search for a more democratic and sustainable developmental alliance; and (3) finally we present a revised developmental alliance relevant in the 21st century. Throughout this paper, we aim to present a South Korean "alternative" rather than a "model."[139]

[139] The term "model" is based on the idea of "one size fits all" and a singular mode of development, which are very problematic in development cooperation as they do not fit with the global norms on foreign aid that recognize the diversity of recipient nation's development contexts. In particular, the term "model" invokes a problematic discourse in the aid community

II. South Korea's Developmental Alliance and Economic Development: 1960s-1980s

Capitalism, development, and underdevelopment have been some of the most important questions asked in social sciences. The early founders of social sciences including Max Weber and Karl Marx studied how capitalism and capitalist development took place. Their questions were at the level of meta-analysis, trying to understand broad epochal changes in history.

Since the end of the World War II, social science research broadened from capitalist development to economic development with multiple paths. The two questions addressed were: (1) Why are some nations underdeveloped? and (2) How do nations attain development? Although related, these two questions led to different research and policy recommendations. Modernization theory during the 1950-60s and Dependency theory during the 1970-80s dealt with these two questions in radically different ways, and economic development from Asia was treated differently in yet another way.

Study of economic development of latecomers including Japan, Four Asian Tigers –i.e., South Korea, Taiwan, Hong Kong, and Singapore –, and China questioned the validity of both the Modernization and Dependency theories. The Modernization theory could not cope with how development could be attained when Japan and the Four Asian Tigers still retained many of the "traditional" social and cultural traits. The Dependency theory also did not incorporate East Asian cases due to view that development, or long-term development, could not occur if a nation is dependent on foreign capital and technology.

South Korea's economic development occurred when these debates in social sciences were at the height with many Latin American cases turning the US- and Western European-centered theories on their heads (Evans, 1979; Cardoso & Faletto, 1979). South Korea's economic development was seen as a success from all the different theoretical perspectives: Modernization scholars saw South Korea as an example of how new and revised Confucianism was at play in producing record-level economic growth, and was ready to embrace South Korea's culture as a key cause of its economic development (Tu, 1984). On the other hand, for very different reasons, the dependency and Dependent Development theory embraced the South Korean case as having solved the ill effects of dependency (Deyo, 1987; Gereffi and Wyman, 1990). Latin Americanists saw with

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regarding conditionality and the failed Washington consensus, which attempted to implant a US and Western European economic system to many developing nations.

envy that South Korea was able to attain rapid economic development in spite of heavy foreign dependence on trade, capital and technology without rising income inequality and subjugated development to the First World (Gereffi and Wyman, 1990).

Scholars who focused on the developmental state as a key institution to explain economic development of Japan and later that of the Four Asian Tigers led to a series of interesting debates in institutionalism in social sciences more broadly, and the role of the state vs. market in these nations' economic development (Johnson, 1982; Amsden, 1989; Wade, 1990; Kim, 1997; Lim, 1987; Woo, 1989).

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 were focused on serious problems associated with its development. Authoritarian and dictatorial rule of the military regime; suppression of democracy; exploitation of labor; unequal development between urban and rural areas, and between large business groups and small- and medium-enterprises; and 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. 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 on 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.

Although many studies from different theoretical perspectives used the South Korean case, they treated it as an anomaly with little ramification on theory-building. It was only in the institutional analysis on development with an emphasis on the developmental state when South Korea began to be treated as an important case, which shaped theoretical discussions in development studies. In Table 1, we summarize the key institutions and actors from the early phase of South Korean development in the 1960-1980. Since we are primarily interested in institutions critical for the attainment of economic development, we will focus on the earlier phase of development. We focus in particular on the distinct developmental alliance that was formed among the state, businesses and labour, since they played vital roles in the South Korean development.

Table 1. South Korea's Development-- Key Institutions: 1960-1980

Key Institutions	Policies/Instruments	Distinct Features
Developmental State: Economic Planning Board (EPB); Ministry of Finance (MOF); Ministry of Commerce and Industry (MOCI)	• Long-term comprehensive planning and projection; • Provider and intermediary for capital & technology; • Provider of indirect assistance and subsidies; • Export-oriented industrialization (EOI)	• Sustained economic development; • Low income inequality; • Low inflation; • High employment
Authoritarian State	• Military, police, tax, and intelligence used; Limited civil liberties; • Labor oppression	• Collusion with *chaebol* for HCI
Local Capital: Large Business Groups (*Chaebol**)	• Heavy and Chemical Industrialization (HCI); • Trading Company (*Jong-Hap Sangsa)*	• Large *chaebol* as state's partner for development vs. MNCs, SOEs or SMEs
Foreign Capital: ODA	• ODA: Grants and loans • State-guarantees for repayment for loans • Little FDI and MNCs	• Foreign capital (grants/loans) behaving like domestic capital
Labor	• Labor laws were 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

Source: Kim 1997: 27-94.

Notes: * Family-owned and –managed private business groups in South Korea (Kim 1997).

** There is disagreement within the developmental state studies of South Korean development. One group of studies argue that the developmental state is necessarily authoritarian, or at least it can attain rapid economic development if is it also authoritarian. Another group of studies separates the concepts of the developmental vs. authoritarian states, and thus, argue that there could be different combinations of developmental state.

The key institutions included the developmental state with the Economic Planning Board (EPB) at the helm working closely with the Ministry of Finance (MOF) and the Ministry of Commerce and Industry (MOCI). The EPB had two critical functions: planning and budgeting. The Minister of the EPB was at times the Deputy Prime Minister, which gave the Minister a strong coordination capacity in the government. The developmental state was also an authoritarian state, which needs to be separated in theory,[140] but in the South Korean case, these two went hand-in-hand.

In the initial phase of development, the large family-owned and –managed business conglomerates (*chaebol*) became strong partners with the developmental state in pursuit of heavy and chemical industrialization (HCI, 1972). Foreign capital in the form of grant aid and concessional loans was very important in the earlier phase, and was utilized more like domestic capital compared to foreign direct investment (FDI) (Kim, 1997). The South Korean government directed aid and concessional loans to its development planning projects and in particular to its strategic heavy and chemical industrial projects in the 1970s (see Kim, 1997).

Labour, which is often seen as the silent partner in the initial phase of economic development, nonetheless has been vital in South Korea's labor-intensive export-oriented industrialization (EOI) of the 1960s. In the earlier phase of economic development, labour was a silent partner that acquiesced to the authoritarian manner in which the state suppressed labour rights as well as keeping the wages low in collusion with the local capitalists. Thus, 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 not able to demand for better pay or better working conditions. Thus, the developmental alliance was a lop-sided one with two giant partners –i.e., the developmental state and the large *chaebol* – with labour with little voice in the alliance.

1. Developmental Alliance in the 1960s: State Dominance[141]

[140] Some argue that the developmental state and 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 (see Kim, 1997).

[141] This section is excerpted from Eun Mee Kim (1997), *Big Business, Strong State*: 31-38, 97-135.

The developmental state was a key institution in South Korea's economic development. It can be found in a continuum of a "comprehensive" to "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:

1. *Provider of long-terms goals for the economy.* The state provides comprehensive economic development plans, long-term goals, and projections for the entire economy.
2. *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.
3. *Provider of indirect assistance.* The state acts as a mediator with multinational corporations for foreign direct investment and technology transfers, establishes trade offices of expertise on exports and imports, provides tax breaks and tariff exemptions, and eases regulations.

These services, 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.

A comprehensive developmental state was established when Park Chung Hee came into power in May of 1961 through a military coup. Park defined economic development as the penultimate goal of his regime. Other goals, such as national security took second place to economic development. To help implement Park's goal for economic development, the Economic Planning Board (EPB) was founded on July 22, 1961, only two months after the coup. The EPB 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 to keep labor strikes at bay. The Park regime justified the establishment of an authoritarian state by arguing that political stability was a precondition for attaining economic

development, and even blamed political instability of the late 1940s as a contributing factor for the North Korea's invasion of South Korea in the Korean War (1950-53). Thus, instability was seen as a major obstacle in the South Korean society for both political stability and economic prosperity.

The state used its authoritarian apparatus against both the *chaebol* and labour. There were two ways in which the South Korean state used its authoritarian muscle to enforce its economic policies. First, it used discipline and punishment in its relations with the *chaebol* (Amsden, 1989). In the early 1960s the state was clearly the dominant partner when it formed a loose alliance with the large businesses. The military government forced cooperation from the business leaders, who were indicted on charges of having illicitly accumulated wealth under the Rhee Syngman and Chang Myon regimes.

The second way in which the state authoritarian means to achieve its economic goals was repression of labor. The state's policies were intended to keep wages low and to limit and prohibit labor movements (H. Cho, 1993a; Choi, 1989). The lack of minimum wage legislation prior to 1988 and the poor enforcement of laws relating to working condition resulted in worker exploitation (Song, 1991). The police and the Korean Central Intelligence Agency were order 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 (Ibid.). Conviction carried a maximum penalty of death.

The developmental alliance of the 1960s was clearly dominated by the developmental state with the large businesses (which later became *chaebol*) as a second partner, and labour as a silent and suppressed partner. The tools, which were used to work with the businesses and labour, were authoritarian in nature and sometimes involved the use of brute force to suppress labour in particular. Thus, the 1960s marked a period in the developmental alliance that was unequal and exploitative.

2. Developmental Alliance in the 1970s: Symbiosis between the State and Businesses at the Exclusion of Labor[142]

[142] This section is excerpted from Eun Mee Kim (1997), *Big Business, Strong State*: 135-166.

The 1970s witnessed a deepening of the industrialization process, with the development of the heavy and chemical industries dominating economic growth in that decade. This development was clearly initiated by the government and, more specifically, by President Park's staff at the Blue House, without much 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 to forge a closer alliance with a few *chaebol.*

However, the story of the 1970s is not completely clear-cut as would the state-centrists argue. They tend to assume that the state is always in charge of the economic development process and that the private sector merely follows orders. Quite contrary to that assumption, in the 1970s, the relationship between the state and the largest *chaebol* became more *interdependent*. The leverage the *chaebol* had increased 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 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 the light and heavy industries and between the urban and rural areas (EPB, 1972; FKI, 1987). Heavy and chemical industrialization received the strongest possible endorsement from the government, with President Park making the Pronouncement for the Development of the Heavy and Chemical Industries during his State of the Nation message on January 13, 1973. In the early 1970s, heavy and chemical industrialization (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 economic grounds. Establishing some key heavy industries were seen as crucial to build a more self-reliant military in the face of 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. The developmental state hand-picked partners for HCI among the large businesses. They later became the large *chaebol* due to the large amounts of foreign capital they received (which were 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 (i.e., public and commercial loans and foreign direct investment). Similar departments within the Ministry of Finance were also expanded. In the Ministry of Construction, the Department of Industrial Plants was created 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. And 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. These targets promised that the South Korean economy would complete a transition toward heavy and chemical industries by the beginning of the 1980s. The goals for the industrial restructuring, which were to be attained by 1981, were as follows: the primary sector was to decrease to 15.9 percent from 25.5 percent in 1972; the secondary sector was to increase to 42.9 percent from 26.3 percent in 1972; and the tertiary sector was to decrease to 41.2 percent from 48.2 percent in 1972. 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 the GNP per capita to $983 by 1981 and increasing foreign capital holdings to $2.7 billion (Chŏng, 1985; P. Y. Pak, 1980).

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 were selected based on the following factors:

1. forward and backward linkages

2. contribution for the whole country's economic development

3. possibility of foreign capital earnings through exports, and foreign capital savings through import substitution

4. usage of natural resources

5. inducement effect of foreign capital

The six target industries chosen were iron and steel, nonferrous metal, machinery, shipbuilding, electrical appliances and electronics, and petrochemicals.

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 finances was used for the development of the heavy and chemical industries between 1971 and 1981 (Chŏng, 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, 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, 1975).

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 foreign ownership.

The EPB and the Ministry of Trade and Industry specifically sought the support and cooperation of the large *chaebol* in order to promote HCI. These *chaebol* were capable of financing - at least partially - the capital- and technology-intensive industries and they 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 member firms, and they diversified businesses into related as well as unrelated sectors. The ten largest *chaebol* grew very rapidly during the 1970s, at the rate five to nine times faster than the economy as a whole. The list of the ten largest *chaebol* changed significantly since 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 list has remained fairly stable ever since.

The heavy and chemical industrialization 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. The other industries, sought other sources of capital, especially from MNCs. The variations in the trajectory of the growth in the largest *chaebol* in the 1970s indicate that we need to seriously examine the role played by the *chaebol*, 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 chaebol that conformed to HCI seemed to have grown faster than others who did not. Most of the successful large chaebol received generous support from the state, but they were also led by entrepreneurs who were aggressive risk-takers, perhaps with the exception of Samsung's Lee Byung-Chull.

During the 1960s and the 1970s, the relationship between the government and labor union can be explained as predatory patronism (Kim 1996). Although the union density was high, the autonomy of union was low because the government regulation on the organizations was strict and some of the unions became state-controlled organizations (Kim 1996; Kim 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 existing labor unions and established the Federation of Korean Trade Unions (FKTU) with sixteen 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 FKTU was used as a tool to strategically control labor while the state pursued economic development. Also, the state revised the Labor Act in 1963 to legally intervene in labor union and its activity.

The state and businesses colluded to restrict labor's active participation in the developmental alliance and kept the wages low and working hours long. The *chaebol* treated labor as a tool of production rather than a main agent in the production process (Shin 2008.). Although wage and employment were mainly determined by the market mechanism, 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).

3. Developmental Alliance in the 1980s: Democratization and Challenges to the Developmental Alliance[143]

The 1980s were a time of great social, economic, and political upheaval in South Korea. The Chun Doo Hwan regime (1980-88) faced pressures from the large *chaebol* and labor to restructure the comprehensive developmental state. The South Korean formula for economic growth -i.e., a strong, comprehensive developmental state, a tight alliance between the state and the *chaebol*, and exclusion and repression of labor- had worked well during the 1960s and 1970s but came under fire as the *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 Choson, 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, 1987b). In response to these pressures, the comprehensive developmental state was restructured to become a limited developmental state.

The limited developmental state can perform the functions of the comprehensive developmental state, but in limited degrees. There will be sectors that will become more market-oriented, while others will remain under the state's close supervision and control. Goals other than economic development are included as priorities of the state. The changes in the government's economic policies from *developmental* to *regulatory* is significant in this transformation, since it indicates not only a shift in policies but, more importantly, qualitative change in state-business relations. And, the change from comprehensive to a limited developmental state often signals a qualitative change in the state-business-labor relationship.

On the political front, a more dramatic change occurred. The Chun regime faced increasingly violent demonstrations for democracy 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 (1988-92) and his regime continued the restructuring of the comprehensive developmental

[143] This section is excerpted from Eun Mee Kim (1997), *Big Business, Strong State*: 167-211.

state, amid some confusion as democratization presented added 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 with improved communication and technology. This is a phenomenon that had affected all nations in the world. This, coupled with the fact that many families in South Korea could afford television sets compared to the 1960s, when there were fewer than one television set per ten households, made the impact of the shrinking world quite palpable to the South Koreans. Second, South Korean became more intricately integrated in the world economy with exports, MNC investments in South Korea, and South Korea's investments overseas. Perhaps more so than other developing nations, which pursued inward-looking industrialization strategies, South Korea had become quickly and inexorably linked to the world economy. And finally, South Korea's remarkable economic success made it a target of the U.S. trade war. Unlike before, South Korea's increased visibility in the international economy prompted a closer scrutiny by its trading partners. The United States increased its pressure toward Japan and other newly industrializing countries (NICs) in East Asia, prompted primarily by the continued trade deficit with Japan. One of the United States's demands toward South Korea was that it opens the economy to U.S. investments, products, and services. Although the United States 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 -i.e., 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 -i.e., economic growth-, those in charge of development policies will not be reelected 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 reevaluate its raison d'être upon its success in attaining economic growth. After nearly two decades of phenomenal 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) argues 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 but 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 and 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. Ironically, 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, South Korean labor unions 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 change 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 cases.

Although the demands of capitalists and labor differed significantly, they both wanted the state to alter its old method and the state to become a protectionist government: one that continued to provide protection to, but ceases 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 uprising 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: the developmental state was no longer a comprehensive developmental state that led the alliance, and became one of the members; the businesses grew in their economic power and political leverage; and 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 relations among the three partners. Since the end of the 1980s, the South Korean developmental alliance changed to a more corporatist system, in which negotiations among the three parties became much more important in future dealings.

III. Changing Global Political Economy for Development Cooperation in the 21st Century

Search for a South Korean alternative for development cooperation should begin with an examination about how the global political economy has changed since South Korea attained its economic development in the 20th century. This will help us develop a more feasible alternative for development that 21st century developing countries, and more importantly, countries suffering extreme poverty can utilize for their development (see Table 2). When South Korea employed an export-oriented industrialization strategy in the mid-1960s, there were relatively few players in the world export market. However, the global economic environment changed: aid is less readily available since the end of the Cold War; global financial crisis affected all nations and in particular impoverished nations; and there is greater competition in the global market for cheap manufactured goods.

Table 2. Changes in the Global Political Economy

	Time Period	Global Political Environment	Global Economic Environment
NIEs	20th Century (1960s-1980s)	• Cold War: Military Aid & Economic Aid	• Open Market (US) • Relatively few exporters w

			ith cheap export products • High trade barriers in NIEs
Developing Nations	21st Century	• Post Cold-War • Aid to Transition Economies • Democratization • US: War against terrorism • China: South-South Cooperation	• WTO • Learning effect of EOI • Cyclical and global financial/economic crisis

WTO regulations and norms prevent nations from pursuing protectionist policies. South Korea's early years of development was marked with heavily protected domestic market in spite of its aggressive export promotion. It is unlikely that such a protectionist policy would be tolerated in the WTO regime.

Furthermore, global and regional economic crises appear to be happening with greater frequency since the end of the 20th century. These crises affect aid-dependent developing countries in many ways: (1) donor nations can cut back on development assistance; (2) opportunities for exports have decreased; and (3) new foreign direct investments are harder to come by and existing ones may also decrease. Thus, aid-dependent developing countries can become extremely vulnerable during global and regional economic crisis.

The domestic political context, in which developing countries find themselves, is also quite different from that of South Korea in the 20th century. Table 3 summarizes the key differences. First, the South Korean developmental state was an authoritarian state, and it utilized its police and intelligence to its advantage when it pursued industrialization. However, in the post-Cold War world, where authoritarianism is not seen as alternative, but an utterly immoral system of government, it is increasingly difficult for governments to openly pursue such hard-line authoritarian policies.

Table 3. Changes in the Domestic Political Institutions

	Time Period	Political System	Government
NIEs	20th Century (1960s-1980s)	• Developmental state • Authoritarian state • Restrictions on civil liberties (labor)	• Well functioning bureaucracy
Developing Nations	21st Century	• Less tolerance for non-democratic political system • Global/local demands for democracy	• Governance crisis • Corruption • Budget dependence on foreign aid

1. Global Norms on Development Cooperation

OECD/DAC provides policy guidelines for ODA, and considers capacity building as a priority of national development (OECD, 2009c). Capacity development was highlighted at the Third High-Level Forum on Aid Effectiveness -- Accra Agenda for Action (OECD, 2009b). Capacity development has been regarded as a key factor to promote leadership and ownership of partner country in the process of development (OECD, 2009c). In order to achieve capacity development, six priority areas were identified: (1) country systems capacity; (2) enabling environment for capacity development; (3) capacity development in fragile situations; (4) integrating capacity into sector/thematic strategies; (5) role of civil society and the private sector in capacity development; and (6) relevance, quality and choice of capacity development support (OECD, 2009b; OECD, 2009d; Pearson, 2010).

OECD/DAC guidelines emphasize the development of economic as well as political development. In terms of political development, OECD/DAC highlights good governance and the participation of civil society organizations (OECD, 1995; 2009b). OECD/DAC advises to empower women and involve private sector in the national development process since women's active involvement is critical for social, political and economic development (OECD, 1999; OECD, 2009b; OECD, 2010).

OECD/DAC guidelines underline the role of civil society and private sector because they can play the role of watchdog and supporter by creating space for policy dialogue at the national and sectoral levels. Therefore, the donors are required to respect non-state actors' autonomy, and

to provide longer-term funding to allow for long-term sustainable capacity development (OECD, 2009b).

Since there has been an increasing recognition that the quality of aid matters as much as the quantity of aid, new challenges for donors and partner countries have appeared and reforms in the international aid system have become necessary. In an effort to improve aid effectiveness, more than one hundred donors and partner countries signed to commit to major reforms in aid delivery at the High-Level Forum on Aid Effectiveness in Paris in 2005. They agreed on five targets including ownership, alignment, harmonization, managing aid for results and mutual accountability and came up with twelve indicators to measure aid effectiveness (OECD, 2009a).

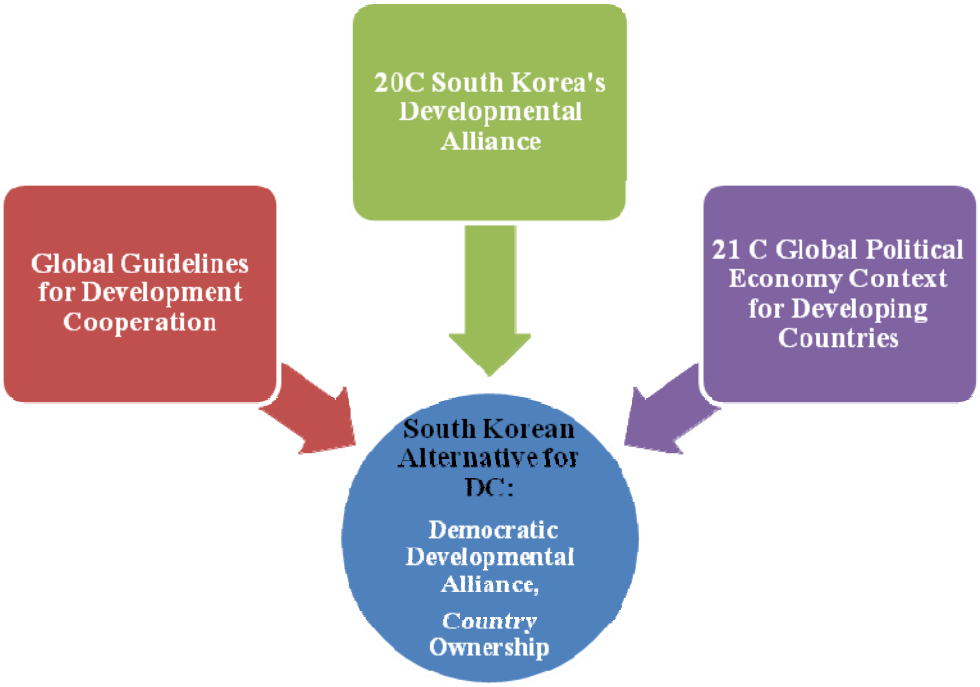
Ministers and heads of development institutions endorsed the Accra Agenda for Action to strengthen the commitment of the Paris Declaration on Aid Effectiveness on September 4, 2008. Although the Paris Declaration brought improvements in mutual partnership, the progress on aid effectiveness was not as fast as the world expected. Therefore, all the participants reconfirmed three most important challenges to advance the progress on aid effectiveness.

- **Strengthening Country Ownership over Development:** As stated in the Paris Declaration, country ownership is an important priority in the development cooperation. This principle suggests that the developing countries take a leading role in holding country-level policy meeting on development. In particular, recipients' need to exercise their leadership to broaden policy dialogue. In addition, donors as supporters should help capacity development of developing countries by providing technical cooperation and making the best use of their procurement system.
- **Building More Effective and Inclusive Partnerships for Development:** Duplicating initiatives and tied aid are considered as factors that hamper aid effectiveness. Therefore, it is advisable for the partner countries to set their priorities and the donors should respect the partners' priorities. Developing countries should actively participate in aid management to prevent fragmentation of aid. Donors are recommended to accelerate the progress of aid effectiveness by relaxing regulations. Donors and partners can improve aid effectiveness by cooperating with other development actors such as the civil society organizations which contribute to the development of developing countries.

- **Delivering and Accounting for Development Results:** Accra agenda emphasizes that donors and partners should both be accountable for development results to maximize aid effectiveness. Thus, donors and partner countries are to take part in joint result assessment and disseminate detailed information about the results to increase transparency in the use of foreign aid. Donors also need to guarantee predictable aid flow to the partner countries so that the latter can plan long-term development programs.

Thus, South Korea should not develop a model, but an alternative, which reflects a synthesis of the global standards on ODA with an alternative mode of development exemplified in South Korean development. This alternative should synthesize the positive lessons from the South Korean development with the "Washington Consensus," "Paris Model" (based on OECD/DAC guidelines for donors), and "Beijing Model" (ODA as a package with "non-interference" as its rhetoric). This synthesis is described in Figure 1.

Figure 1. Synthesis for a "South Korean Alternative" for Development Cooperation



There are at least three broad elements that we need to consider for the South Korean alternative for development cooperation: (1) global standards and norms for development cooperation as exemplified in the OECD/DAC guidelines, which South Korea cannot ignore given its recent ascension to OECD/DAC; (2) South Korea's own development experience of developmental alliance from the 20th century; and (3) global political economy context, in which the current developing countries face.

First, the OECD/DAC guidelines include discussions about how donor countries should behave in terms of their development assistance and some of these guidelines have been developed in the Paris Declaration for Aid Effectiveness including ownership, alignment, harmonization, managing for results, and mutual accountability. These are important guidelines that shaped the global discourse on donors albeit they are sometimes criticized for representing more the interests and experiences of traditional donors. In addition, South Korea finds itself among super powers in the region and among its allies that have implications about how it may utilize its ODA. It has had to work with the US when it requested that South Korea provide peace keeping operations (PKO) and ODA for Iraq and Afghanistan. And, South Korea has been keenly aware of the "Beijing Model" of ODA, which has had immediate consequences on its sub-Saharan African aid. It is not a mere coincidence that South Korea held its first Korea-Africa Forum in November 8, 2006, immediately after the China-Africa Cooperation Forum (CACF) was held in China on November 6, 2006. These anecdotes attest to the precarious position South Korea finds itself in its economic and geopolitical relations with its super power neighbors.

Second, South Korea's experience of its rapid industrialization and reduction of poverty can be summarized as: (1) country ownership in its development planning and usage of ODA; (2) state-intervention in the market (state-led development in the initial phase of economic development), which included industrial policies, effective use of carrots and sticks (incentives and discipline), performance-based incentive structure, and prevention of moral hazard and corruption; and (3) extensive use of authoritarian state apparatus for development including suppression of labour.

Finally, the third element is the changing global political economy context of developing countries, which include (1) end of the Cold War; (2) WTO regime; (3) cyclical global and regional economic crises; and (4) democracy.

With these four broad elements to consider, the South Korean alternative can be derived to include: (1) partner country ownership; (2) democratic developmental alliance among the state, businesses, and labour; (3) capacity building for the alliance partners so that each can perform its requisite role in economic and social development.

III. Concluding Remarks

South Korea's economic development from the 1960s has been regarded as one of the most phenomenal in world history. 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 Western European nations, the US, and Latin American nations. South Korea's rapid industrialization is characterized with two-digit growth rates during this period. Second, its development was attained by the developmental state, with strong interventionist industrial policies that had been opposed in the Washington Consensus. This developmental state was also authoritarian –i.e., suppression of labor rights and wages; and monitoring and disciplining of the private sector through auditing, tax, intelligence and the police were important instruments of the developmental-authoritarian state.

Third, the developmental alliance among the state, business, and labor began as a lopsided one in the 1960s with the developmental state clearly in charge with a secondary partner n the business with a silent partner in labor; 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 the labor into underground labor movements; and by the 1980s, the three actors were becoming more like partners with the onset of 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.

Considering South Korea's success in attaining development, in part thanks to ODA, it is not surprising that many less developed countries look to South Korea for a model for economic development. To these nations US- or Western European models of development are too distant to be realized. The challenge, however, is to find the essence of the South Korean developmental experience that could be replicated in the 21st century, which has different global political economy contexts for development. WTO regulations about unequal treatment of domestic and foreign firms make South Korean style protectionism of the domestic market difficult; saturated world export

market makes it difficult for developing nations to take advantage of EOI for their development; and world's greater attention on the environment has put constraints to pursue pollution-prone industrialization. The challenge is to locate the South Korean alternative without some of the costs of its development such as curtailment of democracy, suppression of labor, and excessive reliance on large businesses over small- and medium-sized enterprises.

Thus, the revised developmental alliance based on both the merits and mistakes of the South Korean experience is a democratic developmental alliance that is inclusive and would be sustainable over time. Country ownership in which the development partner can exercise its decisions for its own path of economic and social development also comes out of the South Korean experience. Finally, capacity of the domestic actors in the developmental alliance must be strengthened in order to exercise its country ownership. This means the capacity of all three actors in the developmental alliance must be strengthened. These are important and not easy recommendations for the least developing countries and development donors alike, but the South Korean experience should give hope that it can be done.

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Chapter 10

The Saemaul Undong
in Historical Perspective and in the Contemporary World

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1. Overview

Initiated by the Park Government in 1970 the Saemaul Undong – New Village Movement – became a nation-wide 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 government and village self-help cooperation, it was subsequently linked with the advent of the Green Revolution in rice production. Successes attributed to the Saemaul Undong (SMU) are manifold. Village upgrading and heavily subsidized rice production together raised rural household living standards and incomes to the level of urban households. Korea also approached self-sufficiency in rice. 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, SMU also became a prominent slogan and symbol of a Korean way of development.

Limitations of the SMU 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 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 significantly advance. The mechanisms of the green revolution component of SMU 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 ran 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 indefinitely maintained. Limits on the use of Korea's Tong-il high-yielding rice variety had also 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 of them has been to limit the role of government in SMU and to increasingly emphasize the spirit of voluntary cooperation as a central character of Korean people and national identity. SMU offices continue to operate at the national level and among local governments in Korea. The national government has recently called upon the SMU spirit as a key element of its foreign assistance to Africa, Latin America, and Asia. 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 Korea or anywhere else in the contemporary world. It is not a matter of level of GDP per capita, i.e., that it would be appropriate for other countries now at the level of income that Korea had at the time of SMU'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 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 SMU experience that transcend its historical confines. One is the objective and inspirational knowledge that it 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 raising rural standards of living toward those of the city. SMU 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.

The successes and limitations of the Saemaul Undong as it played out in the 1970s are still not settled matters in Korea. Older generation rural households tend to look back at the decade as one of great SMU accomplishments that lifted rural Korean to be on 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 SMU, 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, SMU is an important episode in Korea's national development that has lasted in the collective memory of people decades after its halcyon days were completed.

2. 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 is rural Korea in the 1970s, a decade during which Korea 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 approach focusing on an emerging "green revolution" in grain production as its centerpiece for rural development.

In this milieu villages in Korea were renovated and the rural economy grew rapidly under the banner of the Saemaul Undong that remains 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 as a way of exploring 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 World War II up to the 1970s, rural development thinking in Asia and other decolonized world regions initially gave emphasis to community development and advocated a return to traditional social relations and endogenous forms of livelihood. Ghandian 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 (Hunt 2003; Nyerere 1962; Freire 2000; Ngau 1987). Non-alignment rather than re-integration 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 underway.

Socialist experiments were soon to become the exceptions rather than the mainstream, and by the late 1960s the community-centered approach was also being superseded by newly theorized universal models of stages of national economic growth and industrial takeoff (Lewis 1954; Fei and Ranis 1964; Rostow 1960). 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 and the World Bank as major development policy institutions that gave credence to the appearance of the strong-arm developmental state, Korea being an oft-cited principal example (Amsden 1989, Evans 1995, Byres 1986, Douglass 1994, Kang 2002) (see Section 5 below). In 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 U.S. 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 (McNicoll 1993). While urban industry was the hope of the future, agriculture needed to play its part in three ways: to supply cheap labor for urban industry; to supply food for rapidly expanding urban populations; and 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" as a counterweight to unrestrained economic growth. The World Bank put forth its strategy for "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 sufficient amounts of rice to sustain life. Such a definition resonated in 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 densities and pressure on agriculture were intensified by the repatriation of more than a million Korean citizens from Japan following the end of World War II (Park 1981). Until 1960, however, Korea enjoyed self-sufficiency in rice production, which is largely attributed to the positive impacts of land reform rather than government investment in or support of agriculture, which did not receive priority. Under the first several 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 readily lent itself 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 (Ruttan and Hayami 1990, Ahmed 1988, Goodman and Redclift 1991). Countries such as 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 (Barraclough 1991, Staatz and Eicher 1990).

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 American manifested in the signing of the Cocoyoc Declaration at a United Nations gathering in 1974. In calling for national self-reliance to redress the failures of global economic growth, the Declaration stated that "a temporary detachment from the

present economic system that perpetuates economic dependency" could be required (UNEP/UNCTAD 1975). In other words, what constituted rural development in alternative development proposals was not just minor tinkering with the new conventional theory, but were instead diametrically opposed to it.

Critiques of the Green Revolution found their way into the search for alternatives as well. Among the identified problems were high dependency on chemical inputs and water, and thus prohibitive costs to small farmers; high risk of pest infestations due to the homogeneity of adopted grain varieties; vertical integration into global agribusiness that increased farmer outlays and risks; and the pushing of women out of agriculture, to name a few (Shiva 1991, Sorj and Wilkinson 1994). 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 Korea, as in all countries adopting the Green Revolution, the government needed to build large-scale credit cooperatives, build storage facilities, and buy large shares of the crops and market them as well. Without such support the Green Revolution would not have been adopted by farmers, almost all of whom had very small farms and low incomes. Government involvement in the purchase and sale of grains was necessitated as well 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.

Another element added to rural development thinking internationally during the decade of 1970s was the spatial dimension, namely, rural-urban relations and linkages. While some of this discussion focused on debates concerning urban versus rural bias in planning (Lipton 1976,

Chambers 1983, Bezemer and Headey 2008), 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 include 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" stressing the need to localize governance institutions (Friedmann and Douglass 1978, Johnson 1972, Ruddle and Rondinelli 1978, Tacoli 2006).

As compelling and diverse as the many proposals for integrating rural and urban development at local levels might have been, in Korea none was 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, include those in Korea, as spatial polarization of development continued to focus, first, on the Seoul Capital Region and, secondly, on the Seoul-Busan corridor. Rural regions and rural towns began a chronic process of depopulation, which in 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 being 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 postcolonial 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 Korea in the late 1960s. It also appeared at a moment when previous thinking about the lack of prospects for an agriculture-led development were being challenged by the advent of the Green Revolution, which became a major component of SMU.

As explained below, Korea's amalgam of Saemaul rural development components had unique features, two of which stand out as being paramount to the success of the Saemaul Undong: radical land reform as a foundation for both rural and urban-industrial growth, and 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 Asia, Africa and Latin America.

Even with these modifications, the New Village Movement can still be said to have fit within the new conventional thinking about rural development. It did not venture into the ferment of the 1970s for alternative development that leaned toward either devolved models of participatory democracy or the varying degrees of socialist experiments that were underway in North Korea, China and Vietnam. While it did draw upon community development traditions of Korean villages, it did so within a developmental state context of strongly guided development from above.

3. The Saemaul Undong in the Context of Rural and National Development in Korea

How the Saemaul Undong proceeded in relation to ideas of rural development in the 1970s is summarized in Table 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 Korea.

Table 1. Components and Chronology of the Saemaul Undong

Phase/Components	Main features
Pre-Saemaul Undong (1950-70)	**National focus on urban-industrial development**
• Land reform	Radical land-to-the-tiller reform before Saemaul Undong 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.
• Saemaul Undong Training Centers	Elaborate national system of Saemaul Undong 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 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 high-yielding varieties of grain
• Extension services	Embedded in the Green Revolution phase of Saemaul Undong
• Rural cooperatives	Set up with Green Revolution
• Mechanization	Belatedly adopted mechanized farming
3rd Phase (1973-1977)	**Saemaul Undong expansion to non-agriculture and cities**

Source: author from various reports.

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 Korea beginning in 1948 in the early postcolonial years under US occupation and a newly elected democratic government. With Japanese colonial landlords vacating Korea, decolonization left the land in disarray and Korean landlords in a relatively weak position in being associated with Japanese colonization and being associated 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, i.e., 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 household (Pak 1956). The land reform processes were completed over the decade of the 1950s, and by 1961 owner-farmers held a reported 97 percent of agricultural land (Jeon and Kim 2000:255). High rates of inflation greatly assisted tenants in paying of land purchases 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. 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 colonialist had made investments in irrigation and other aspects of farming, 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, Korea was able to create an exceptionally powerful industrialization process through international loans, foreign assistance, including U.S. military financial transfers, and a nationalized banking system that was used to subsidize rural development with the advent of the New Village Movement. 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 level 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.[144]

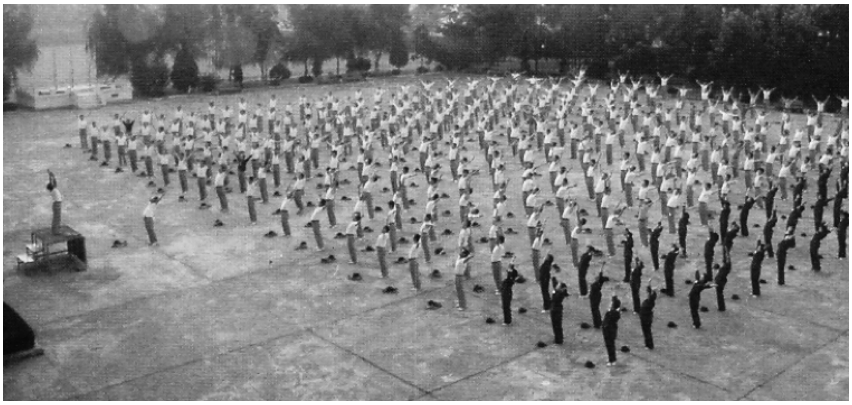
Also setting Korea apart from the 1970s mainstream rural development strategy was the initiation of the Saemaul Undong as a village modernization program rather than first as a program to increase agriculture productivity. The government's stated purpose for the program was to lift the standard of living 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 was made 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 inspirations 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). From the first round the government decided to exclude nearly 18,000 villages from the next round, leaving just 16,000 villages to participate in it. Among those that received the new round of recourses, village leaders noted that competition to do better than neighboring villages was one of the principal motivations to undertake SMU projects (Kim 2011). Approximately 6,000 of the excluded villages decided to join the second round using their own financial resources for materials.

[144] Since rural families were larger than urban families, using per capita income data would show higher income inequality favoring urban areas where households ha fewer members at that time. In addition, income data in Korea during this time eliminated highest income groups from the calculations, making government statistics on household income data questionable (Steinberg 1982).

Throughout the entire 1970s Saemaul Undong experience, the village remained as the territorial unit for policy implementation (Moore 1984). No attempt was made to have 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 (Figure 1).

Figure 1. Training Center for the Saemaul Undong (c. 1972)



A centrally orchestrated Saemaul ideology of social cooperation was advanced to mobilize popular involvement at grassroots levels. 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, which was 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 suggested or recommended projects it thought were appropriate for the level of village in question (Goh 2011). 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 were the Saemaul Leaders Training Institutes at the provincial and central levels. Leaders would come to these institutes for intensive one or two-week periods. A principal focus of training was motivation for rural development and abilities to convince villagers of the importance of SMU. At the highest level were the President and his cabinet, which met at least once a month to discuss the programs progress. President Park was directly involved in all aspects of SMU, including writing its theme songs and lyrics (Kim 2011). County, provincial and central governments also took on the duties to document, monitor and evaluate the progress of the New Village Movement. The national press and television were continuously called upon to favorably report on SMU projects.

By 1977 all villages in the country had joined the New Village Movement and were moving of the ladder of implementation of new projects (Kim 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 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 Korea being a major recipient of US food assistance, price incentives to increase production were

dampened.[145] Thus unlike many other countries, rural areas of Korea were left in what could be called a state of benign neglect (Kihl *et al.* 1981). Although 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 Korea further behind the city in income gains (Ho 1979).

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 Tongil high-yielding varieties, 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).

Mechanization of grain production was also part of the Green Revolution. In this regard, 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 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. The effects of mechanization were transformative. The tractors could be used for non-farm production and marketing as well, and, although slow, could also be used for general farm to town transportation. By the 1990s mechanization was nearly complete.

Mechanization was also important in compensating for the decline in the rural population and, in particular, agricultural labor force. The number of farm households in 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

145. From 1956 to 1970, under US PL 480 food aid, Korea received $800 million worth of aid commodities, largely in the form of wheat and cotton (Ahn and Miles 2011).

household sizes shrank, too, the actual drop in rural population was even greater. From 1960 to 1990 the rural population of Korea decreased from 14.5 to 6.6 million. During the same period the share of rural population over age 60 more than doubled to reach 1.3 million. As vividly shown by comparing Figures 2 and 3, 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.

Figure 2. Farmer Uses Traditional Back Rack (Chige) to Carry Heavy Loads



Source: Wikipedia (2011).

Rural depopulation in 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 Korea in the 1970s.[146] In a country that was highly protected against the import of manufactured retail goods, the possibilities for rapidly advancing the use of agricultural machinery were directly related to the increased industrial capacity of Korean manufacturers to make them, which came fully online only from the latter half of the 1970s (Kim 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).

[146] As an indicator of the rapid decline of 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 due to fall in demand (Kim 2011).

Figure 3. Mechanization Comes to Rural Korea (c. 1978).



Source: NCSUMK (2010)

Table 2 compares Korea with rural and urban population growth in Korea with other economies of Asia. It shows that during the 1970s and 1980s when the Saemaul Undong was in full swing, Korea experienced the highest rates of rural population loss and among the fastest pace of urban population growth rate among the selected countries.

Table 2

Rural population growth rates, 1960s-1990s, Selected Asian Countries

Country	Rural growth rate (% per year)				Peak Year	Average urban growth 1965-95
	1960s	1970s	1980s	1990s		
Taiwan	0.2	-1.0	-1.4	n.a.	1967	4.0
South Korea	0.5	-1.4	-3.8	-1.6	1967	4.5
Thailand	2.9	1.7	1.3	0.9	2012	3.4
Malaysia	1.9	1.0	1.1	-0.2	1994	4.6
Indonesia	1.9	1.6	0.7	-0.4	1993	4.7
China	2.2	1.6	0.4	-0.2	1992	3.8
Vietnam	2.0	2.0	2.1	1.2	2017	3.1

Source: United Nations, cited in McNicoll (2006), Table 3.

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 Daejon 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 3 and Figure 4 show the steadily increasing degree of spatial polarization in Korea from 1960 to the 1990s. Table 3 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 and 44 percent of the nation's factories. Figure 4 graphical 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 year of the Asia finance crisis. Seoul Capital Region has continued to increase its share of national population into the 21st century (Douglass 2009).

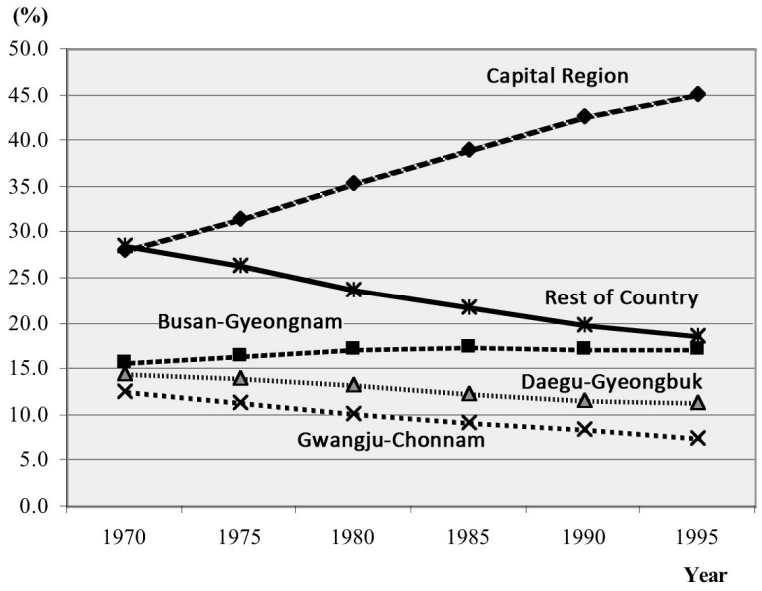
Table 3.

Share of National Population and Factories in the Seoul Capital Region, 1960-1998

	1960	1970	1980	1990	1195	1998
Population	20.8	28.2	35.5	42.8	45.3	45.6
Factories	26.7	32.8	43.8	54.8	55.6	55.1

Source: National Statistics Office, Government of the Republic of Korea.

Figure 4. Population Shares by Region in Korea 1970-1995



Source: National Statistics Office, Government of the Republic of Korea.

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 3 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 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 SMU, 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 – widespread plant disease, high costs of production and high indebtedness – farmers tended to return to traditional seed varieties and less expensive forms of production (IFPRI 2002). In 1978 the Tongil high-yielding variety (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 Tongil HYV and 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 Korea (Nemeth 1988).[147]

The documented successes of Saemaul Undong as village modernization and 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 relations 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 (Figure 5).

[147] 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 (Anh and Boyer 1984:442).

Figure 5. The Saemaul Flag Flies over a Bridge Construction Project, 1972



Source: NCSUMK (2010)

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. As shown in the Table 4, the process is now being presented as one in which government first leads the way, and then as it matures into its current form, it became so ingrained in society that it becomes "autonomous" in its continuing advancement as a voluntary and private sector initiative. This can also be seen as another way of saying that the Saemaul Undong had, by the early 1980s, 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 neoliberal political philosophy.

A number of factors contributed to bringing the Saemaul Undong to an end by the early 1980s as a multi-faceted rural development program. Democracy movements and the discrediting of the regimes that followed President 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.

Table 4. Stages of Creation and Regenerations of the Saemaul Undong

Stage	Characteristics	Period
1	Foundation and Groundwork	1970-1973
2	Proliferation	1974-1976
3	Energetic Implementation	1977-1979
4	Overhaul	1980-1989
5	Autonomous Growth	1990-1998

Source: NCSUMK (2011).

Villages were also beginning to more seriously depopulate as an outcome of 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 Korea's urban transition was nearly completed. Rural populations were not only shrinking relative to the total urban population, they 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 Saemaul Undong capacities 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.

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, the country substantially completed the cycle of transformation from peasant to small-scale commercial farmer in Korea, 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 Korea's new era of giving assistance to rural development in other countries in Asia, Africa and Latin America. As explained by the National Council of Saemaul Undong Movement (NCSUMK (2011) the Overhaul during the 1980-89 period was all about recentering 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, 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. The National Council in 2010 declared that "Rural modernization is not a matter of raising the economic viability of the agriculture; rather, it is directly connected to the modern attitudes and mindsets of the agricultural populace (NCSUMK

2010). The lasting legacy, then, became the Saemaul spirit of social cooperation, self-help and diligence.

4. Achievements of the Saemaul Undong and Impacts Beyond Rural Development

The Saemaul Undong had many laudable achievements (Tables 5 and 6 and Figures 6 and 7). Village modernization reached most villages to materially improve living standards. The added focus on subsidized grain production tremendously increased rural incomes (Burmeister 1987, Han 2004, Choe 2005**)**.[148] 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 substantially improved. Rural households had cooperative savings accounts to help finance purchases of durable goods everything such as television sets as well as farm equipment and inputs.

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

> The 'barley hump' (rural famine before the barley harvest in the 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).

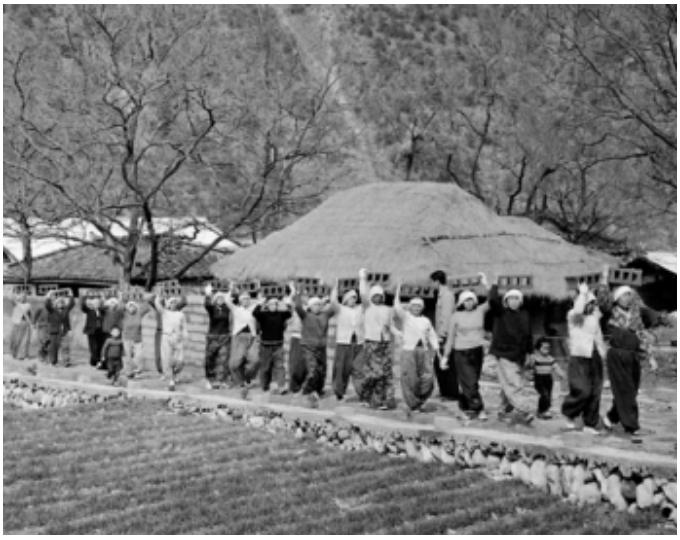
Table 5. Village Improvements through the Saemaul Undong, 1970s

[148] 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 US$1.9 billion in 1986, with a purchase prices that was about five times that of the world market (Savada and Shaw 1990). But farming costs had also skyrocketed, and as land ownership shifted to cities high increases in tenant farmers followed. In 1985 nonfarm owners of farmland amounted to 65 percent of total land in tenancy.

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 Centers	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 (2010), Table 3.

Figure 6. Villagers Mobilized to Modernize Houses and Village Infrastructure, c. 1972



Source: NCSUMK (2010)

Figure 7. Village Houses after Renovation, c. 1972



Source: NCSUMK (2010)

Table 6. Rural Household Income Changes, 1970-1979

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 (2010), Table 3.

Some caveats and reservations concerning SMU's achievements are needed, however. According to Ahn and Boyer (1984), none of South Korea's thirty-four thousand villages remained classified in the "underdeveloped" category by the end of the 1970s. Yet Brandt (1979, 1980) reported that more remote ones did not become significantly engaged in the movement, and, further, the poorest 15-20 percent of villagers who were landless or land poor did not benefit from the agriculture 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 SMU 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.[149]

Table 7. 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	118,548.0	100.00	184,057	100.00

Source: NCSUMK (2010)

As the Saemaul Undong moved to the city in the latter 1970s, the record is less clear. Ho (1979) concludes 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. Further, because the policy was aimed at attracting firms to relocate away from bigger cities, almost all of the factories were export units of 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. It shows that from one-third to more than one-half of the number of establishments, jobs 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, i.e., near Busan and Daegu, which were major sites of textile and footwear production.

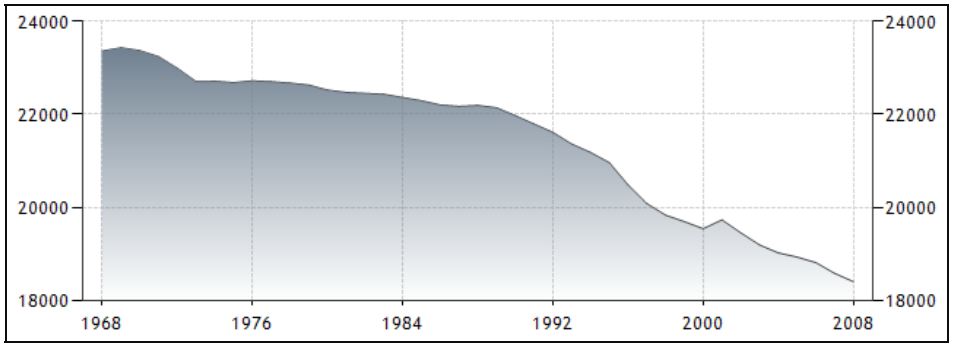
Other critical perspectives provided more far-reaching cautions against wholeheartedly praising the Saemaul Undong. Nemeth (1988) documents how once self-reliant communities in Cheju-do

149. 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 government.

were pulled into the program in ways that led to the atrophy of village capacities rather than enhancing them. 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 elaborates 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 WTO pressures to further open Korea to imports of agricultural commodities from abroad.

Others have chronicled how disillusionment was intrinsic to the program in that 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). Authoritarian rule would also begin to reach its limitations in opposing the rise of civil society in the 1980s, which after the Gwanju massacre by the Chun regime turned decisively against government.[150]

Figure 8. Agricultural Land in South Korea (Km2)



Source: Trading Economics (2011)

[150] President Chun also removed the Saemaul Movement from the Ministry of Home Affairs and appointed his younger brother to lead it. In 1988 the son was charged with large-scale extortion and embezzlement while he was chairman of the movement from 1981 and 1987 (Savada and Shaw 1990).

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 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 diversity 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 increasing numbers of cases, it was abandoned. From 1968 to 2008 Korea lost about 50,000 km2 of agricultural land (Figure 8).

Assessing the value of the Saemaul Undong as an ideological force is the most difficult task. On 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 Chung-yum (2011:216), President 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. He regards 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 are confirmed by Ahn and Boyer (1986) who, in undertaking a rural survey taken in 1983, found that lack of allegiance to the Saemaul Undong was directly related to levels of indebtedness, tenancy, and low income (Boyer and Anh 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 most 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 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 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 2004:90).[151]

5. The Political Dimensions of the Saemaul Undong and Rural Development

A basic political dimension of the New Village Movement and rural development that separates 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 Chalmers (1982) in his seminal contribution of the concept, are capable of coherently designing and instituting policies within the state apparatus and in relations to non-state actors. In further elaboration by Amsden (1989) and including Evans' idea of "embedded autonomy" (1995), the developmental state uses its degree of leverage to pursue joint projects with non-state actors in a state-guided process of development.

From all of these definitions Korea is often presented as a prototypical developmental state that emerged under the Park presidency.[152] Without this understanding of the capability of the

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151. 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 2004:78).

152. As used here and by the cited authors, the developmental state contrasts with authoritarian regimes that are predatory, or rent-seeking, in simply plundering or extracting prebends from the business interests.

developmental state in 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. Without the consistency of government in doing what it said it would do, village voluntarism and enthusiasm for SMU programs would have quickly dissipated.

The relatively high degree of autonomy of the Korean state under President 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. Third, 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. As explained below, 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 depoliticize it by tapping into the practical concerns of rural people in ways raised their enthusiasm without trying to appeal to or link with other sources of ideology, such as Confucianism or the anti-communism, that had been used to defend the regime's harsh use of police powers that culminated in instituting martial law from 1972 that 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 relations extolled by Confucianism had to be avoided if horizontal relations 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, President Park was able to steer the Saemaul Undong 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.[153] 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, it could be forgiven its excesses in the use of political power to counter democratic movements and the discontents of labor.[154]

By its own logic, this seemingly apolitical ideology 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" (2004:87). In both practice and the lore of the Saemaul Undong President Park showed how he was engaged in on-the-ground solutions by visiting the countryside frequently to observe and symbolically participate in them (Figure 9). This involvement began with the creation of the movement. The Saemaul Undong Museum near the Shindo Village in North Gyeongsang Province proclaims that in 1969 while on a train passing through the area President Park, who was told of the self-help successes of Shindo in recovering from a disastrous flood, stopped the train to visit the village. He is said to have then launched the New Village Movement based on the inspiration of Shindo (Kim 2011). His special car from that train now stands next to the museum. This is one of countless stories exemplifying the inseparability of SMU from President Park, the person.

Figure 9. President Park Visits a Saemaul Undong Village Program, April 1970.

[153] 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.

[154] As stated by Brandt (1979:79), in drawing from social traditions, 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.



Source: NCSUMK (2010)

Yet although the government consistently claimed SMU 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 the SMU and the declining political popularity of the Park government, which had relied on rural votes for its victories but in 1970 had not faired 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 New Village Movement, 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 2011:225).

Thus although political considerations were undoubtedly part of the government's motivations, the record shows that on the surface the SMU 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 Korea, non-partisanship worked best to shore up Park Chung Hee's political base in the countryside. However, in the context of 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 SMU. As the popularity of the SMU grew in villages, increasing dissatisfaction with martial law and authoritarian government increased among city dwellers.

This is not to say, however, that SMU 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 not able to separate the SMU from Park Chung Hee and his government. Nonetheless, urban SMU 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 SMU have divided some elements of 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 (Brandt 1979, Burmeister 1987, *Korea Times* 2010). 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 but 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 (Figure 10).

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, Saemaul Undong was heavily orchestrated by 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 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 President Park Chung Hee and a developmental state that rigorously moved policy to action, which from a rural perspective brought benefits to the majority.

Figure 10. Training Saemaul Undong Leaders, mid-1970s



Source: NCSUMK (2010)

6. Distinctive Features of the Saemaul Undong in Comparative Perspective

As discussed above, 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, the focus on village modernization rather than on agriculture at the outset, the use of industry to subsidize farm incomes and the green revolution, and the blending of programs with a national ideology of cooperation in development together formed a set of experiences and institutional arrangements that set 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 fundamental as a foundation that was made before the Saemaul Undong began.

Village modernization also had Korean features that are not common. One 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 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.

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 Korea and Taiwan, was the use of the threat of communism as a rationale for maintaining the authoritarian state. Yet, as noted above, the Saemaul Undong did not overtly appeal to fear of communism or foreign enemies. Instead it adopted a more pragmatic idea of social cooperation for improving life. Nor was not presented as a radical alternative to the

existing system.[155] To the contrary, it was intended to rejuvenate up 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 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 Korea's economic takeoff. It did so with a specific combination of interventions at a particular moment in Korea's economic history.

6. Lessons of the Korean Experience for Developing Countries

Over the past several 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 the National Council of the Saemaul Undong 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 and many analysts as well have stated that it is less about concepts and theories and more about the practical processes of problem solving (Douglass 1983).

[155] Similar ideals were put forth in Tanzania, but they were done so not as a way forward for a capitalist-oriented economy. Ujamaa in Tanzania was billed instead as African socialism (Nyerere 1962).

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 in the Ministry of Agriculture or Public Works, it was able to act as crosscutting 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.[156] 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, SMU 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 such countries 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 Korea has also been moving in the same direction, though at a more deliberative pace (Kim 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 (Bryceson 1996; Rigg 2006; Haggblade *et al.* 2010). It is a world in which migrant remittances make up substantial shares of rural incomes in many countries, and where hand-held communications devices instantly link people in the village to the world. Large corporations, including those from Korea, are also buying up cropland for industrialized food production (Rees 2011), and contract farming with global corporations has been replacing the independent family

[156] Unlike the contemporary biogenetic revolution, which is corporate driven, the Green Revolution linked to Saemaul Undong was fundamentally a government induced, subsidized and integrated program.

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 decisionmaking 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 as, represents an experiment more than a model derived from history. 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 small scale self-empowerment activities that create their own spaces of hope can scale up to become national rural development programs.

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Chapter 11

LOCALIZING INTERNATIONAL TRANSFER OF AID AND TECHNOLOGY FOR THE PROMOTION OF DEVELOPMENT: KOREA'S DEVELOPMENTAL EXPERIENCES

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Introduction

Since entering the new millennium of the 2000s, the international aid community has made continuous efforts to tackle world poverty and disease eradication, and developed the premise of aid effectiveness by way of the 2000 UN Millennium Summit and the 2005 Paris Declaration on the Aid Effectiveness. The underlying rationale of such international moves towards more advanced aid delivery systems was embedded in not only donors' self-reflection on the past failed experiences of ineffective aid-giving projects, but also the entailing reformative shifts from donor-centred aid distributions to recipient-oriented aid planning. This new innovation culminated in the assertation of 'ownership' among the five principles of the Paris Declaration, which was designed to enhance the capacity of the recipient partner institutions to take the initiative of agenda-setting of development policy and its implementation. The fancy slogan of 'good governance', which the World Bank (1998) has been highlighting as an essential element for effective operations of aid programmes, is considered another expression of emphasising sound and workable institutions in recipient countries as a necessary condition to secure aid effectiveness. It would, thus, be no exaggeration to conclude that a genuinely effective mode of

aid transfers depends upon the institutional capacity and internal conditions of aid-receiving countries (Burnside and Dollar, 2000; Tarp, 2010).

Tn this regard, there is contention that international transfer of aid and technology for the promotion of development in recipient partner nations would be intrinsically bound with the extent that recipient governments are ready to undertake development programmes with foreign aid for development financing. Hence, the degree of positive impacts from international factors on development programmes in recipient partners can be evaluated by analysing the recipient's capabilities for localising international transfers via local institutions and development plans (Kim, 2009). The institutional capability of partner countries, indeed, would become a further more critical factor to configure the aid effectiveness for both donors and recipients, particularly under the condition that the magnitude of aid transfers to a wide range of recipient countries is, more or less, identically served by aid-giving actors. The South Korean experience demonstrates a successful path of economic growth and social development by a positive nexus between foreign aid (mostly, U.S. aid) and Korea's internal capacity assimilating the aid at its disposal. The main task of this analysis, thus, centres on not only how to identify various forms of international factors affecting Korea's post-war development, but also how to interpret the role of the international transfer of aid and technology in the process of the Korean economic development.

However, most previous researches locating the Korean path of development, in fact, failed to pay great attention to the role of international factors such as aid delivery, international agreements, knowledge and policy, and the importation of technology and information. They have been largely focusing on the autonomous leadership and manoeuvre of the Korean developmental state, despite its dictatorial rule founded on the aid economy sustained by U.S. aid, as a decisive determinant to account for the Korean miracle of economic development and modernisation (Cole and Lyman, 1971; Brown, 1973; Jones and Sakong, 1980; Amsden, 1989). The understanding of the Korean developmental experience, however, could not be completed without incorporating the role and effects of international factors. The historical evolution of international factors is marked as critical junctures necessary to understand the Korean developmental context. It is because such factors display a series of seminal momentums affecting the way of development strategies in a new born poverty-stricken country: (1)

international transfer of economic aid worth more than 40 percent of government revenues in the 1950s which was critical for establishing the steel industries in the 1960s and 1970s; (2) the knowledge transfer of varied development planning strategies on the basis of development economics imported from Western economic theories; (3) international transfer of voluntarism via foreign relief NGOs; and (4) technological cooperation contributing to launching institutional engines for higher education, quasi-governmental research institutes, and public agencies specialising economic development. Accordingly, a missing link in analysing the Korean developmental experiences lies in the lack of further deep observations on the processes of international transfer by focusing on the interactions between international actors and local authorities.

The time span for this investigation covers mainly three decades after the Korean War, ranging from the 1950s, characterised as the aid economy and state-building (the Rhee Syngman period), to the 1960s and 1970s when the Korean government (the Park Chung Hee period) pursued the transformation of its economy from aid-dependency to an independent track of economic growth. The focal purposes of our task ahead proceed in three steps. First, it begins with brief conceptual discussion on both international transfer and the capacity of aid-receiving actors to localise the international. Second, the three channels of international transfer – aid, knowledge, voluntarism, and technical cooperations – are explored by looking into the Korean experiences of economic and social development, whereas the explanations of purposes and behaviours of domestic organisations in relation to external factors are juxtaposed to show the 'Koreanisation' process of international factors. Third, it demonstrates how the localisation of international transfer resulted in the vitalisation of trade and exports, which gave the direct impacts on the reconstruction of the Korean economy.

International Transfer and the Capacity for Localisation

Conceptual contentions on the process of international transfers need to be predicated upon the dialectical dual processes between international factors and the response of local authorities, rather than a one-sided transfusion of international aid or technology from donors to recipients.

Contemporary scholarly evaluations on the historical development of international aid come up with severe critiques against donor-driven patterns of international transfer which means that the suppliers of international aid, more often than not, decide aid-receiving targets, the size and method of aid transfer without serious consideration of local conditions the recipients are facing in domestic politics (Rapley, 2002; Riddell, 2007). The international aid community, particularly OECD-DAC, has responded to such a challenging criticism by organising a series of the High-Level Forum (HLF) on Aid Effectiveness where to bring the ownership and capability of recipient countries to the front of the aid effectiveness agenda since the 2003 HLF-I in Rome.[157] Characteristically, the 'Alignment' principle of the Paris Declaration, together with its ownership principle, is a reflection of major donors' efforts to give an emphasis on the effective utilisation of local institutions in implementing aid programmes and adjust aid programmes to national development plans that recipient governments design as strategic targets. Furthermore, the World Bank and the IMF, in 1999, abandoned the term 'adjustment lending' which had been put into operation with harsh conditionalities and put their weight behind different poverty reduction instruments and processes, most notably Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF), as the formal instruments around which donors would provide aid in coordination with what recipient partners plan to pursue.

Albeit such endeavours to prioritise local partners' demands as the essentiality of international transferring at the macroscopic level, enhancing the aid effectiveness eventually depends upon the degree of the capacity building of local authorities at the microscopic level (Birdsall *et al*., 2005; Scott, 1998; Escobar, 1995). Either the rampant incidence of systematic corruptions in the recipient governments or the lack of institutional capabilities for the effective implementation hinders donors from insulating themselves from donor fatigues. In contrast, aid-receiving governments with good institutions are more likely to help donors to secure accountability for aid transfers and reduce the risk of fungibility (Devarajan and Swaroop, 1998). Francis Fukuyama (2004: 32), in this sense, highlights the importance of local institutions, particularly in the process of state-building, with the notion that "institutional development and

[157] The HLF on Aid Effectiveness has been developing its policy implications on aid-giving actors by three important international meetings: the Rome HLF-I in 2003 with the particular emphasis on 'Harmonisation' among donors; the Paris HLF-II in 2005 with the seminal five principles of the Paris Declaration; and the Accra HLF-III in 2008 with the Accra Agenda for Action. The fourth round of the HLF will be hosted by Busan in November 2011 with an ambitious agenda of the aid paradigm shift from aid effectiveness to development effectiveness.

institutional reform will not take place in the absence of such demand." In recent years, the need for good quality of institutional capacity entails the logic of good governance which means an almost tautological reasoning in the sense 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). Given that the poor country, which is asked to qualify good policies and institutions prior to international transfer, rather need to use international aid for this matter, the logic of good governance is primarily recursive and unrealistic. Merilee Grindle (2004), in return, suggests a more refined term 'good enough governance' denoting that not all governance deficits need to be tackled at once, as institution- and capacity-building are products of time. Good enough governance directs attention to consideration of the minimal conditions of governance necessary to allow political and economic development to localise international transfers of aid and technology.

There are, by and large, two differing ways of theorising to bridge the macro-level international transfer and the micro-level capacity for its localisation. First, international transfer is negatively treated as donors' strategic intervention into the recipient economies, thereby making the partner's economies dependent upon donors. From this point of view, the rich capitalist donors aim to employ their intervention for deepening 'dependency of economic restructuring' and the entailing 'comprador capital' and underdevelopment in recipient countries (Frank, 1967; Chase-Dunn, 1979; Kim, 1985). Against the conventional wisdom that the developed countries had used a set of good policies and good institutions in the past in order to become rich, the historical fact is that the rich countries did not develop on the basis of good governance that they now recommend to and often impose upon developing countries (Chang, 2002). In this vein, the macro-level impacts of international transfer would be more critical to shape the general contours of development programmes than local authorities in developing countries.

The second pattern is based on a more sociological perspective that searching for the micro-macro link entails some degree of interactions and mutual construction between the macroscopic structure and the microscopic agencies, rather than one-sided coercions from the macro to the micro or vice versa (Giddens, 1986; Coleman, 1987). Such a 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 socialisation of international policy transfers and the internationalisation of national policies in the global governance studies (Deacon, 2007). Varieties of scholarly attempts to do the micro-macro link, across different disciplines of social science, result in a common essence of the 'middle-ranged' solutions for the institutional arrangements that structure relations between the two levels (Katzenstein, 1978; Thelen and Steinmo, 1992). This study also will advance the middle-ranged method as a main approach to discover at the micro-macro link between international transfer and institutional capacity for localisation on the following four institutional fronts of the Korean developmental experience: (1) aid transfers; (2) knowledge transfers; (3) international transfer of voluntarism; and (4) technical cooperation for institutional transfers, all of which created significant impacts on economic and social development in Korea. On top of these middle-ranged institutional arrangements, a further observation will be extended to the linkage between international transfer and its impacts on export-led growth in the Korean economy.

The Korean Experience: Shifting from Self-Reliance to Development State

It is not surprising to recognize that South Korea in the 1950s was one of the aid-receiving countries in Asia which the United States lined up as strategic targets under its grand strategy for Cold War competition. It is, rather, surprising to note that the war-devastated Korea successfully lifted itself from a poverty-stricken nation to an economically and socially-developed nation by availing itself of foreign aid in a relatively short period of time (Park, 1999; Ringen *et al*., 2011; Kim *et al*., 2011). One of hidden sources for this remarkable transformation can be identified with the international transfer of foreign aid, notably U.S. economic assistance – despite its underlying strategic calculations – and other UN-based emergency relief assistance, which had all played a significant role in supporting Korea's economic reconstruction and social progress in the aftermath of the Korean War. The United States had provided approximately 5.5 billion dollars in bilateral economic assistance from 1946 to 1973 (U.S. Department of State, 1974: 1); if multilateral assistance, mainly the World Bank and the IMF, are also counted as one of main

sources for development financing, the total size of foreign aid amounts up to 12.7 billion dollars from 1946 right after the liberation from Japanese colonial rule until the early 1990s when Korea graduated from the aid-receiving country group (Kim, 2011: 261). Along with economic assistance, the newly imported knowledge on economic development theories and the sharing of technical cooperation need to be included as another crucial paths through which international factors could be grafted with domestic actors and organisations whose concerns were to bring in self-supporting economy in Korea. Korea's unique success story, in this regard, appears to contribute to verifying the notion of 'the end of poverty' that Jeffrey Sachs (2005) contends with the ambitious premise that foreign aid is able to bring to an end the vicious cycle of the poverty trap in the poorest countries.

As aforementioned, the identification and analysis of the domestic organizations and actors interacting with external factors are necessarily required to uncover the institutional processes of contextualising international transfers in accordance with local politics of Korea. Such contextualisation processes involve not only a successful localisation of international factors but also their pervasive implantation of distorted capitalist development (Macdonald, 1992; Kim, 1998). By keeping the awareness of negative impacts of international transfers on the initial stage of state-building, the following three dimensions of international transfers contribute to clarifying some lessons for less developed countries from the Korean experience from aid economy to self-reliance.

1. Aid Transfers

The delivery of foreign aid from the international community to Korea in the wake of its liberation from Japanese rule and the Korean War had been dominated by U.S. foreign aid, with some contribution from the United Nations agencies. By the end of 1948, American foreign policy was in ferment as it was compelled to face the major conflicts with the Soviet-led Communist regimes which took place more or less everywhere in

Table 1. The Composition of U.S. Aid to Korea, 1945-1962

(Unit: million USD)

	Military Aid	Economic Aid	Total	Grant	Loan	Others
1945	615	1,363	1,978	1,153	825	-
1946	110	5,355	5,465	2,457	3,008	-
1947	43	5,666	5,709	1,880	3,838	-
1948	326	4,944	5,270	4,177	1,093	-
1949	216	5,436	5,651	5,196	455	-
1950	524	3,630	4,154	4,027	127	-
1951	1,478	3,159	4,637	4,518	118	-
1952	2,664	2,379	5,043	4,643	400	-
1953	4,268	2,076	6,345	6,105	232	8
1954	3,431	1,750	5,181	5,092	-114	203
1955	2,672	2,237	4,909	4,605	-26	330
1956	2,634	2,318	4,951	4,375	18	558
1957	2,483	2,586	5,070	4,087	363	619
1958	2,368	2,559	4,926	4,010	646	270
1959	2,031	1,892	3,923	3,664	4	256
1960	1,812	2,625	4,437	3,483	432	522
1961	1,518	2,558	4,076	3,371	501	204
1962	1,630	2,784	4,414	3,533	735	146

Source: United States Census Bureau (various years).

the world. The 'Point Four' that President Truman declared in his Inaugural Address on 20 January 1949 defined the four clear points which could structure the general contours of American foreign policy anchored in military supports and economic assistance to its allies (Rist,

2008: 70).[158] Including the Marshall Plan for the reconstruction of West Germany and other European allies, the Point Four stressed that the United States must embark upon a bold new program for making the benefits of its scientific advances and industrial progress available for economic development of the underdeveloped countries which would be geopolitically critical to American grand strategies. This historical context could be relevant to the case of U.S. foreign aid to Korea in the sense that South Korea was one of strategic buffer zones in containing the expansive influences of the Communist power in the region of East Asia. This underlying rationale of U.S. aid is confirmed by table 1, given that the portion of military assistance in U.S. foreign aid was considerably sizeable and even economic assistance was expected to be partly transferred to the purpose of military expenditure (Kim, 1985; Kim, 1998). Table 1 also shows that grant had been more preferred form of aid delivery than conditional loans, especially after 1948 when the First Republic of Korea was set up. However, the actual nature and role of foreign aid could be differently shaped by varying degrees of the capacity and ownership of the recipient governments in dealing with transferring influences of international aid. The Rhee Syngman government whose institutional capacity was severely ruined in the aftermath of the Korean War lacked its commitment for management of foreign aid, thereby demoting itself to the aid economy heavily dependent on emergency relief assistance from the United States and the United Nations. In contrast, the Park Chung Hee regime in the 1960s began to operate foreign assistance effectively which was aimed to serve the state-led economic development plan. The Korean government during the Park period took the initiative in planning for effective management of development aid, with strong commitment and ownership. The patterned relationship between aid-givers and the localisation of foreign aid at the early stages of Korea's state-building, therefore, can be described as the following two modes of its historical development.

Foreign Aid and the Emergence of the Aid Economy

[158] The Point Four came up with four ideas that directed the grand strategy of American foreign policy: first, the United States would continue to back the new United Nations Organization; second, it would keep up the European reconstruction effort by means of the Marshall Plan; third, it would create a joint defence organization (NATO) to meet the Soviet threat; and fourth, it would support the improvement and growth of underdeveloped areas by delivering economic assistance, technologies, and industrial progress (United States Government Printing Office, 1964: 113-115).

It is no doubt that the Rhee period's dominant donors of foreign aid to South Korea were reduced to the two main actors: U.S. agencies delivering bilateral aid in a mixed bag of emergency relief and aid for economic reconstruction; and the UN-based relief organisations delivering multilateral assistance, mainly with emergency relief. Bilateral aid had long been favoured over multilateral aid because the former was viewed as more politically driven than the latter, and more likely to be channelled to recipients on the basis of strategic objectives, with more conditions attached (Riddell, 2007: 51; Degnbol-Martinussen and Engberg-Pedersen, 2003: 65). American agencies consisted of the four key organisations, all of which had distinctive purposes behind bilateral aid transfers (see table 2): (1) the Government Aid and Relief in Occupied Areas (GARIOA); (2) the Economic Cooperation Agency (ECA); (3) Public Law 480; and (4) the International Cooperation Agency (ICA).

First, GARIOA was served as a 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 the post-war Korean society between the end of Japanese occupation in 1945 and the establishment of the first Korean Republic in 1948 (Bu, 1960). GARIOA's emergency relief was aimed not only to tackle deep economic distress – particularly, low production and hyper-inflation – caused by the economic mismanagement of Japanese colonial rule, but also to meet the urgent calls for basic needs and prevent the disturbance of public order. Accordingly, the core items of GARIOA aid included urgent but temporary prescriptions for final consumer goods such as food (39.2 %), fertiliser (17.7 %), clothing (10.2 %), and solid fuel (7.6 %), rather than infrastructure-related goods or technologies such as railroad (3.0 %), communication (1.6 %), construction (1.7 %) and so forth (Chosun Industrial Production Bank, 1949: 13-14).

ECA, on the contrary to GARIOA, aimed to promote Korea's economic reconstruction in a longer term. By concluding the ROK-US Aid Agreement – or ECA Aid Agreement in many cases – on 10 December 1948, ECA took over GARIOA's

Table 2. The Composition of Foreign Aid to South Korea, 1945 – 1961[1]

(Unit: 1,000 USD)

Year	United States				United Nations		Total
	GARIOA	ECA/SEC	PL480	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

Source: Bank of Korea (1963).

[1]Figures showing economic aid only, except aid for military.

mission and intended to pursue an ambitious Three-Year Plan for Korea's economic reconstruction and self-reliance by investing on the three essential industrial sectors – the coal mining, the thermal power generation, and the fertiliser plant. However, a sharp cut of US Congress in the public spending requested for ECA aid and the outbreak of the Korean War ceased ECA's aid implementation, and its mission was transferred to the mandate of the United Nations Civil Assistance Command in Korea (UNCACK) in the form of the Supplies, Economic Cooperation (SEC), between 1951 and 1953 (Hong, 1962: 38). The demise of ECA brought about the failure of long-term development aid programmes for reconstructing the recipient economy.

Third, PL 480 was an official channel through which U.S. surplus agricultural commodity could be deployed to poverty-stricken countries as one of bilateral aid transfers. On the authority of the U.S. Agricultural Trade Development and Assistance Act of 1954, both parties, Washington and Seoul, entered into annually-renewed ROK-US Surplus Agricultural Product Agreements since 1955, which had not only endorsed the Korean government to sell American agricultural surplus to its domestic customers by home currency, but also entitled U.S. agencies to manage the counterpart fund collected by the domestic consumption of their surplus commodities (Korean Industrial Bank, 1963: 6-7).[159] Given that the PL 480-based aid to Korea is seen as a typical pattern of tied aid in the light of the mandate that the money for recipient countries be spent on goods or services produced in the donor country, PL 480 contributed to U.S. government's strategic interests in securing an expanded market where to sell its surplus products, thereby undermining the recipient government's autonomy for the rural development plan and agricultural industries (Park, 1981: 288).

The most important channel of bilateral aid delivery stemmed from ICA whose size of aid was the largest among US aid agencies (see table 3) and which delivered economic assistance rooted in the nature of military aid due to its footing in agreements that the Mutual Security Agency (MSA) (Kim, 1998: 138). Before the introduction of ICA aid in 1953, the Rhee government and the United Nations Command (UNC) led by the United States ratified the Agreement on Economic Coordination on 24 May 1952, and further launched the Combined Economic Board (CEB) as an advisory organisation to coordinate pending economic issues between South Korea and the UN until CEB was disbanded in 1961. CEB is often known as the most important aid coordination agency in the sense that donors and the recipient government worked closely together for more constructive decisions on the effective management of foreign aid that widely covered the price and distributions of foreign aid, the stabilisation of government financing, and the operation of the counterpart fund (Kim, 2011: 272). Indeed, it can be fairly stated that this was intended to increase government ownership of aid-funded development

[159] PL 480 stipulated the four kinds of disposability of surplus agricultural commodities: first, selling them in home currency of the recipient country; second, granting them without conditionality to poverty-stricken countries requesting emergency relief; third, delivering them through U.S.-based NGOs and International organizations; and fourth, selling them in USD with long-term contracts (Korean Industrial Bank, 1963: 7). Although South Korea in the wake of the Korean War needed to be considered one of war-devastated nations appealing form the massive transfusion of emergency relief, PL480 categorised the Korean case as the first mode of actions.

policies, reduce the transaction costs associated with fragmented aid delivery, and strengthen domestic accountability (de Renzio, 2006). Despite such a positive interpretation of CEB, it needs to be also declared that CEB was just a nominal consultative organisation through which donor agencies could manipulate the processes of consultation with the Rhee government by not only controlling the conditions of the counterpart fund and the varieties of aid items, but also glossing over the participatory ownership of the recipient partner (Kim, 1985: 254). Accordingly, CEB's penetrating effects triggered ICA to determine that U.S. 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, the two UN agencies began to work for multilateral aid-giving in the wake of the Korean War: (1) Civil Relief in Korea (CRIK); and (2) United Nations Korean Reconstruction Agency (UNKRA). The aid transfer by CRIK had been nominally done by UNC, but its substantial source of aid provision came from the United States whose coverage amounted to around 90 percent of the whole CRIK aid, thereby sidestepping the Korean government from US-dominated decision-making processes. Unlike CRIK aid that was largely based upon emergency relief assistance, UNKRA aimed to promote South Korea's economic reconstruction in a longer systematic way by reflecting the perspective of the recipient government as well as US-

Table 3. The Components of Foreign Aid, 1945-1961

(Unit: million USD)

	Period	Production Goods	Consumption Goods	Total
GARIOA	1945-1948	31 (7%)	379 (93%)	410
ECA	1949-1951	6 (3%)	170 (97%)	176
SEC	1951-1953	0.2 (0%)	26 (100%)	26
CRIK	1950-1956	- (0%)	457 (100%)	457
UNKRA	1951-1961	86 (70%)	36 (30%)	122
ICA	1953-1961	485 (28%)	1,260 (72%)	1,745
PL480	1956-1961	- (0%)	203 (100%)	203
Total		608 (19%)	2,531 (81%)	3,199

Source: Chang (1985: 106)

Table 4. The Composition of Tax Revenue, 1953-1960

(Unit: million won, %)

	1953	1954	1955	1957	1958	1959	1960
Taxation	2,096 (31.3)	5,199 (34.8)	11,054 (34.1)	11,736 (27.6)	14,349 (30.2)	21,596 (43.4)	24,964 (51.5)
Government monopoly	400 (6.0)	585 (3.9)	1,000 (3.2)	1,620 (3.8)	2,147 (4.4)	2,270 (5.0)	2,300 (4.7)
Government bond	203 (3.0)	333 (2.2)	1,367 (4.2)	1,523 (3.6)	1,800 (3.8)	500 (1.1)	1,000 (2.1)
Bond for industrial reconstruction	500 (7.5)	1,294 (8.7)	1,961 (6.0)	2,964 (7.0)	849 (1.8)	210 (0.5)	191 (0.4)
Loan	2,020 (30.1)	2,320 (15.5)	-	950 (2.2)	2,230 (4.7)	640 (1.4)	801 (1.7)
Aid transfer	796 (11.9)	4,470 (30.0)	15,054 (46.5)	22,451 (52.9)	24,580 (51.5)	18,910 (41.5)	16,763 (34.6)
Others	668 (10.2)	718 (4.9)	1,941 (5.9)	1,215 (2.8)	1,781 (3.7)	1,412 (3.1)	2,437 (5.0)
Total	6,685 (100.0)	14,919 (100.0)	32,377 (100.0)	42,459 (100.0)	47,710 (100.0)	45,540 (100.0)	48,456 (100.0)

Source: Economic Planning Board (1963).

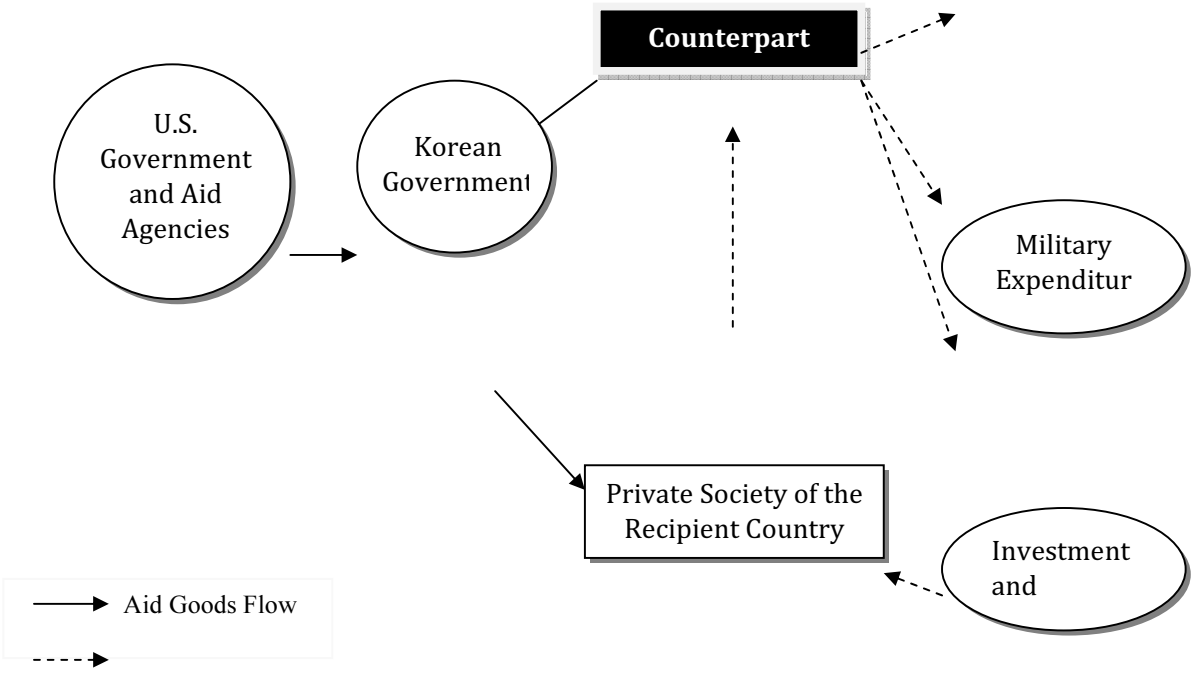
led multilateral donor coalition.[160] UNKRA, therefore, embarked upon the supply of infrastructure-centred financing, which eventually contributed to constructing the Mungyŏng Cement Plant in 1957, the Inchŏn Plate Glass Plant in 1957, the innovation of the Changhang Smelting Factory in 1964, and facility financing for small and medium-sized enterprises in textile, chemistry, machinery, and mining since 1954 (Bank of Korea, 1956: 235).

Some efforts to seek development aid for economic reconstruction notwithstanding, most channels for aid transfers to South Korea in the late 1940s and the 1950s were embedded in the provision of emergency relief assistance and consumption goods (81 % of total foreign aid) in order to tackle the urgent needs for social and economic stabilisation (see table 3). At this early stage of state-building, Korea thereupon emerged as an aid economy dependent on international transfer of foreign aid. As shown in table 4, the emergence and development of aid economy can be reflectively confirmed by noting foreign aid's contributions to national tax revenue in the 1950s. Together with the domestic levies, aid transfers took the main part of Korea's national revenue; particularly, aid transfers became the largest source of national revenue in 1957, remaining greater than levies in the four consecutive years of 1955 – 1958. In theory, systematic and effective allocations of aid-supported revenue would be bound to evade the risk of fungibility and promote the ownership and capacity of local authorities in reallocating the national revenue for their own economic development plans (Hubbard, 2010). In practice, however, the political economy of aid flows for the Rhee government's financial governance (see figure 1) presented mixed arrangements of aid dependency and governmental autonomy.

Figure 1. The Structure of U.S. Aid Flows to Korea in the 1950s



[160] UNKRA, originally, planned to receive cash contributions or commodities from about 30 UN member countries, but main contributors to UNKRA were reduced to only two countries – the United States (67%) and the United Kingdom (19%) – with two more small donors – Canada (5%) and Australia (3%) (Bank of Korea, 1956: 229).



Source: Kim (1985: 237). Modifications added.

At the centre of these arrangements was the operational formation of the counterpart fund whereupon US aid agencies and the Rhee government dominated the flow of aid goods and capital via a close coordination and donors' regulation of this aid flow. US government transferred aid goods throughout its aid agencies to the Korean government, and then the latter, in accordance with the agreements with the former, sell those goods to customers or private sectors in its local currencies. The capital accumulated by this transaction, categorised as the counterpart fund, was split into two purposes – one passed back onto US aid agencies and the other transmitted to the local government which reallocated its own counterpart fund to military spending and investment for economic development and public enterprises. The focal point underlying the counterpart fund is whether US aid to fragile states did help or hinder Korean government ownership and commitment in management of foreign aid. US aid to Korea played a

dual role in deepening donor's intervention into the recipient's aid economy and simultaneously opening the windows of opportunity for the self-reliance of the Korean economy.

The Retreat of Aid and the Rise of the Developmental State

In 1957, US government newly established the Development Loan Fund (DLF) which was designed to replace concessional grants and emergency relief assistance with development loans. The weight of US aid modalities had been shifted from relief assistance in the late 1940s, through the mixed bag of economic and military aid in the wake of the Korean War in 1950, to economic loans after the very late 1950s. The diminishing concessional transfer from the United States to Korea brought two different impacts on the Korean society (Park, 2003). On the one hand, it engendered the deep awareness of economic crisis in that decreasing aid would be supplanted by increasing loan requiring the repayment in due course of time. 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 the local authorities responded to the changing size and nature of aid transfers, particularly how to restructure local economies in accordance with the changing landscapes of aid relations. This required the motivation and capacity of the Korean government, embedded in the sense of backwardness which provided a charter for state action to mobilise resources and to take initiatives and risks of the catch-up strategy (Gerschenkron, 1962; Dore, 1990).

The first notable result of the Korean government's efforts for national reconstruction was found in the Rhee administration's institutional arrangements for enhancing its capacity development in response to the declining of US aid (Reeve, 1963). In February 1955, the Ministry of Reconstruction (MOR, *Buhŭngbu*) was newly established as a governmental agency not only orchestrating public policies regarding economic development but also managing foreign economic assistance from its introduction to effective implementation. Until MOR was replaced with the Ministry of Construction (MOC) by the military junta in 1961, MOR had played a decisive role in coordinating and planning economic reconstruction policies by setting in motion the Industrial Development Committee that then launched the Three-Year Economic

Development Plan, which left significant impacts to the subsequent governments even though this Plan ended in failure. Mainly using US loans from DLF, MOR also planned to build the infrastructure for economic advancements, such as the construction of Dongyang Cement Corporation in 1957, and the construction of Choongjoo Hydroelectric Power Plant in 1958 (Song, 1996: 196; Roh, 1960).

Table 5. Financing Sources of the Korean Development Bank, 1954-1960

(unit: million Won, %)

	1954	1955	1956	1957	1958	1959	1960	Total
Government fund	700 (87.9)	1,056 (47.0)	1,860 (62.2)	2,901 (62.8)	420 (9.5)	173 (4.3)	210 (9.5)	7,320 (34.4)
a. Accumulated money	- (-)	- (-)	- (-)	350 (7.6)	420 (9.5)	173 (4.3)	210 (9.5)	1,153 (5.4)
b. Rehabilitation fund	700 (87.9)	1,056 (47.0)	1,860 (62.2)	2,551 (55.2)	- (-)	- (-)	- (-)	6,167 (29.0)
Counterpart fund	34 (4.3)	869 (38.7)	868 (28.9)	1,188 (25.6)	2,924 (66.2)	3,060 (76.9)	1,546 (70.0)	10,482 (49.3)
a. ECA	4 (0.5)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	4 (0.0)
b. ICA	30 (3.8)	753 (33.5)	634 (21.1)	991 (21.5)	2,818 (63.8)	1,729 (43.5)	1,365 (61.8)	8,320 (39.2)
c. UNCRA	- (-)	116 (5.2)	234 (7.8)	190 (4.1)	106 (2.4)	1,331 (33.5)	181 (8.2)	2,158 (10.1)
Credit fund	- (-)	- (-)	6 (0.2)	10 (0.2)	3 (0.1)	13 (0.3)	23 (1.0)	55 (0.3)
Industrial finance bond	-	200	200	400	800	-	450	2,050

	(-)	(8.9)	(6.7)	(8.7)	(18.1)	(-)	(20.4)	(9.6)
Savings deposits	28	Δ6	14	29	71	425	Δ251	310
	(3.5)	(Δ0.2)	(0.5)	(0.6)	(1.6)	(10.7)	(11.4)	(1.5)
Capital	10	10	-	27	50	142	8	248
	(1.3)	(0.4)	(-)	(0.6)	(1.1)	(3.6)	(0.4)	(1.3)
Legal reserve	-	-	-	7	40	25	8	50
	(-)	(-)	(-)	(0.2)	(0.9)	(0.6)	(0.4)	(0.2)
Others	24	119	54	69	149	165	221	802
	(3.0)	(5.3)	(1.8)	(1.5)	(3.4)	(4.1)	(10.0)	(3.8)
Total	796	2,248	3,002	4,619	4,417	3,978	2,207	21,267
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: Korean Development Bank (1974: 285).

Secondly, the Rhee government began to centralise the overriding architecture of national reconstruction by shedding lights on the domestic consumption of manufactured products rather than exports (Woo, 1991). This import-substitution industrialisation (ISI) strategy aimed to promote the manufacturing sector for production and consumption within domestic economies, and set up government-related organisations to support this national reconstruction policy. Most of all, the Korean Development Bank (KDB) was established in 1954 in order to mobilise development funds from all different sources and finance selected development projects. Notably, the counterpart fund collected from foreign aid contributed the largest part in KDB-based financing, particularly since 1958. Another notable observation resulted from the emergence of the so-called 'Three-White Industries (*Sambaeksanŏb*)' in the 1950s, which consisted of milling, sugar refining, and cotton textile manufacturing. Such ISI-oriented manufacturing became visible, only on top of American economic assistance – mainly, aid from ICA – and their products were usually designed to be consumed by domestic buyers (Kim, 1998: 139). One of negative impacts of this self-reliance strategy was to provide institutional platforms for the emerging monopoly system which enjoyed exclusive rights or cartels sharing them (Kim, 1985; Kim, 1998). This

resulted in creating the comprador capital which means that accumulated capital by sponging off foreign aid and produced surplus profits in strategic cooperation with governmental agencies. The Three-White Industries monopolised financial resources and raw material, and the cartel working for them created quasi-voluntary associations representing each industry for further consolidating their monopolised rights: the Korea Flour Mills Industrial Association in 1955, the Korea Sugar Association in 1955, and the Spinners & Weavers Association of Korea in 1947. They had been a dominant economic force at the stage of national reconstruction until the Park government advanced the heavy-chemical industry as the main strategy for the export-led industrialisation.

The commencement of the Park regime, as a result of the military coup headed by General Park Chung Hee on 16 May 1961, needs to be fairly treated as a critical juncture in which the Korean government took initiative of economic development as top national priority with strong government ownership and effective commitment by seeking the transformation of foreign aid from the short-term emergency relief to longer-term development assistance, even though it undoubtedly wielded dictatorial rule.[161] The Park government drew up a legal regulation for active attraction of foreign capital by passing the Law on the Inducement of Foreign Capital in 1962 in order to counterbalance the sharp reduction of US aid. By the diplomatic normalisation with Japan in 1965, the Park government successfully invited economic assistance from Japan whose loans became the leading donor to Korea ahead of the United States in the late 1960s (Kim, 1993). The inflow of foreign capital into the Park government kept being further expanded beyond foreign loans from Japan by inducing foreign loans and grants from international financial institutions (IFIs) including the World Bank and the Asian Development Bank and key European countries such as West Germany and the United Kingdom after 1966.

For more effective management of foreign assistance and its linkage with economic growth programmes, the Park government set up the Economic Planning Board (EPB) in July 1961 within which government capacity and the ownership-based incorporation of foreign aid

[161] Washington initially did not support the new militant junta led by General Park, but eventually came to the conclusion that South Korean economy was not any longer sustained only by aid economy on the basis of US aid and it needed to attract loan or direct investment rather than concessional grants. Given that external loans or foreign direct investment require the stabilization of political systems in the recipient country, the Kennedy Administration reluctantly endorsed the political legitimacy of the Park regime (Chang, 1985: 108).

became centralised and maximised enough to implement the First Five-Year Economic Development Plan (1962-1966).[162] Unlike 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 realise a self-sustaining economy via export-led industrialisation strategies and various government-initiated growth projects (Kim, 2011: 277). By advancing the Five-Year Economic Development Plans, EPB had striven for the renovation of Korea's industrial structure towards manufacturing and heavy chemical industries in the 1970s.

This successful process of economic modernisation in Korea witnesses the rise of 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 possibly carried forward by the government's resolute intervention against America's stern opposition. US government warned Park's economic agencies by emphasising that US assistance was intended to foster private initiative and competition and discourage monopolies, but Agency for International Development (AID) funds in Korea contributed to developing government-controlled industries (USGAO, 1973: 22-26). US AID loans, intended for developing small- and medium-size firms, had been used instead to assist large well-established firms, some capable of obtaining other financing.

2. **Knowledge Transfers**

Introducing economic development theories and related empirical knowledge into Korea's academia and bureaucracies resulted in transforming the Korean economic development strategy from import-substitution to export-led industrialisation. Such knowledge transfers were marked as critical underpinnings for localising international transfer of aid and technology in accordance with contextual differentiations. The spectrum of economic theories concerning national

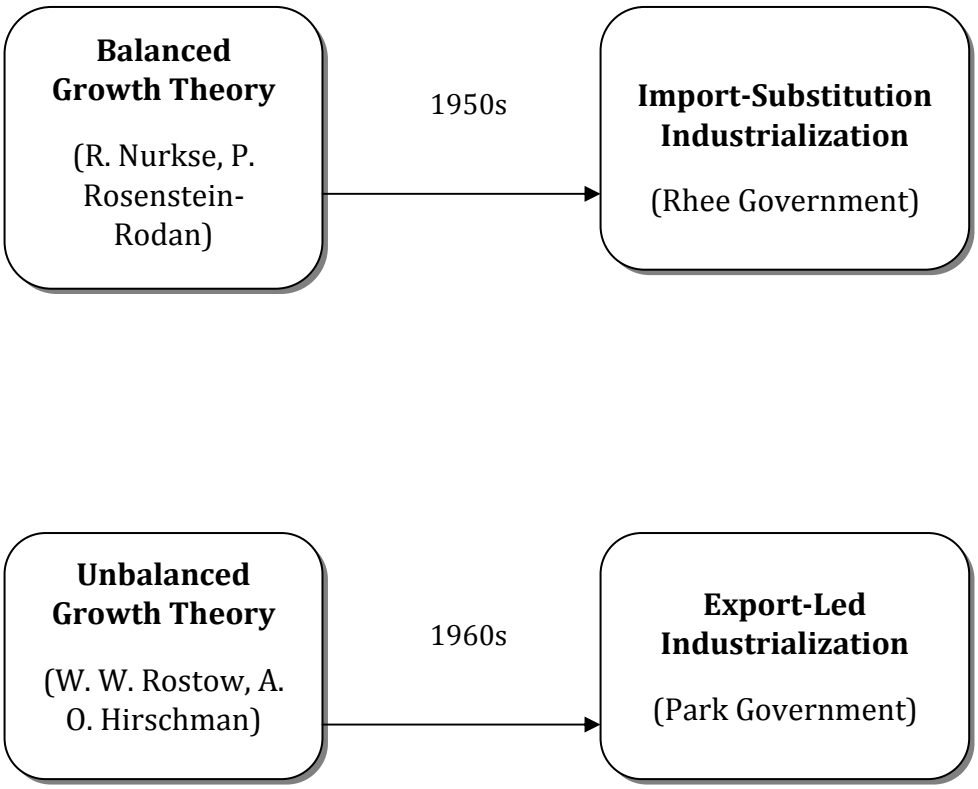
[162] For the purpose of self-sustaining economy, Walter C. Dowling, US Ambassador to Korea, and William Warne, US Economic Coordinator, both put emphasis on the need for Economic Development Plans even right after their appointments in July 1956 (Song, 1996: 250).

development varies in line with different political ideologies, ranging from liberal capitalism through modernisation to Latin America's dependency theory. Even a worldwide known theory could be selectively negated by Korea's academic and political elite unless they turned out to be nicely applicable to the Korean context (Park, 1999). In this sense, the Koreanization process of knowledge transfers contributed to enhancing the ownership-based localisation of Western economic theories and the bureaucratic responsiveness to the implementation of the transferred knowledge in practices.

In the early 1950s, the Colombo Plan and the Economic Commission for Asia and the Far East (ECAFE) guided nations in Asia to prepare and introduce national projects for economic development plans. In 1956, all social leaders, such as mass media, bureaucrats, and intelligentsia in Korea started off devising possible scenarios for economic development and independence beyond aid economies, mainly by learning the other successful stories of Germany and Japan, as well as India. Many scholarly researches on the West's economic growth theories flowed into print through major social science academic journals, especially the *Sa-Sang-Gye* (Park, 2003). Interestingly, two different economic theories had been intensely imported by the Korean elite in different time spans: 'balanced growth theory' in the 1950s when the Rhee government emphasised ISI as a main national strategy; and 'unbalanced growth theory' in the 1960s when the Park government proactively set off the export-led industrialisation.

The first bout of the Western economic theories for national growth strategies

Figure 2. Western Economic Theories and the Localisation Process



was made by introducing Ragnar Nurkse (1955)'s 'balanced growth theory' into the Korean academic society. Nurkse (1959) developed a theme of balanced growth that was predicated on a carefully stated prospect 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 which meant the ISI, since without the benefit of constant terms of trade, growth would have to reflect internal demands. This prescription was not spelled out carefully to argue that the ISI would have to go beyond what a decentralised, functioning market economy would generate, since the elasticity pessimism would additionally call for an optimal level and structure of protection. In this regard, Paul Rosenstein-Rodan (1963) 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. It was because the underdeveloped economy was trapped in a low-level equilibrium with no effective inducement to invest.[163]

Nurkse's balanced growth theory was identified as a very attractive approach to the Korean economic system which was already malfunctioned by its unbalanced industrial structure in the wake of Japanese colonial rule 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 purchasing power could lift the general level of domestic demands and its spill-over 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 the Korean government economic development plans: 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 the balanced growth across all different sectors, from light industries to heavy chemical industries, the ISI strategy served as a main scheme to realise the balanced growth theory by downplaying the role of exports in the outward economic growth (see figure 2).

However, the negative evaluations on the First Five-Year Development Plan in 1965-66 made decision-makers of the Park government feeling doubts about the premise of balanced growth, thereby catapulting the unbalanced growth theory to the public discussion about possible

[163] For example, the entrepreneur investing in shoes was not sure about selling shoes unless others invested simultaneously in textiles. This dilemma would disappear obviously if the country faced constant terms of trade at which these entrepreneurs could atomistically sell what they wished. A necessary condition for Rosenstein-Rodan (1963)'s analysis and prescription is therefore elasticity pessimism.

alternative approaches to economic development in the 1960s. The more critical momentum for the unbalanced growth theory was W. W. Rostow's visit to President Park in 1965 when Rostow set forth his views that South Korea already passed the take-off stage among the five stages (Park, 2003: 271).[164] The building blocks in the unbalanced growth theory, according to Rostow's seminal volume, *The Stages of Economic Growth* (1960), were the modernisation-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 the innovative entrepreneur. Particularly, at the core of this theory was the complementary effect of investment which 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. In a similar vein, Albert O. Hirschman (1958) emphasised that unbalanced growth underscored the particularities of resources and structures in peripheral regions upon which key industries could be constructed, thereby facilitating beneficial linkages to the local economy (Streeten, 1959).

Accordingly, this 'take-off' strategy became a central economic paradigm for the Park government to pursue the export-led industrialisation by selecting some specific industrial sectors as national targets which were eligible to receive financial subsidies from the government. Such unbalanced growth approaches allowed the strong intervention of developmental state and had been in full scale reflected by the Second Five-Year Economic Development Plan (1967-1971). In a nutshell, knowledge transfer regarding economic growth and its associated deconstruction or reconstruction of development theory depended upon the different basis of local conditions and endogenous development (Nederveen Pieterse, 2001)

3. Voluntarism Transferred

Another important pattern of international transfer took place in the sector of voluntary agencies in which the organisational and functional formulation of emerging voluntary associations

[164] Rostow (1960) distinguished five stages through which all countries have to pass: (1) the traditional society; (2) the preconditions for take-off; (3) the take-off; (4) the drive to maturity (self-sustained growth); and (5) the age of high mass consumption. The most important are stages 2-4, because they mark the transition from traditional to modern society.

indigenous to Korea was decisively influenced and shaped by the overriding features of foreign voluntary agencies, particularly US-based agencies (Kim, 2008). The collapse of Korea's traditional mutual aid systems based on local

Table 6. Aid Records of Foreign Voluntary Relief Agencies*

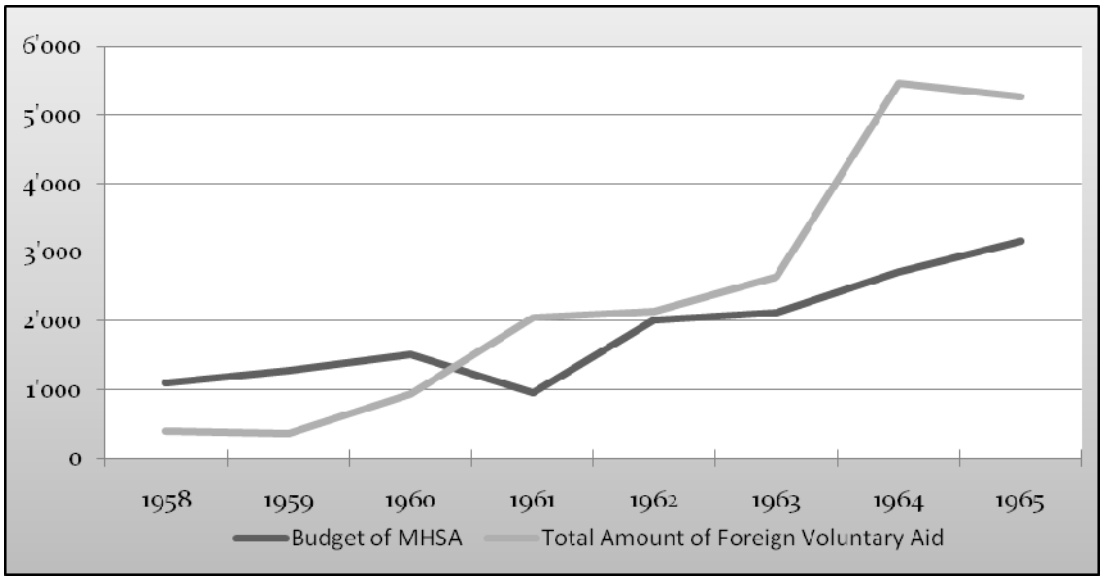
	Cash (US $)	Aid Items (million tons)				
		Grain	Clothing	Medical Supplies	Others	Total
1953-55	3,701,592	20,126	8,205	420	4,671	33,422
1956	1,881,792	36,528	1,991	135	1,312	39,966
1957	1,903,352	114,756	4,112	600	2,456	121,932
1958	2,755,362	93,298	1,952	93	16,638	111,981
1959	2,906,557	81,229	2,466	320	1,239	85,254

Sources: Ministry of Health and Social Affairs (1965).

* With lack of reliable official records showing foreign voluntary aids before and during the Korean War, this table begins with aid records of 1953.

Figure 2. Foreign Voluntary Aid and MHSA's Annual Budget

(unit: million won)



Source: World Vision Korea (1993).

communities, due to Japanese colonial rule and the Korean War, inevitably enabled foreign voluntary agencies to carry out and dominate emergency relief tasks during the post-war years. 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 (see table 6). Such foreign voluntary contribution to emergency relief 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). As an example of such contributions, the ratio of foreign voluntary assistance to the budget of the Ministry of Health and Social Affairs (MHSA) rose rapidly, from 36.2 percent in 1958 to 61.6 percent in 1960, eventually exceeding 200 percent in 1961 (see figure 2).

International transfer of voluntarism in the post-war Korea addresses the important processes of transforming aid-received countries in the following three aspects. First, foreign agencies launched centralised peak associations for the purpose of effective coordination of relief activities, and this move bequeathed the formation of national umbrellas to Korea' voluntary associations in later years. In 1952, during the Korean War, seven foreign agencies launched the

Korean Associations of Voluntary Agencies (KAVA), led by Msgr. George Carroll, which established a secretariat bureau in 1955 and expanded its member agencies to 76 in 1970 (KAVA, 1995: 67-69). KAVA was created as a peak association in hopes of enhancing the effective alignment of varieties of donors' relief services. Thanks to its remarkable relief contribution as shown in figure 2, KAVA was christened "the Second MHSA" by the Korean population, which consequently undermined the legitimacy of the Rhee government (KAVA, 1995: 77-79; Choi, 1996: 3). The effectiveness of such a peak association resulted in conferring some positive motivations to the Korean civil society organisations which later organised national centres for coordinating policy advocacy and service delivery (Lewis and Kanji, 2009).

Second, the developmental paths of the emerging Korean voluntary sector were strongly affected and even shaped by the policy legacies that foreign agencies – more precisely, American voluntarism – implanted in the post-war Korea (Midgley, 1984). The organisational impacts of foreign voluntary agencies were characterised 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 politicised, but also confining organisational motivations of voluntary associations into secular charity 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 way of the legislative control over their relief activities. As a result, foreign voluntary agencies steered and facilitated the residual and fragmental growth of the Korean voluntary welfare services. The culture of charity and its associated political apathy have long been perceived as enduring values and properties of Korea's voluntary sector in the coming decades (Kim, 2008).

Third, the Korean government intervened in foreign voluntary activities for the purpose of enhancing aid effectiveness. The Park regime embarked upon strict control and regulation over foreign voluntary organisations. Given full-scale emergency relief contributions of foreign voluntary agencies, the military junta recognised the immediate need for the regulative reallocation of their financial aid and relief activities (Choi, 1996). By enacting the Law Concerning Foreign Voluntary Relief Agencies in 1963, the military government set up legal

definitions regarding foreign voluntary activities and required foreign agencies to register at MHSA 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 monopolised all channels of policy coordination by installing the National Relief Coordination Committee (NRCC) at the central level and the Provincial Relief Coordination Committee (PRCC) at the local level (Government of the Republic of Korea, 1962: 312-313). By dispatching respectively 40 civil servants to the PRCC at every local post and 21 to the NRCC, the military junta substantially enhanced its controlling power of foreign voluntary activities at both the central and local levels (Editorial Committee for the History of Korean Military Revolution, 1963: 1291).[165] Consequently, foreign voluntary agencies in the 1960s were coerced into performing their missionary work within institutional constraints formulated by the local authorities; such strong regulation eventually triggered a large number of foreign agencies to retreat from Korea (KAVA, 1995). Despite its dictatorial rule, the Park government demonstrated its great efforts to consolidate the ownership-based incorporation of voluntarism transferred from outer world.

4. Technical Transfer

Korea's institutional capacities of many different sectors in the period of state-building, more often than not, emerged from US technical cooperation for transferring and consolidating institutional arrangements. US government changed the economic assistance channels from aid transfers to the enhancement of technical cooperation in full scale since the late 1960s, but even before then, important public or pseudo- public institutions in the Korean society had been set up under the US influence (United States National Academy of Sciences, 1969). Albeit technical contributions of international actors, such institutional transfers could not be successfully completed without systematic initiatives of localisation entrenched in the autonomous commitment of domestic actors. The corresponding sectors to this institutional transfer in the

[165] Foreign voluntary agencies were required to present quarterly work plans to both committees three months in advance, while the Minister of MHSA allocated welfare tasks to individual foreign voluntary agencies (Editorial Committee for the History of Korean Revolution, 1963: 1291-1292).

context of Korea's economic development could be grouped largely into the three followings: (1) higher educational institutions; (2) quasi-governmental research institutions; and (3) technical cooperation for Korea's public administration.

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 assistances throughout 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 Minnesota 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 Seoul National University Sixty-Year History, 2006). Afterwards, with its interim evaluation and project completion proposal, AID continued to assist the establishment of graduate programmes for the School of Public Administration at SNU in 1961. Furthermore, AID assisted five million dollars for financing the foreign exchange costs of technical assistance, training, research support, instructional material, and equipment to enable the College of Natural Science at SNU in 1975 to create a graduate programme in the basic sciences meeting international standards and thereby enhancing the qualifications of its graduate students who would staff Korea's colleges, research institutes and industry (AID, 1975).

The second pattern of institutional transfer from foreign aid agencies developed into the formation of quasi-governmental research institutes which contributed to directing governmental policies for take-off strategy in a more effective fashion: 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 dollars for the establishment of KIST in 1967, AID contributed to the acceleration of industrial development by channelling science and technology into industrial action in Korea. While Korea 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 (Agency for International Development, 1967). AID strategy in response to the current situation of Korea 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.[166] In 1971, another quasi-governmental research institute, KAIS, was established by financial assistance from AID, and KIST and KAIS were integrated as the Korea Advanced Institute of Science and Technology (KAIST) in 1981 for the purpose of more effective development of industrial technology which directly contributed to take-off strategy of the Second Five-Year Economic Development Plan. In addition, AID's another important project agreement on KDI provided a large amount of financial assistance – up to 1.31 billion won – to EPB of the Park government in the establishment of KDI which would conduct competent independent research on major public policy issues. For this matter, the Korea Development Institute Law was promulgated by the Korean government on 31 December 1970, under which the Korea Development Institute Endowment Fund started off long-range financing and the two governments jointly controlled the counterpart funds which would be used for financing the establishment of KDI in 1971 (Agency for International Development, 1971). In a nutshell, the social origins of the three main research institutions, which made big contributions to rapid economic growth in the 1970s, were deeply anchored in financial assistances and administrative guidance by AID.

Third, the effect of institutional transfer was clearly materialised in technical assistance for public administration of the Korean government (United States Operations Mission to Korea, 1959). Considering the fact that the key officials in the Korean government lacked experience in depth and they faced the challenging task of improving the administrative machinery of government, the Public Administration Division of US Operations Mission to Korea (USOMK) offered advice and assistance to the attempts of the Korean government to shape its human resources into an administrative system within which the physical development could take place.

[166] KIST came into being as a consequence of discussions between President Park of Korea and President Johnson of the United States during May of 1965. In July of 1965, a team of science and research administrators headed by Donald F. Hornig, the President's Assistant of Science and Technology, examined the technological needs of Korea and designed the overall programmes for the establishment of KIST in 1966 (Agency for International Development, 1967: 2).

On the front of lack of skills in governmental administration, USOMK gave key personnel in many Korean agencies intensive overseas training under its participant programmes jointly organised by SNU and the University of Minnesota. On the front of lack of managerial skills, Washington University cooperating with two private schools, Yonsei and Korea Universities, 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. On the front of lack of long-range economic planning, the University of Oregon sent to Korea a team of contract advisors in the various fields of applied economics.

In consequence, the main contributions of US-initiated technical cooperation – higher education, quasi-governmental research institutes, and technical assistance – were to enhance 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.

Impacts of International Transfer on Exports and Trade

As close of play, international transfers of aid, knowledge, voluntarism, and institutional assistance were inevitably bound to leave some impacts on exports and trade of local partners, because they were all designed to make contributions to economic development plans. The promotion of capacity building and ownerships of local authorities via such international transfers came up with the emergence of developmental state pursuing the pervasive intervention into the economy for the purpose of rapid economic growth (Amsden, 1989; Jones and Sakong, 1980; Leudde-Neurath, 1985). All in all, the essential corollary of the Koreanization of foreign aid and technology marked the industrial transformation of Korea's trade modalities, from the ISI to export-led growth.

Table 7. Korea's GNP Structure for 1955 and 1960

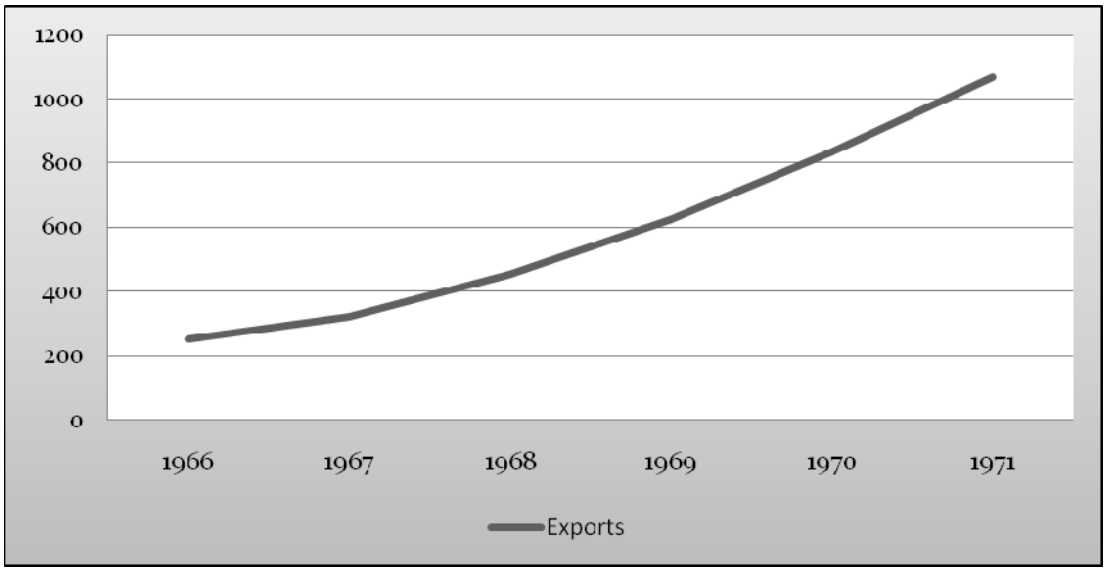
	1955 Actual	1960 Actual	1955 Norm
Per capita GNP	$79	$86	$79
Per capita inflow as percent of GDP	7.7	8.5	7.7
Percent of exports in GDP	1.7	3.4	9.8
Industry percent of GDP	13.0	15.6	17.0
Percent of manufacturing exports of GDP	0.4	1.2	1.4
Imports as percent of GDP	10.0	12.7	17.6

Source: Frank *et al.* (1975: 96), and recited from Woo (1991: 58).

During the 1950s, Rhee's aid economy, mainly based on the balanced growth theory, appeared to advanced ISI strategy as a core method for national development plans, with the manipulation of foreign voluntary agencies as supplant of local authorities. The increase in imports' shares of GDP, as table 7 demonstrates, violated the key objective of the ISI, reducing imports from abroad. Also, manufactured exports had shares of GDP well below the norm: 0.4 percent of GDP in 1955 as versus 1.4 percent. The bias toward import substitution came from the fact that the direct contribution of export expansion to manufacturing growth was 5.1 percent, whereas import substitution accounted for 24.5 percent (Woo, 1991: 58). As Anne Krueger (1981) argues, Rhee's ISI was a failure in that manufacturing had not become a dominant sector and imports had been increasing against the theoretical tenet of the ISI. This also reflects the lack of the Korean government's capability to manage ISI-based development projects.

Figure 3. Korea's Export Earnings, 1966-1971

(unit: million USD)



Source: Woo (1991: 101).

Accordingly, the path of economic development was redesigned for the shift from the ISI to export-oriented industrialisation (Woo, 1991; Haggard *et al*., 1991). Park's strong leadership and state intervention in the targeted industries, rooted in the unbalanced growth strategy, made possible export-led growth in the face of diminishing foreign grants (see figure 3). Particular emphasis needs to be placed on Park's capacity and solid ownership to act decisively, despite his despotic rule. During the period of the military junta, the old networks that constituted the political foundations of import substituting industrialisation were effectively broken. State power and political insulations proved important for achieving a more market-conforming strategy. Behind the scene of enhanced state ownership, the centrality of US aid agencies always remained firmly in place with varieties of international transfers – technical, financial, theoretical, and institutional. The voluntary sector indirectly and compliantly contributed to holing up export-led growth, mainly in the form of mass mobilisation, *Saemaul Undong*, which resulted in self-reliance without the cost of governmental agencies in the 1970s. Nevertheless, Korea's success

story in export-oriented industrialisation needs to be reconsidered due to the fact that the preferential benefits for chaebols and cartel or other monopolised industries were systematically allowed to promote the scale of exports.

By Way of Conclusion

In summary, Korea's developmental experiences address the importance of international transfer of aid, knowledge, and technology in promoting economic development of local partners, local authorities' efforts to utilise and localise externally-transferred aid and technology for its own economic development plans, and the ownership-based incorporation of international transfers for the localisation. Apparently, an international transfer is bound to work better when provided in contexts where it is likely to be more effective system with good policies and institutions, and to work less well in more difficult or inhospitable environments. It is also an obvious lesson from the Korean experience that the bureaucratic responsiveness to the transferred knowledge and technology and proactive institutionalisation of international transfer for capacity building of local authorities are necessary conditions to secure the enhancement of aid effectiveness.

In a sense, Korea's success story already showed the dynamics of the embeddedness of 'capability-enhancing developmental state' that Peter Evans (2010) suggests as an adapted mode of developmental state in the 21st century (Dostal, 2010). It is because the Korean government, even at the very early stage of state-building, actively supported effective state engagement in capability expanding projects financed usually by US agencies or other foreign aid. One more element would be required to complement the notion of capability-enhancing developmental state in the 21st century: possibly, 'mixed governance' between the state and non-state sectors, aimed to promote state-society coalitions for the purpose of further enhancement of capacity and ownership in dealing with international transfers (Kim *et al*., 2011; Ringen *et al*., 2011).

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Chapter 12

Gender in the Korean Development Context

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Introduction

In the 'productivist welfare model', most commonly used to explain the social aspects of Korea's development experiences, the site of the family is often dismissed as social policy[167] is subordinated to the priority of economic development set up by the developmental state, and plays an instrumental role in providing political legitimacy (Deyo 1992; Holliday 2000; Gough 2001; Kwon 2005). Even though the model implicitly acknowledges and assumes that the family remains as the site to provide basic welfare and care in the private sphere, and to make up for the lack of social expenditures in the public sphere, it is not considered in the analysis of the development process.[168] As for the minimal public spending on social services covered by the family, Folbre (1994) describes it as a "transfer of costs". The transfer of costs occur not only between economic policy and social policy, but also between the public and the private, in which women play a crucial role by stretching their time and taking on a double burden. However, in the study of 'welfare developmentalism', little attention has been paid to the individual actors who bear the transferred costs, i.e. mostly women, while the focus still remains on "developmentalism" in terms of the grand economic outcome. Therefore, women's issues in the

[167] Social policy is a slippery term as Gough (2001: 165) points out, herein it is understood as 'state policies, practices and institutions that directly influence the welfare and security of various groups within a particular society' (UNRISD 2000: 9, in Cho *et al*. 2004: 41).

[168] Cultural aspects of Korean development are treated analogously to the site of family by the school of the productivist welfare model. Following leading scholars of the developmental state, such as Johnson (1982), Woo-Cumings (1998), Evans (1995), and Amsden (1989), this approach seems to have successfully avoided the Orientalist account of the Korean development, 'bypassing culturalist landmines in the study of East Asia' (Woo-Cumings 1999: 26). However, I would argue that their efforts to evade culturalist orientation have somewhat contributed to the decontextualization of social factors in the development process. As Truong (1999: 158) points out, without considering cultural aspects of the economic development process, one is likely to misjudge women's contribution to industrialisation and economic growth, since those cultural values influence state policies and industrial practices.

Korean development context tend to be treated as a separate realm from 'development issues', thereby obscuring women's dual or triple roles in development (Chang 1996: 16). In order to see how the public-private realms have been co-evolving under the linkage and articulation of economic policy and social policy, this paper suggests that the concept of social reproduction can provide insights into how different levels of institutions and various actors have coped with social changes occurring in the development process; it is the "glorious tangle of production and reproduction" that characterizes people's lives (Bhavnani, Foran, and Kurian 2003: 8, cited in Bedford and Rai 2010: 8).

Social reproduction[169] is referred to as 'both biological reproduction of the species (including its ecological framework) and ongoing reproduction of the commodity of labour power' (Bakker and Silvey 2008: 2). There have been ongoing debates over the definition of social reproduction; and methodological issues with its conceptualization around domestic labour, invisible or unpaid economy, and the care economy have arisen (Razavi 2007). Social reproduction involves a range of activities, behaviours, responsibilities and relationships that ensure the daily and generational social, emotional, moral, and physical reproduction of people. It includes, among other things, the processes by which "food, clothing, and shelter are made available for immediate consumption, the ways in which the care and socialization of children are provided, the care of the infirm and elderly and the social organization of sexuality" (Lasnett and Brenner 1989: 382-3). Herein the central notion of social reproduction lies in the inter-relationship between production and reproduction, which spans various institutions such as households and markets, as well as the state (Picchio 1992), and thereby allows for an explanation of the structures, relationships, and dynamics that produce these activities.

The significance of social reproduction in the process of production has been the focus of the domestic labour debates since the 1970s. Feminist political economists have argued that unpaid domestic work based upon the gender division of labour lies at the base of surplus value creation (James and Dalla Costa 1973, Seccombe 1974 in Bakker and Silvey 2008; Picchio 1992). Likewise, rereading Marx, Bezanson (2006a) maintains that the cost of social reproduction is at the centre of the system of capital accumulation. Their discussion on the centrality of

[169] The concept of social reproduction has been long contested, dating back to the theoretical works of Adam Smith, Karl Marx, Louis Althusser, and Pierre Bourdieu. However, herein it is confined to its usage within feminist debates, since the purport of this paper is to pin down the gendered nature and process of development in line with the changing relationship between production and reproduction.

reproduction in economic development sheds light on women's invisible labour, which has been overlooked in the stark dichotomy between production and reproduction in which social reproduction is rarely included in analytical work done by political economists, nor accounted for in national statistics, and only the production sphere is valorized (Bedford and Rai 2010: 7). Since social reproduction revolves around the fundamental question of what "structures have to be reproduced in order that social reproduction as a whole can take place" (Edholm, Harris and Young 1977 in Benería 1979), it involves institutional changes and the processes for production and redistribution carried out by the state, the market, family/ households, and the third sector including voluntary organizations.[170]

While reproduction implies copying what existed in the past, it is very unlikely to occur in the exactly same manner (Bakker and Silvey 2008), which pinpoints its intrinsic changing nature. Changes in social reproduction occur in tandem with the re/organization of production; in particular, in the time of economic crisis and following economic retrenchment, such transformations have usually had the effect of intensifying the role of the family/household in social reproduction, where it acts as a shock-absorber (Benería and Feldman 1992; Elson 1995, 1998; Bezanson 2006a, 2006b). However, as argued by Picchio (1992), social reproduction is politically, socially, and culturally determined, and therefore such reconfiguration of social reproduction is not an *automatic* adjustment to external demands, but rather a result of negotiation and mediation (Bezanson 2006b: 175). While 'women's work in the home acts as a residual subsistence labour, expanding or contracting as much as possible to offset the impact of market forces, state practices, or changing family circumstances' particularly in the process of economic restructuring, 'women's labour in their homes is not endlessly elastic' (Luxton 2006: 38). Likewise, Elson (2000) warns in her analysis of the gendered impact of crises, 'If too much pressure is put upon the domestic sector to provide unpaid care work to make up for deficiencies elsewhere, the result may be a depletion of human capabilities [...] To maintain and enhance

[170] Amongst these actors, Picchio (1992) argues that the state and the family are two main sites where the conflicts between the needs of capitalists for profit-making and the living standards of the labouring population are negotiated and taken up as actual struggles that produce results. The state plays a central role in structuring the inputs into, conditions of, social reproduction in this approach to regulating the labour market - through a ranges of laws and policies relating to pro- and anti-natalist policies, migration, labour laws, health and safety regulations, provision of child care, education, and health care, and environmental protection laws-, and by taking (often limited) responsibiies responsibility for income security - for the unemployed, low-wage employees, and those with no access to wages (Picchio 1992: 119). "The family, however defined and composed, functions as an alternator; in the outside world the direction of energy is from the reproduction of persons to the production of commodities (capital accumulation), while in the family this direction has to be reversed - at least apparently- in favour of a more human process whereby the reproduction of persons is the goal and commodity production is the means" (Picchio 1992: 98).

human capabilities, the domestic sector needs adequate inputs from all other sectors. It canot be treated as a bottomless well, able to provide the care needed regardless of the resources it gets from the other sectors' (p. 28, cited in Rai, Hoskyns and Thomas 2010:2). Thus, without sufficient supports from actors and institutions other than family, social reproduction is likely to fall into crisis, especially amongst the most vulnerable households, signifying the importance of social reproduction in the economic and social policy areas.

The conceptualization of social reproduction has many implications for the understanding of Korea's development. Firstly, women's reproductivity in childbearing has been controlled and manipulated by state intervention to lower the birth rate at the beginning of industrialization and more recently to increase it, both for the purposes of economic development. Secondly, as Han and Ling (1998) and Truong (1999) have argued, it seems plausible to regard Korea's miracle as a gendered miracle relying on women's multilayered and undervalued work. Confucian values imposed on dutiful daughters, wives and mothers to undertake unpaid domestic labour and care for family members have minimalized expenditure on social welfare and thus hidden the costs of social reproduction. Thirdly, industrialization has been carried out with a strong gendered division between production and reproduction by employment practices obliging women to stay at home once they are married and by the corporate-based welfare regime which privileges male workers and places women in the periphery of the labour market. The fourth aspect of social reproduction in the Korean development process is that the shift in industrialization strategies for economic growth has been closely interlinked with the management of the female labour force in the production site, so that women have repeatedly shifted positions in and out of the labour market, while stretching the time and labour necessary to meet their needs. Lastly, the economic crisis has led not only to economic restructuring, but also reorganization of social reproduction. The economic crisis reaffirmed that social reproduction has been restructured to function as a shock absorber to the production economy through the selective employment of old gender relations and the simultaneous creation of new gender relations. However the subsequent deregulation and flexibilization of labour has been destroying the very base of reproduction of its production system, hence calling for the need to provide adequate inputs and reorganizing conditions for social reproduction.

This paper attempts to examine how social reproduction and production have been interlinked and transformed over the process of Korean development from the 1960s to present.

Acknowledging the complexity of social reproduction, it will look at the interplay of reproduction and production in separate sites for analysis. First of all, this paper overviews the social and economic policies where women were most prominently present, especially in family planning policy and EOIs, and their implications for gender relations. Secondly, based on the argument by Kim and Shon (2003) that 'the labour regime of modern capitalism has formed *division* in the way in which the regime has tied the labour sphere to masculinity and femininity'[171], this paper examines how femininity and masculinity have been institutionalized in the way of work-based entitlement for men and domesticity for women, especially in the formation of HICs sector. Thirdly, it examines how reoccurring industrial restructurings have been interacting with the reoganization of social reproduction through employing gender relations into the process. Finally, this paper questions the gendered implications and effectiveness that the expansion of social welfare in response of the financial crisis in 1997 has, whilst the deregulation of the labour market has been deepened the polarization of workers.

Early Industrialization in the Authoritarian Government: 1960s-1980s

Women's policy, which refers to policy concerning women's issues articulated and implemented by the government under the Park regime (1961-1979) can be identified as protection and 'enlightenment' of women through the Prostitution and Prohibition Act[172] and the Child Welfare Act in 1961 (Hwang 2004). The protection of 'women needing protection', focused particularly prostitutes and war-widows, and the enlightenment policy consisted of education programmes for women to exercise their suffrage rights, eradicate illiteracy, promote domestic sanitation, and enhance women's status (Kwon 1994: 5). While the significance of the enlightenment project was shown through Women's Halls built in villages, in wider development policy women were most visible in two policy areas: the family planning policy and export-oriented industrialization.

Family Planning Policy

[171] Translation is the authors own.

[172] At the same time, geisha(*kisaeng*) tourism was promoted for the purpose of dollar earnings, and 'Red Light Districts' were set up nearby the US military base and those prostitutes working for the Districts were controlled and regulated through regular health check appointments by the government (Moon 1997).

Amongst government policies, it is in the population policy that women appeared the most prominently, becoming the major target of policies to reduce the fertility rate. The drastic fall in the fertility rate in Korea from 6.1 in 1960 to 4.5 in 1970, 2.8 in 1980, and 1.5 in 1990,[173] has been referred to as a "success of development" alongside the rapid economic growth in many development literatures (Corrêa 1994; Hartman 1987; McNicoll 1998). Since population growth was seen as a major obstacle to economic growth, the Supreme Committee for Nation Rebuilding, which was established as soon as Park Chung Hee came into power through a coup, declared the intention to enforce a strong national population policy (Yang 1986, in Lee 1989). The National Family Planning Program was undertaken with strong cooperation between the governmental bureaucracy and non-governmental organizations under the Planned Parenthood Federation, and yet the cooperation occurred under the surveillance of the Ministry of Health and Social Affairs, so it had to accommodate the prevailing notion of national development (Corrêa 1994). Although the fall in fertility rate cannot be attributed solely to the population policy, as Gordon (1977) argues that 'reproductive options cannot be separated from economic, vocational, and social choices' (in Morokvasic 1981: 127)[174], it seems apparent that family planning has played a vital role in changing people's pattern of reproduction. It is significant that Korea was ranked the second amongst 98 developing countries based on total (not per capita) government spending on family planning, following China (Ross et al 1993: Table 11, cited in Lee 2004: 171).[175]

Table 1. Changes in the Total Fertility Rate

Unit: per person

Year	1970	1975	1980	1985	1990	1995	2000	2005	2009
Total Fertility Rate	4.53	3.43	2.82	1.66	1.57	1.63	1.47	1.08	1.15

Note: The total fertility rate is the average number of birth a woman will have during her reproductive life (age 15-59).
Source: Statistics Korea, *Vital Statistics*

[173] Statistics on the total fertility rate show slight disagreement between different sources.
[174] Amongst other factors contributing to the significant decline in the fertility rate, general education, such as reading, writing, and arithmetic, especially for women, has been acclaimed, not education about birth control and family planning (see Buchanan 2007: 3-5). This implies that the significant rise in women's education level (see Table 8) presumably would have been one of major causes to the reduction in the fertility rate.
[175] The total government budget allocated to family planning programme rose up dramatically from nil in 1961, 158,000 won in 1964 to 716,100,000 won in 1970, 1,176,916,000 won in 1975, 7,816,619,000 won in 1980, 24,624,154,000 won in 1984 (Lee 1989: 68).

Through family planning programmes various measures were introduced and substantiated over the time. In 1964, an increased number of family planning fieldworkers, mainly consisting of nurses and midwives, were dispatched to 1,473 health sub-centres at the town and the township level, and in the same year the 'intrauterine device' introduced into the national programme provisions and mobile teams began to be utilized for outreach work in remote areas (KIFP 1978). In 1968, when the oral pill was introduced into the national programme and substantial funds from USAID were secured, Family Planning Mothers' Clubs were organized throughout the country. In 1973, the Mother and Child Health Act was passed, legalizing induced abortion under the condition that the pregnancy be diagnosed as detrimental to the health either of the mother or the fetus. Subsequently, female sterilization was introduced into the national programme in the Hospital Project, the Industrial Site Project, the Urban Low-Income Area Project, and the Population Education Project. In 1976, social measures of a system of incentives and disincentives were introduced, such as 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 denied women's right to be household head was revised in 1977. In 1980, the reduction of delivery fees for mothers who accepted sterilization after birth was introduced and the measure of social supports was further strengthened in 1982.

This overview of the evolution of the family planning policy shows that the Korean government took up a wide range of approaches to change people's behaviour impacting fertility, including campaigns, mobilization of civil organizations and, provision of contraceptive services. However, when sterilization was introduced with the system of incentives and disincentives, the policy became more target-driven, as can be seen in Table 2 below. Moreover, such target-driven fertility control was heavily weighed towards women. As illustrated in Table 2, the targeted number of (tubal) sterilization 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. As a result, acceptance by females of sterilization exceeded by more than three times the numbers of their males (Ross et al. 1993: Table 15). Furthermore, 70 per cent of men who accepted sterilization agreed to sterilization during civil defense exercises, as 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. Even though the Mother and Child Health Act provided that abortion should be restricted to occasions of life hazard, the average number of abortions increased fourfold within twenty years, so that the total abortion rate and the total birth rate became equal at 2.9 in 1979 (PND Korea 2000) (see Table 3).[176] [177]

Table 2. The Targeted Number of Contraceptive Tools for Distribution in 1988

Unit: thousands

	Goal in 1987	Goal in 1988
Sterilization	307.5	260.0
Vasectomy	93.3	80.0
Tubal Sterilization	214.2	180.0
IUD	250.0	250.0
Condoms (monthly)	140.0	125.0
Oral Pills (monthly)	40.0	30.0

Source: The Ministry of Health and Society*, 1988 The Family Planning Programme,* in Lee 1989: 64

Table 3. The Proportion of Married Women (age 15-44) who have had an Abortion

Unit: per cent

1964	1967	1970	1973	1976	1979	1982	1985	1988	1991
7	14	22	30	38	49	50	53	53	53

Source: KIHASA 1992, in Cho 1997

Single Women-Centred Industrialization

In the early industrialization period, women's participation in the labour force displayed a gradual increase, from 37.0 per cent of women in 1963, to 39.3 per cent in 1970, and 42.8 per

[176] With a strong son preference, the practice of abortion as a fertility control method resulted in greater imbalance in the sex-ratio. The number of boys per 100 girls for forth child and upward was 109.4 in 1970, 110.2 in 1980, 146.8 in 1985, 209.5 in 1990, and reached a peak of 234.9 in 1993. This trend has since weathered to 167.6 in 2000, 132.4 in 2005 and 114.1 in 2009 (Statistics Korea, *Vital Statistics*).

[177] It should be pointed out that the family planning was mainly offered to married couples, with a distinct lack of contraceptive services offered to unmarried couples. While the recorded number of single mothers increased from 36 in 1960 to 10,142 in 1984, the rigid cultural constraints to childbirth outside of marriage, the absence of social welfare provision for single mothers and the flourishing of agencies facilitating overseas adoption led to Korea having a worldwide reputation for selling babies to foreign countries from the 1970s (Cho 1997).

cent in 1980, while men's participation declined, from 78.4 per cent, to 77.9 per cent, and 76.4 per cent over the same period of time (Table 4). Looking at the composition of female employees by their status of employment, in the 1960s and 1970s, unpaid family workers made up more than half the total, while in contrast, waged workers represented only 21.8 per cent in 1963 and 29.0 per cent in 1970 (Table 5).[178] Although the focus of much literature on women's role in the process of Korean development is placed on the manufacturing sector, women were still predominantly active in the primary sector. As can be seen in Table 7, the sector of Agriculture, Forestry and Fishery was the largest sector of women's employment until 2000, though its size in terms of the proportion of the total female workforce plummeted over four decades from 70.5 per cent in 1960 to 17.0 per cent in 2000. Whilst the size of the primary sector as a proportion of overall employment halved in two decades from 58.6 per cent in 1965 to 24.9 per cent 1985 (Table 6), women's proportion of the primary workforce grew steadily from 41.6 per cent in 1970, 43.8 per cent in 1980, 45.0 per cent in 1990, to 51.2 per cent in 2000, as did the significance of their role in agriculture (Oh 2004: 229).[179]

Table 4. The Proportion of Labour Force Participation by Sex (people aged 15-64)

Unit: per cent

Year	1963	1970	1975	1980	1985	1990	1995	2000	2005	2010
Female	37.0	39.3	40.4	42.8	41.9	47.0	48.3	48.6	50.1	49.4
Male	78.4	77.9	77.4	76.4	72.3	74.0	76.4	74.4	74.6	73.0

Source: National Statistical Office (1994) *Comprehensive Time Series Report on the Economically Active Population Survey;* National Statistical Office[180], *Annual Report on the Economically Active Population Survey*

[178] Amongst unpaid family workers, it is noteworthy that there were a considerable number of women working as domestic servants in the 1960s-70s, accounting 4.9 per cent of female employment (Kang 2009: 59). It is well-known that young women who migrated from the countryside to cities used this domestic servant job as a channel to migration and to get a job in factory later on (Lee 2001; Kim 2005; Kim 2009)

[179] However, as the price-control of agricultural goods has been central to Korea's industrialization over the past decades, women's role in agriculture has been underestimated (Gill 1999; Oh 2004). Female farmers tend to provide unpaid family labour and their labour remains unskilled and low-paid, while the ownership of land and machines tends to be under male household heads.[3] Furthermore, female farmers have very little decision-making power; for instance, when it comes to the buying and selling of farmland, research has showed that such decisions are made solely by husbands in 32.7 per cent of cases and mainly by husbands in 46.5 per cent of cases (Agriculture Economy Research Institute 1992 in Oh 2009: 235). Thus, the rural female population aged quickly; the average age of women in the primary sector increased from 36 in 1966 to 47 in 1985 (Kim 2006: 137). This trend contributes to a significant demographic transformation in rural areas through organized international marriages, which will be discussed in the later section of this paper.

[180] *Annual Report on the Economically Active Population Survey* published by National Statistical Office (Economy Planning Board, as of now the Ministry of Strategy and Finance) has been available since 1963. *The Report of Population and Housing Census*, 1960 by Economy Planning Board indicated that the rate of women's participation in the labour market in 1960 was 26.8

Table 5. Female Employees by Status of Employment

Unit: per cent

	1963	1970	1980	1990	2000	2010
Self-Employed	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

Source: National Statistical Office (1994) *Comprehensive Time Series Report on the Economically Active Population Survey;* National Statistical Office, *Annual Report on the Economically Active Population Survey*

Table 6. The Changes in the Employment Structure by Industries 1965-2000

Unit: 1000/ per cent

Year	Agriculture, Forestry and Fishery	Proportion	Mining and Manufacturing	Proportion	S.O.C. and other service industries	Proportion	Total Number of Employees
1965	4,810	58.6	849	10.3	2,547	31.0	8,206
1970	4,916	50.4	1,395	14.3	3,434	35.2	9,745
1975	5,424	45.9	2,264	19.1	4,140	35.0	11,829
1980	4,658	34.0	3,096	22.6	5,952	43.3	13,706
1985	3,733	24.9	3,659	24.4	7,578	50.6	14,970
1990	3,292	18.3	4,928	27.3	9,816	54.4	18,036
1995	2,541	12.5	4,799	23.6	13,037	64.0	20,377
2000	2,288	10.9	4,261	20.2	14,511	68.9	21,061

Source: National Statistical Office, *Annual Report on the Economically Active Population Survey*

Table 7. The Composition of Female Employees by Occupations, 1960-2000

Unit: per cent

per cent, which is often cited in many documents about the trend of women in the labour force. As Kang (2009) suggests, a huge discrepancy in the statistics between 1960 and 1963 needs further clarification, so that the rate in 1960 is ruled out in this paper.

Occupations	1960	1966	1970	1975	1980	1985	1990	1995	2000
Professionals	1.5	1.8	2.1	2.1	3.5	5.3	8.3	11.8	15.7
Management	0.8	0.0	0.0	0.0	0.0	0.1	0.2	0.6	0.9
Administration	0.5	1.5	2.8	4.0	8.6	10.2	15.5	16.0	16.4
Retail	9.7	11.8	9.6	9.5	11.6	18.3	14.6	17.7	16.7
Service	9.7	9.5	10.8	9.3	9.9	17.0	13.3	17.8	16.1
Manufacturing	7.2	14.0	14.7	16.2	19.9	21.3	21.0	14.2	17.2
Agriculture, Forestry, and Fishery	70.5	61.4	59.8	59.8	46.4	27.6	27.0	21.5	17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economy Planning Board and National Statistical Office, *Yearly Report of Population Census*, http://kosis.nso.go.kr, in Kim 2006: 136

With the initiative of export-oriented industrialization (EOI) taken by the Park regime under the favourable international environment of the 1960s-70s, Korea underwent remarkable transformations in many social sectors. Such transformations took place alongside changes in the existing gender relations. As women were assumed to be 'cheap' labour, with 'nimble fingers' and 'docility' towards employment relations (Elson and Pearson 1981), female workers[181] were preferred for many jobs newly created by EOI. Thus, the increase in women's employment mainly occurred in the manufacturing sector, which expanded quickly from 10.3 per cent of total employment in 1965 to 22.6 per cent in 1980 (Table 6 above). While the total employment rose by 14.4 per cent between 1960 and 1970, the number of those employed in the manufacturing sector tripled from 427,000 to 1,284,000 over the same period of time (Lee 2001: 88-89). The rise in women's employment rate was mainly taken up by young, single women.[182] [183]

[181] Koo (2001) points out that those female workers mobilised into the export industrial complex constituted a highly homogeneous group that were predominantly from farm backgrounds, aged from 15 to 24, single, with low educational attainment, and usually had a heavy burden of supporting their poor families.

[182] The gender segregated data of a net emigration rate from rural to urban areas between 1955 to 1960 shows that the number of women surpassed that of men, for example 306,760 women to 270,385 men emigrated into Seoul, and 55,821 women to 44,699 men into Daegu over that period (Kim ed. 2001: 118).

[183] There are many other factors to explain why only single women were predominant in the labour force; apart from the lack of government enforcement of the Labour Standards Act and the prevalent practice for private firms to prefer single women, traditional Confucius culture that emphasized women's role in the private and thus the decision-making of husbands that forbade their wives from working outside home played a critical role in lowering women's participation in paid economy. Also, many

The Labor Standards Act revised in 1961 includes an 'Equal Treatment' section that stipulates '[A]n employer shall not discriminate against workers by sex, or show discriminatory treatment in relation to the conditions of employment according to nationality, religion or social status' (Article 5), and also ensured paid maternity leave for more than thirty days after birth (Kim 1994). However, it was common that most private firms specified gender on the advertisement of recruitment. For instance, Dool Soon Kim (2009) examines policy changes in the work-and-family balance from 1960s to present with a case study of one textile company, named K Textile Co. which still has factories in Korea since its establishment in the 1910s. In the 1960s, the company stated "single females between 18 and 20" for recruitment in production line, and males "who are above middle school graduates and have completed conscription under 26" (Kim 2009: 381). Through employment practices such as these in 1970s, 93 per cent of female workers who were employed in the export-oriented labour intensive industries were young women under 29, of which 8 per cent were aged under 18 (Yearbook of Labour Statistics 1971, in Lee 2001: 90). The practice of hiring only young and single women in the manufacturing sector hardly met serious obstacles until the early 1980s when the level of women's education rose significantly; amongst women aged 25 years and above those who graduated high school more than doubled from 8.4 per cent in 1975 to 20.2 per cent in 1985 (Table 8 below). As a result, the recruitment of females in the manufacturing sector was slowly extended to married women from the 1980s. Nonetheless, pregnancy and birth were not widely supported or accepted this employer. It is noteworthy that in Kim's study married women were hired by K Textile Co. only provided that they were sterilized, and even required to submit proof of tubal sterilization, (2009: 382-383).[184]

Table 8. Composition of Population by Educational Attainment (25 years and above)

Unit: per cent

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studies show that a significant proportion of women themselves did not want to take part in the paid economy, perceiving marriage as a way out of the appalling condition of work amongst working class women (Cho 2004; Kang 2009).

[184] Two interviewees who worked for the K Textile Co. over fifteen years testify that:

> "When I entered the company in 1980, I was asked on the spot in the interview whether I had done the surgery [sterilization]. If I had said I could give birth, I wouldn't have been accepted. Because I had already done it, I went to hospital to issue (the proof of umbilical operation) and handed it over" (Young Hee Chung in Kim 2009: 382).

> "In the year 1987, an awful a lot of *ajummas* (married women) were hired. By then, without having the umbilical operation done, they would have not been accepted, so in order to get in the K Textile, I did the umbilical operation in the summer of that year and entered in the autumn of that year" (Myung Sin Lee in Kim 2009: 383).

Year and Sex	Elementary School Graduates and Under	Middle School Graduates	High School Graduates	College, University Graduates and over
1975				
Total	65.5	14.8	13.9	5.8
Female	77.1	12.1	8.4	2.4
Male	53.1	17.7	19.7	9.5
1980				
Total	55.3	18.1	18.9	7.7
Female	67.0	16.5	12.9	3.6
Male	42.8	19.8	25.4	12.0
1985				
Total	43.4	20.5	25.9	10.2
Female	54.1	20.5	20.2	5.2
Male	31.9	20.5	32.1	15.2
1990				
Total	33.4	19.0	33.5	14.1
Female	43.0	20.3	28.4	8.3
Male	23.3	17.6	38.9	20.1
1995				
Total	26.6	15.7	38.0	19.7
Female	35.0	17.1	34.8	13.1
Male	17.8	14.2	41.4	26.6
2000				
Total	23.0	13.3	39.4	24.3
Female	30.4	14.3	37.3	18.0
Male	15.1	12.3	41.6	31.0
2005				
Total	20.9	12.2	41.9	25.0
Female	25.2	12.1	37.0	25.4
Male	12.2	10.2	39.7	37.8

Source: Statistics Korea, *Population Census*, in KWDI *Gender Statistics 2010*, 2010: 190

Changing Gender Regime in Switching from EOI to HCI

In October 1972, Park installed the *Yushin* regime that abolished the democratic election system and disbanded political parties after narrowly escaping defeat at the hands of Kim Dae Jung, the leader of oppositional party. The promotion of heavy and chemical industries (HCIs) by selecting strategic sectors, such as steel, nonferrous metals, shipbuilding, machine tool, electronics, and oil, was embarked upon in earnest and further stimulated by the Middle East Boom and the Vietnam

War in 1973. The shift in the focus of development strategy toward HCI had many implications that are ongoing in the political economic structure of Korea; in particular, *chaebols*[185] were created in the process of changing the industrial regime. As a consequence, by 1980 the thirty largest chaebols accounted for 36 per cent of the total shipments of goods and 22.4 per cent of employment in the nation (Koo 2001: 30-31). The contribution of HCIs to gross domestic product increased from 21.8 per cent in 1960 to 55.5 per cent in 1980, while the contribution of light industries declined (Kwon and O'Donnell 1999: 276). The shift in the focus to heavy and chemical industries has brought about a major change in the employment structure of the labour market.

As can be seen in the Table 9, while there was an increase of the number of employees both in the light industries and the heavy and chemical industries, the growth in the HCIs was more marked than in the light industries (Shim 1988: 117). This also generated a rise in the proportion of women's labour force in the heavy and chemical industries, representing 37.2 per cent of women's employment in the manufacturing sector in 1985. However, Shim (1988) suggests that women employed in the heavy and chemical industries tend to undertake jobs which do not require official qualifications and therefore tend to be concentrated in labour-intensive sectors such as electronics and rubber manufacturing. Amongst those women employed, more than 80 per cent were single throughout all sectors of textile, electronics, and chemical industries excluding machine tools (Shim 1988: 128). This characteristic of women's employment was coupled with great gender wage discrepancies in the manufacturing industries, where on average women only earned 50.4 per cent of men's earnings in 1986 (ibid, 140).

Table 9. The Changes in the Number of Employees in the Manufacturing Sector

	1963	1973	1982	1986
Total Number of Employees in Manufacturing Sector	401,981	1,188,728	2,100,791	2,265,670
Light Industry	245,874	706, 248	1,070,174	1,033,159

[185] *Chaebols* indicate large diversified business groups that account for a large proportion of domestic production and export. They often grow through credit benefit and allocation of investment licences especially in state-selected priority projects (Kim 1997).

	1963	1973	1982	1986
HCI	156,107	479,480	1,030,617	1,232,511

Source: *Statistics of Mining and Manufacturing Industries*, in Shim 1988: 117

As Deyo (1992) identifies, along with new industrial strategies to enhance labour force stability and productivity in the 1970s, there was a policy shift from a reduction in the high levels of unemployment and the enhancement of the standard of living in the 1960s toward promotion of higher value-added manufacturing and greater investment in "human capital".[186] Park Chung Hee was particularly keen to promote vocational high schools for technology/ engineering through providing grants and incentives for those who acquired a skill certificate, and also encouraged the private sector to cooperate with the schools through an array of legislation, such as the Military Service Cases Law (Moon 2005 and Yi this volume). 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: 84). Hence the bulk of skilled labour required to further the economic development strategy focused on the HCIs were produced through vocational schools. However, such vocational programmes and schools promoted for the HICs were for the most part available only to males, whereas commercial vocational schools were run for females. Also, the 'national skill certificate' was introduced in 1975, but merely one tenth of all who attained the certificate were women (10.9 per cent in 1976; 8 per cent in 1980), and also 91 per cent of the qualifications women attained were in the communication sector (Shim 1988: 133-34). In addition, 90 per cent of vocational training given to women in enterprise was focused on increasing productivity, rather than on upgrading skills. In this sense, Kim (2003) argues that such vocational programmes and the strategy of HCI have contributed to consolidating and perpetuating the stark gender division of labour in the manufacturing sector, with female labour unskilled and marginalized in contrast to male labour skilled and central. While it has been argued that the shift from EOI to HCI and accordingly the production of highly skilled labour played a crucial role in framing full-fledged economic development in Korea, the vocational education and training programmes that made such shift possible have contributed to recomposing and reinforcing the gender-imbalanced economic

[186] The expenditure on education made up 64.4 per cent of total social expenditures in 1980, whereas social security and welfare accounted for only 23.9 per cent, health 4.6 per cent and housing and community service 7.1 per cent (Deyo 1992).

structure based upon gender division of labour, through which women were predominant in the light industry whereas men in the heavy industry, and women in heavy industry undertook marginal occupations and therefore became replaceable and disposable.

Masculine Norms of Employment Practice

As the consecutive military dictatorships embedded militarism[187] in society, the marginalization of female workers in the economic structure was reinforced through the integration of military service into the organization of the labour market. Moon (2005) identifies three ways in which the paid economy was associated to military service. Firstly, in the process of recruitment for business corporations, the completion of military service was specified as a criterion for applicants through the Special Measure Law enacted in 1973, and this practice went on until the Equal Employment Law was introduced in 1988. On top of the recognition of military service as work experience, granting higher pay and faster promotion to veterans became conventional practice among private firms. Lastly, a military service extra-points system granted five percent of full marks as a bonus in public employment exams in the government, public corporations, and other state-sponsored organisations to post-conscripts who completed the 'sacred duty of national defence' by article 5 of the Employment Support Act. This act was initially created in 1961 by the Supreme Council for National Reconstruction to elevate the national military's morale, and reaffirmed, strengthened, and gradually expanded through law revisions in 1984 and 1997 (Moon 2005). The extra score system was abolished by the Constitutional Court's decision in December 1999 in response to the petition of two female undergraduates and one disabled male.[188]

In addition, such militarized employment practice was prevalent in the form of the repressive labour regime as well as organizational culture. Military culture has infiltrated corporations, formulating a rigid hierarchy based on rank, the command mode of one-way communication, and a collective ethos at the expense of individual sacrifice. The ethnographic studies of large corporations show that militarized corporate culture appears to be more prominent in blue-collar

[187] Militarism defined 'as a set of attitudes and social practices which regards war and the preparation for war as a normal and desirable social activity' (Mann 1987) has been omnipresent in Korea, let alone being the most militarized zone due to the state of armistice with the Democratic People's Republic of Korea since 1953.

[188] However, as evasion of conscription is rampant and soldiers morale is low, military officers and some MPs have vigorously been attempting to regenerate the extra-points system.

factories than white-collar offices. "...When an executive walks into the shop of the plants, the rank-and-file workers stand at attention as if to a general. ..., the plant workers saluted the plant manager" (Kim 1992, in Moon 2005: 194). In the case of the construction industry in which workers were sent to Middle East in the 1970s-80s[189], it is reported that appointed labour managers were mostly those who have undertaken the position of a drill sergeant during military service, so that disciplinary practice of workers was very much of that of the military (S-A. Choi 2004: 102-103).

Another masculinized employment practice can be found in the long working hours, for which Korea has been renowned. Though it has been declining fast since the 1990s, until 1980s average working hours were above 50 hours a week, and the long working hours were mostly endured in the manufacturing sector, as shown in Table 10. There are a number of other signs that 'ideal worker norm' in Korea in the speedy industrialization period was based upon long hours and overtime work (Williams 2000). Firstly, family entitlements were neglected and the reproduction of labour was squeezed out or assumed to be carried out by non-waged family members. Williams (2000) argues that the ideal worker norm not only maintains the linkage of masculinity with work, reaffirming that "work is the institution that most defines the majority of adult males" (Kimmel 1996 cited in Williams 2000: 26); but also, supports the confinement of women into domesticity. Herein, feminists' debates of domestic labour are noteworthy in that they have pointed out the reproduction of the labour force including unpaid domestic work and caring responsibilities undertaken mostly by women enables male workers to work longer hours, and therefore lies at the base of surplus value creation, i.e. the system of capital accumulation (Bezanson 2006; James & Dalla Costa 1973; Seccombe 1974; Picchio 1992; Laslett and Brenner 1989).

Table 10. Hours of Work (per week)

[189] The number of construction workers dispatched to overseas including countries in Middle East, Africa and South Asia, considerably rose over the period of time: 5,951 in 1975, 105,696 in 1979, 172,540 in 1982. Amongst them, 90-95 per cent of workers were destined to Middle East countries, especially to Saudi Arabia. In 1981, the money transferred by Korean overseas workers accounted for 26.4 per cent of income from the invisible trade balance (Kim 1983, cited in S-A Choi 2004: 99-100).

		1970	1975	1980	1985	1990	1995	2000	2005
Total		51.6	50.0	51.6	51.9	48.2	47.7	47.5	45.1
Male		-	49.9	41.7	51.5	48.2	47.9	47.8	45.6
Female		-	50.1	52.6	52.8	48.4	47.1	46.7	44.1
Manufacturing	Total	52.3	50.5	53.1	53.8	49.8	49.2	49.3	46.9
	Men	-	50.5	52.8	53.5	49.9	49.5	49.2	47.0
	Women	-	50.5	53.5	54.2	49.2	48.6	49.8	46.9

Note: The total work hours is of workers employed in establishments with 10 or more permanent employees and until 1995 includes sectors: Mining and Quarrying; Manufacturing; Electricity, Gas and Water; Construction; Wholesale and Retail Trade and Restaurants and Hotels; Transport, Storage and Communication; Financing, Insurance, Real Estate and Business Services; Community, Social and Personal Services, and from 2000, the categories of sectors diversified: Mining and Quarrying; Manufacturing; Electricity, Gas and Water; Construction; Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods; Hotels and Restaurants; Transport, Storage and Communications; Financial Intermediation; Real Estate, Renting and Business Activities; Education;Health and Social Work;Other Community,Social and Personal Service Activities.
Source: *Yearbook of Labour Statistics*, http://laborsta.ilo.org/STP/guest

The case of Hyundai Motors by Joo-Eun Cho's participant study supports this position. Hyundai Motors factories follow a two shift system in which the day shift is from 8:00 to 17:00, and night shift from 21:00 to 06:00[190], shown in table 11 below. Workers switch from day to night shifts every other week and such shifts are undertaken by about 75 per cent of all workers. In addition, the majority of workers take two hours overtime[191], so that the employees in Hyundai Motors work 12 hours everyday. Cho (2004) insists that the two shifts system based upon 12 hours work not only seriously jeopardizes workers' health, but also drastically affects their family life in the way in which consequently all the burdens of domestic work and child caring tend to be shirked onto women's shoulders. Women, then, are presumed to be available to cope with such day-and-night shifts of their husbands, staying home and dependent on their husbands' income. As such, the practice of long hours work serves as the mechanism to reproduce and reinforce the male-breadwinner model and gendered division of labour. Given that the working hours of male and female workers display very little disparity, it seems rather unsurprising that married women's participation in the labour market remained as low as 41.0 per cent in 1985, as can be seen in Table 12 below .

[190] This appears very common in the fordist mode of production.
[191] Although overtime work is optional and voluntary, it is said that doing overtime work is a common practice as it pays 1.5 times higher than normal (Cho 2004: 81).

Table 11. Time Table for Workers in the Hyundai Motors Factory, Ulsan

	Day shift	Night shift
Start	08:00	21:00
Break	10:00-10:10	23:00-23:10
Meal	12:00-13:00	(next day) 01:00-02:00
Break	15:00-15:10	04:00-04:10
Finish	17:00	06:00

Source: *Hyundai Motors' Diary for Workers* (2002) in J-E Cho 2004: 81

In addition to the practice of long working hours, the corporate-based welfare regime which developed in the transition towards HCIs has a salient gendered dimension. With a very low public expenditure on social provision, wages and welfare benefits provided by corporates 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. While the blue and white-color workers in the large business sector have benefited doubly from the major insurance programs and corporate welfare, the marginalized workers in the periphery or informal sector had been excluded from both welfare benefits (Chung, 2008). This welfare regime leaves women very vulnerable; firstly because women tend to work in SMEs or the informal sector, they get very few corporate-based welfare benefits; secondly the higher benefits provided for those in the large enterprises are based on family wage, which play a critical role in widening gender wage gap, and therefore discourages women from participating in the labour force. Furthermore, the shift from EOIs to HCIs has been accompanied by a shift in the leading actors and dominant sectors of the labour union movement from female to male and from SME- to large enterprise-based. The growing large enterprise-based trade unionism in the union movement contributes to the growing discrepancy in social security between SMEs and large enterprises, so that women workers' position relative to men has become more vulnerable.

Deindustrialization and the Economic Crisis: Democratic Regime 1990s - Present

The rise in the labour shortage in the manufacturing sector and the labour cost made the private sector as well as the government eager to mobilize married women's labour force into the paid economy. Thus, in the manufacturing sector the number of married women, including widows and divorcees, exceeded unmarried women by 1985, representing 64.5 per cent and 32.5 per cent respectively (Table 11 below). Kim (1994) attributes the increase in the proportion of married women in the manufacturing sector to the movement of subcontracted production lines to small-sized factories near to residential areas or households. Subsequently, the Equal Employment Act introduced in 1987 and the Basic Device for Working Women's Welfare (1994-1997) designed labour schemes supporting married women, such as 'the House for Working Women' providing job training, and institutionalisation of part-time employment patterns.

Table 12. Economically Active Population by Marital Status

Unit: per cent

		1980	1985	1990	1995	2000	2005	2010
Female	Married	40.0	41.0	46.8	47.6	48.7	49.0	49.1
	Unmarried	50.8	44.7	45.6	50.4	47.0	53.6	50.5
Male	Married	88.3	86.8	88.2	88.8	84.3	83.8	83.0
	Unmarried	52.4	43.5	43.2	49.6	50.2	53.6	51.3

Source: National Statistical Office (1994) *Comprehensive Time Series Report on the Economically Active Population Survey*
National Statistical Office, *Annual Report on the Economically Active Population Survey*

Table 13. The Composition of Female Workers in the Manufacturing Sector by Marital Status

Unit: 1000(per cent)

	1985	1990	1998
Unmarried	442(35.5)	386(20.3)	136(6.9)
Married	683(54.9)	1,309(68.8)	1,524(77.5)
Widows and Divorcees	120(9.6)	209(10.8)	307(15.6)
Total	1,245(100.0)	1904(100.0)	1,967(100.0)

Note: Reformulated from National Statistical Office, *Annual Report on the Economically Active Population Survey*
Source: Korean Women's Development Institute, *Yearbook of Women in Statistics*, in Kang 2004: 205

However, the effects of the introduction of new policies for women workers have been weakened by industrial restructuring toward capital intensive manufacturing of high value-added products such as semiconductors, motor vehicles and micro-electronics in the technological deindustrialization strategy which underpinned the Sixth (1987-1991) and Seventh (1993-97) Five Year Plans (Kwon and O'Donnell 1999: 278).[192]. The government intervened in industrial restructuring to encourage growth in high-tech industry and the decline of EOIs under the Law of Tax Reduction and Exemption. As a result, massive redundancy of female workers occurred amongst those employed in the manufacturing industry: the number of women employees drastically reduced by 291,000 in a four-year period from 1989 to 1993 (Kim 1994: 1). Such substantial decline in women's employment in the manufacturing sector has continued, as explicitly illustrated below in Figure 1. The proportion of women employees in the manufacturing sector plummeted from 68.6 per cent in 1990 to 24.6 per cent in 2000, in just one decade.

[192] Such industrial restructuring to reposition Korea in the international of division of labour took place due to a substantial increase in labour costs with strengthened labour movements after the Great Workers' Struggle in 1987 generated wage increases of over twenty per cent in many large factories (KCTU 2001). Following an upsurge in struggles for democratisation, from July to September 1987, the Great Workers' Struggle involved 1,220,000 workers, accounting for 37 per cent of the total number of workers employed in enterprises that hired more than ten employees, and 3,311 cases of labour conflicts mainly involving work stoppages and wildcat strikes (Ahn 2001: 101).

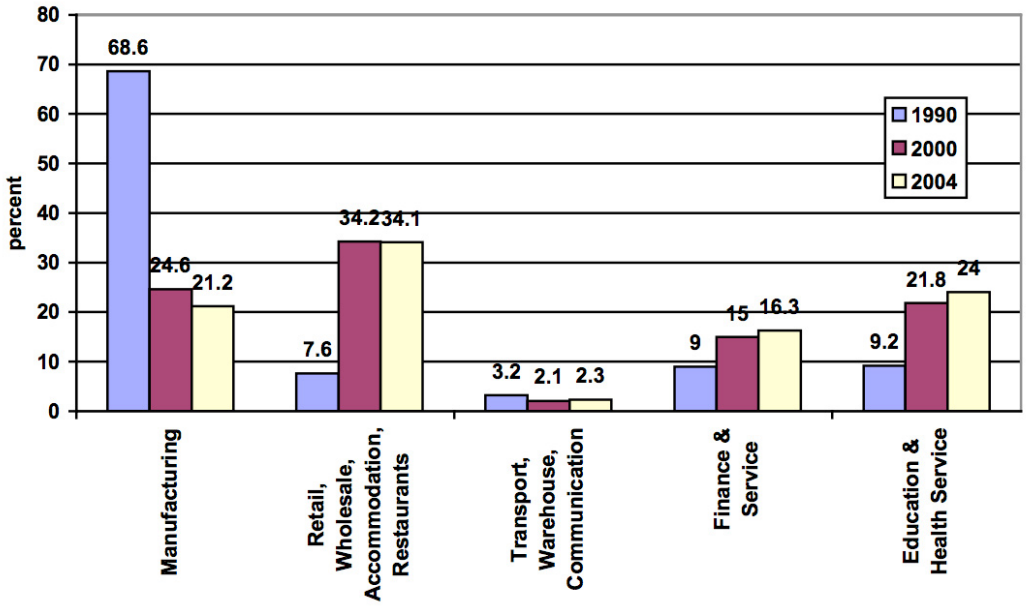


Figure 1. The Breakdown of Women's Employment by Industry, Source: National Statistical Office (2006: 35)

Despite such industrial restructuring, the female participation in the labour force continued to rise, from 47.0 percent in 1990 to 48.4 per cent in 1995, 48.8 per cent in 2000, and 50.1 per cent in 2005 (see Table 4), except for the sudden drop at the time of economic restructuring which will be discussed below in detail. The increase in female participation in the labour force is accompanied with the rapid growth in service industries. Whilst the proportion of employment in the manufacturing sector has dropped to 17 per cent in 2006 from 27.8 per cent in 1987[193], employment in the service sector has increased up to 65 per cent (Oh 2007; c.f. Figure 1 above and Table 14 below). Such shift in female employment away from the manufacturing industry has been referred to as the 'defeminization of manufacturing employment'[194] (United Nation 1999 in Cho *et al.,* 2004: 36) and has been closely interlinked with the transformation of women's employment pattern in the labour market.

[193] In particular, the decline in the manufacturing industries has been aggravated by the drastic fall in the proportion of workers employed in large-sized enterprises among the total labour force from 30 per cent in 1993 to 17.1 per cent in 2004 (22 August 2006, *Pressian*). Nevertheless, Oh (2007) points out that the manufacturing sector is still significant to South Korean economy with the contribution of manufacturing production to GDP estimated at 33.4 per cent in 2001. This suggests that the vigorous efforts of big business groups to improve efficiency through outsourcing and subcontracting have been effective.

[194] However, Shin (2007) suggests that while recent changes in the employment profile of Korean women workers illustrate the de-feminisation of the manufacturing industry, the feminisation of certain manufacturing industries has been maintained by women migrant workers whose employment has outnumbered male migrant workers in textile, garments, and leather.

Table 14. The Composition of Female Employees by Industry

Unit: per cent

	Primary	Secondary	Tertiary
1960	69.6	6.4	22.7
1970	59.7	14.7	25.5
1980	46.5	21.9	31.6
1990	20.4	28.0	51.6
2002	10.7	16.5	72.8

Source: National Statistical Office, *Annual Report on the Economically Active Population Survey* in Kang 2004: 207

Furthermore, government policies have tended to view married women as idle labour, leading to a descent in women's status in the labour market in general. For instance, the occupations offered by the House for Working Women have tended to be marginal and undervalued work, such as electronic publishing, cooking, hairdressing, and home-management. Furthermore, the outline of working conditions for part-timers by the Basic Device for Working Women's Welfare specifically stipulated that the part time work was most suitable for married women, whose capabilities to work were restricted by physical weakness and domestic responsibilities (Kim 1994: 18). Here it is significant to note that the increase in the ratio of married women in the labour force was concurrent with the intensification of employment instability, i.e., the flexbilisation[195] and atypicalisation[196] of labour.

[195] From the early 1990s, the government attempted to introduce the New Policy of Human Resource Manage to promote functional flexibility in the core labour market and numerical flexibility in the periphery labour market. To protect workers in the periphery market, it was suggests to legislate concerning dispatched workers and part-time workers (Cho 1996: 2). This faced up with strong opposition from women's and labour movement groups who argued that such legislation would lead to aggravation of working condition rather than protection. Their opposition was credible in the sense that the government later announced the New Five-Year Economic Plan: 1993-97 which contained the deregulation of economic administration to improve international competitiveness and also included the mitigation of workplace supervision (*ibid*.,18).

[196] Atypical labour herein is referred to as the residual concept of the definition of typical labour (Chang 2001; Lee 2001). Hence, as the typical labour is defined as a permanent and full-time employment that does not demarcate the tenure of employment, that secures the safety of employment relations through regulations of labour law, and that provides labour for a single employer; the atypical is characterised when it does not meet more than one of those criteria for the typical labour (Chang 2001: 60-61; Lee 2001: 189). There exist other terms to conceptualise such type of the labour, such as contingent, irregular, and non-standard labour. The term 'atypical labour' is preferred here because the term 'typical' explicitly suggests what is normal or standard and

Gender Regime of Labour in the Post-Crisis South Korea

Although the new pattern of women's employment in the 1990s has been predicated upon the flexibilisation and atypicalisation of labour, the Asian financial crisis in 1997 was a triggering point to aggravate such tendency, re-emphasising that economic crisis is a litmus test to show to what extent women are integrated into the labour market (Cockburn 1982). Singh and Zammit (2000) argue that women are more likely to be disadvantaged than men by an economic crisis generated in the context in which volatile rhythm of private flows and unfettered international capital flows creates problems for macroeconomic management (in Cho *et al*. 2004: 34). In the case of Korea, their argument has been irrefutably evidenced by many factors. First of all, there has been the decline in women's participation in the labour force to 47.1 percent in 1998 from 49.8 percent in 1996. While the unemployment rate was soaring up both for men and women at the time of the economic crisis, the practice of redundancy was conducted in a highly gendered manner. The blurred boundary between the public and the private on which women workers had stood by coordinating both paid and unpaid work was made distinct with the resurrection of the ideology and practice that women stay at home. Women were asked to be "good mother and loyal and supportive wife", the Confucian ideal of the female figure (DAWN-APDC 1998, cited in Francisco and Sen 2002: 5), while being identified only as wives and mothers, not as workers. The number of female workers who took on honorary retirement in the restructuring of financial sector companies made up between 74.5 per cent and 95.5 per cent of the total number of the honorary retired in each company (Chang *et al*. 2001: 147). Furthermore, the immediate reaction to the economic crisis appeared to be that of firing women first. After the economic crisis, companies including public enterprises began restructuring, mainly focusing on downsizing, targeting the weakest, and women workers became the main target, in particular, in the female-dominated areas (Cho 1998). This was done either by laying off women first, or by removing female-concentrated departments or jobs, where women took up low-level positions such as clerical jobs. In addition, some employers forced one partner of a couple employed in the same company to leave the job, and therefore women were the main victims of the policy. However,

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reflects that labour intrinsically involves social norms and values. Also, the usage reveals the irony that the typical labour no longer is typical as the number of atypical workers exceeds that of typical.

many women workers who were sacked during the downsizing were re-employed in the same company and assigned to the same role, but with temporary contracts and wage reduction.

The number of cases of employers dismissing employees due to marriage or pregnancy also increased. According to the 'Equality Hotline' of the Korean Women Workers Association United(KWWAU), counseling cases received in 1999 relating violations of the Maternity Protection Act concerning maternity leave were three times that of 1998 (KWWAU 2000: 47). This reflects the regression of maternal protection under the pretext of the economic crisis. In many ways the achievements that women workers had been struggling to attain over the past ten years were brought to naught in the time of the economic crisis. Women who were fired and tried to (re)enter the labour market after the economic crisis constituted a pool of cheap labour. Middle-aged women in particular faced a very difficult situation when they were fired, because there were very few social safety nets or an established pension system.[197] Many of unemployed middle-aged women who signed up with the Action Centre for Unemployed Women of the KWWAU in 1999 were willing to take any available job. According to an analysis of the features of unemployment, women in their forties to sixties were willing to endure 'downward employment', resigned to a great deal of wage reduction (Bae 1999).

However, as recurrently argued by feminist scholars, the official statistics do not exactly reflect women's reality because of a gender-blind approach to data collection, especially when it comes to the study of the unemployment rate of women. As Moon *et al*. (2001) suggest, current government statistics fail to integrate women workers employed in the informal sector and women's unpaid labour in the form of volunteering, family business and reproduction into labour data, and show little understanding of the career discontinuity in women's labour pattern (p. 171-172). Hence when the unemployment issue drew great attention from the public, the issue of women's unemployment remained hardly visible within gender-insensitive official statistics. This is demonstrated by the gap between the unemployment rate in the official data and the changes in the employment rate by sex. In the first quarter of 1999, when unemployment reached

[197] The rate of women covered by National Pension Insurance accounts for 14.2 per cent in 2000, whereas that of men 36.8. The rate has increased slightly to 17.7 per cent in 2005 and 20.7 per cent in 2009 for females, but that for men seems to be declining to 35.4 per cent and 35.0 per cent over the same period (The National Pension Corporation, *National Pension Statistics* and Statistics Korea, *Population Projection* in KWDI 2010: 364-465)

its peak, the unemployment rate of males was 9.3 per cent and that of women was 7.0 per cent. But female workers showed a greater decline in employment by 6.6 per cent between 1997 and 1998, compared to that of males by 4.6 per cent over the same period of time.

The disparity between the unemployment rate and the number of the employed can be attributed to the definition of the unemployed. The proportion of non-economically active female population increased to 7.1 per cent in January 1998 from 2.6 per cent in November 1997 (KWWAU 2000: 37), which implies that the considerable decline in the number of female employees was not captured in the figure of the unemployed, since those women workers laid off have been considered as the non-economically active population.[198] It has been argued that many of the non-economically active female population have to be seen as 'discouraged unemployed' who give up seeking jobs not because they do not want to work, but because they have difficulties finding a job (Chang 2000: 70; Kang 1999: 97; Shin 2002: 32). Also, the exclusion of women's unemployment has been reflected in the exclusion of the government programme for life-protection of the unemployed. In a government loan programme for the unemployed, men made up 7,725,000, representing 95.6 per cent of the total recipients, whereas female recipients accounted for merely 347,000 (KWWAU 2000: 32).

Along with the increased rate of women's unemployment, the most striking aspect of economic restructuring of women's employment is atypicalisation of employment. Although this is not a new phenomenon, as seen above, the economic crisis has intensified its seriousness in terms of scale to a large extent. Since the economic crisis, a number of large enterprises have replaced typical labour with atypical labour by persuading employees to resign and forcing them to take an honorary retirement, and thereafter rehiring them as atypical employees.[199] As of 1998, only

[198] Kwon (1999) supports this argument by citing the difference in the female unemployment rate by education levels. The unemployment rate of men with less than elementary-school level education was 5.9 per cent, of middle-school education 9.6 per cent, high-school 8.7 per cent, and college or higher 5.6 per cent, whereas that of women was 2.9 per cent, 5.5 per cent, 7.2 per cent and 6.1 per cent, respectively. In other words, the unemployment rate of women with more than high-school education tends to be higher, while that of men with less than high-school education higher. From this difference in the female unemployment rate by education levels can be inferred that a considerable number of the unemployed married-women with low-education have likely been converted to non-economically active population, whilst well-educated unemployed single women have remained classed as unemployed (Kwon 1999: 33-34).

[199] For instance, the National Agriculture Cooperative Federation (*Nonghyup* Bank) has enforced one partner of married couples to take an early retirement, and thereby resulted in resignation of 752 partners out of 762 couples, of which 688 were female partners. However, 66 per cent of female retirees were rehired as contract workers immediately after their retirement (Cho 2000).

49.3 percent of the total labour force was categorised as in 'regular employment'. Temporary workers with an employment contract of less than one year plus daily labourers with an employment contract of less than one month comprise more than half of all the waged workers. In particular, only 34.8 per cent of the total female workforce is 'regular workers', while 47.5 percent of women workers are employed as temporary workers and 17.7 per cent as daily labourers (see Table 15 below).

Table 15. Waged Workers by Status of Employment

Unit: Thousands (per cent)

Year	Female				Male			
	Total	Regular	Temporary	Daily	Total	Regular	Temporary	Daily
1990	4,190 (100.0)	1,577 (37.6)	1,659 (39.5)	954 (22.7)	6,759 (100.0)	4,361 (64.5)	1,512 (22.3)	886 (13.1)
1995	4,924 (100.0)	2,107 (42.8)	2,033 (40.7)	814 (16.5)	7,975 (100.0)	5,392 (67.6)	1,595 (20.0)	987 (12.4)
1998	4,745 (100.0)	1,650 (34.8)	2,257 (47.5)	839 (17.7)	7,551 (100.0)	4,885 (64.7)	1,785 (23.6)	881 (11.7)
2000	5,397 (100.0)	1,679 (31.1)	2,496 (46.3)	1,222 (22.6)	7,963 (100.0)	4,716 (59.2)	2,112 (26.5)	1,135 (14.3)
2005	6,391 (100.0)	2,439 (38.1)	2,874 (44.9)	1,079 (16.8)	8,794 (100.0)	5,479 (62.3)	2,182 (24.9)	1,134 (12.9)
2010	7,230 (100.0)	3,421 (47.3)	2,973 (41.1)	837 (11.5)	9,740 (100.0)	6,666 (68.4)	2,095 (21.5)	979 (10.0)

Source: National Statistical Office, *Annual Report on the Economically Active Population Survey*

The increase in atypicalisation of labour[200] has been an ongoing trend even after the turmoil of the economic crisis, affecting both the female and male workforce. [201] As we can see above in

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This case was filed as a suit against the Bank for the violation of the Gender Equality Employment Act, but the case was lost in the Supreme Court in 2002.

[200] In relation to the atypicalisation of labour, the employment pattern has been diversified, generating a rise in the number of women workers excluded from the labour law. The so-called 'special employees' includes caddies, drill-book tutors, insurance agents, door-to-door salespersons, telemarketers, bill collectors, animators, home-based workers, and so forth. Government statistics show that the number of 'special employees' reached approximately 748,000 and women make up 61.7 per cent of them in 2002 (National Statistical Office). Choi (2004) doubts if the statistics reflect the reality, since the special female employees are

Table 15, such trend seems to be weathering with the decline in the non-regular employment by more than 10 per cent from 68.9 per cent in 2000 to 52.6 per cent in 2010 for women, and 40.8 per cent to 31.5 for men over the same period. Moreover, the increase in the number of atypical labourers has simultaneously been accompanied by deterioration of working conditions and widened wage gap between typicals and atypicals. Even if atypicals perform the same task and work for the same hours as typicals, the atypicals are disadvantaged both in terms of wage and welfare benefits. As a proportion of the average male typical worker's wage, the female typical worker counterpart's was 72 per cent, the male atypical worker's 52 per cent, and the female atypical worker's no more than 32 per cent in 2003 (Choi 2004: 8).[202] Also, atypical workers work on average 0.4 hours longer than typicals, who work 47.1 hours a week; in particular, dispatched workers work 48.4 hours a week (Shin 2002: 38). Thus the common presumption that the flexibilization of labour should lower down the work hours proved false, and temporary and daily workers work as long as or longer than regular workers.

Changing Welfare Regime

In terms of welfare benefits, as of March 2011 the rate of atypical workers carrying social insurance including national pension, medical insurance, and employment insurance accounts for merely 32.0 per cent, 36.7 per cent, and 36.1 per cent respectively, whilst the rate of insured typicals is respectively 97.6 per cent, 98.8 per cent, and 83.1 per cent (Working Voice 31 May 2011, http://workingvoice.net). According to the Ministry of Employment and Labour, atypicals' earnings are only 57.2 per cent of typicals (15 May 2011, *Hankyure*). As a result there has been a

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likely to be categorised as self-entrepreneur or unregistered, and therefore the actual figure will be higher than it appears in the data, estimated at a million instead (p. 8). The special women employees have been struggling to attain legal status as labourers 'between laws'; the special employees are not covered either by the Labour Standard Law or by the Entrepreneurship Law. The interpretation of the laws has been conflicted, however, the jurisdictional decision still does not recognise the special women employees as workers. Thus, their labour rights are left without the protection of legal support or a social security system. Furthermore, a study of golf caddies' lives illustrates that the disguise of their status as a self-entrepreneur tends to aggravate meritocracy, thereby leaving their labour rights unprotected (Choi 2001).

[201] Although recent studies show a growing variance of wages amongst women, atypicalisation has become a predominant pattern of women's employment, in spite of the difference between high-educated and low-educated women. The proportion of workers in temporary employment and daily labourer status tends to increase with lower education level. The proportion in temporary employment and daily labour for male university graduates stands at 8.5 per cent, 22.8 per cent for male high school graduates, 28.0 % for male middle school graduates, and 60.8 per cent for males with less than a middle school education; whereas for their female counterparts the figures are 31.1 per cent for university graduates, 43.1 per cent for high school graduates, 58.9 per cent for middle school graduates, and 81.2 per cent for those with less than a middle school education. Moreover, Kwon (1999) shows that the atypical labour of men tends to be correlated with age as well as education level with the rate of male atypical workers highest in the age group between 15 and 24 (p. 14). However, women tend to be employed as atypical labour, regardless of education and age difference.

[202] The trend in gender wage gap in general shows a decline over the time; in 1993, women earned 54.6 per cent of male income, but the gap has narrowed by approximately 8 per cent in a decade to 63.5 per cent in 2009.

growing disparity amongst female workers, not only between male and female workers. The significant growth in the female labour force from 4.1 million in 1990 to 7.2 million in 2010 (Table 15 above) implies that women's increasing entrance into the labour market is linked to the exacerbation of the working condition and the reduction of male incomes (Keum and Yun 2011). Nonetheless, the considerable increase in the married women's participation in the labour force and growing women's movements led to a number of legislations, including the Maternity Protection Act in 2001, revision of the Early Childhood Education in 2004, the Child Care Act in 2005, and Elderly Care Insurance in 2008.

This change in social policies was brought about in line with the expansion of the public expenditure on the family, representing 0.9% of the total government expenditure in 2005 in comparison 0.33 per cent in 2000 (OECD, in Peng 2009: 5). However, shifting the paradigm towards "economic growth with welfare", the Korean government has been pursuing since the 2000s is still work-entitled, embracing mainly typical workers in large enterprises. For instance, the Maternity Protection Act[203] which was introduced in 2001 and revised in 2005 only applies to those who have social insurance. Considering the female non-regular workers by marital status, married women take up 73.9 per cent of workers (National Statistical Office 2006), so that the proportion of women benefitting from this legislation is low. In 2009, 75,047 took maternity leave, and there were 34,898 female recipients and 502 male recipients of childcare leave in all industries [204] (Korea Employment Information Service, *Yearly Statistics of Employment Insurance*). Furthermore, even though the new welfare system extends the previous welfare rights attached to full-time workers to wider sectors of the labour market, including small-sized firms and part-time workers; it can be argued that in this system, like its predecessors, employment-related social insurance ignores the social rights of women by disregarding unpaid care work in the home (Cho *et al*. 2004: 53).

[203] This is a reform of maternity and parental leave legislations within the Labour Standard Act, Equal Employment Act, and Employment Insurance Act, extending paid maternity leave from 60 to 90 days (at 100 percent wage replacement), and introducing financial support for parents taking one-year parental leave. It was revised in 2005, shifting the financial burden of wage replacement from the employers to the state by covering it under employment insurance.

[204] Parental leave allowance is transferable between the two parents.

Even while women's participation in the labour force has considerably increased and social policy has expanded to support a work-and-family life balance, there has been very little change in women's unpaid domestic work. Sung (2003) demonstrates that Korean women's strategies for reconciling paid and unpaid work were largely based on either getting help from family members, particularly female members; or by taking on more work themselves, rather than relying on policy schemes. Not surprisingly, domestic labour still remains imposed almost exclusively upon women. A study of time per day spent on domestic labour by those aged over 20, shows that women spend on average 189 minutes on caring, 101 minutes providing meals, 28 on washing clothes, 37 on cleaning, and 15 on shopping, whereas men spend respectively 23, 5, 1, 7, and 3 minutes on these tasks (National Statistics 1999, in Park 2005: 202). This evidence has been backed up by the time use survey from 1999 to 2004 (Ahn 2008). Korean women spent more than 5 times the amount of time that men spent on unpaid care work, while spending a little over 60 per cent of time men spent on paid work, which showed no sign of change between 1999 and 2004, maintaining the gender division of labour.

Concluding Remarks

This paper has made an attempt to reify the notion that '[d]evelopment has a human face and this face is gendered' through examining the ways in which social reproduction has been interwoven into the changes of production regime in Korea for half a century (Chow and Lyster 2002: 2). Inevitably, the scope in terms of both institutions and dimensions of social reproduction has been limited, focussing mainly on women's work in the labour market, i.e. production site. Nonetheless, the view of Korean development provided through such a gender lens clearly shows that changes of gender regime, in particular in production and reproduction domains, were closely intertwined with the political, economic and social development.

Firstly, the early industrialization stood upon the rigid distinction between production and reproduction, with women pressured to drop out of the labour market upon marriage. Women as reproducers were the most affected by the anti-natalist developmental state, appearing centrally in the family planning policy; in contrast, women's unpaid labour in community development as

well as domestic work and childcare was taken for granted and increasingly relied upon to fit the nation's modernization project. While the EOIs were manned for the most part by women working under appalling conditions and low wages, women's reproductive rights were sidelined with the prevalent employment practice to hire only young single women. Such policy divides between the sites of production and reproduction continued in the evolution of development strategies, but became more elaborate. The shift towards HCIs contributed to reinforcing women's marginal status in the labour market particularly through gender-biased vocational programmes, the expansion of corporate-based welfare schemes and masculine employment practices. In the vocational education and training programmes women were largely excluded and therefore left unskilled and replaceable, while male workers' position as skilled workers was enhanced. On top of male-biased vocation training, conscription-based job recruitment and the military work culture have hindered women's entrance into the HCIs. Also, the expansion of corporate-based welfare schemes and the long working hours practice have institutionalized the male breadwinner model.

Nevertheless, women's labour has been in great demand. The part-time work scheme was introduced to mobilize married women's labour. Furthermore institutional changes including the introduction of the Equal Opportunity Act in 1987 and Early Child Care Act in 1991 have followed women's increased participation in the labour force. While this indicates that women's roles both as producer and as reproducer have been institutionalized, such legislations have been barely backed up by appropriate social welfare provisions, leaving women to juggle both roles. The new economic strategies of deindustrialization of economic development in the late 1980s reinforced women's vulnerability in the labour market and when a massive number of women lost their jobs through industrial restructuring very little public attention was paid. This resulted in a sharp fall of the proportion of women in the manufacturing sector, but instead the growing female labour force has been absorbed into the service sector. This process has been accompanied by the flexbilization of labour, which accelerated the polarization of the labour market. For women, the labour issues of flexibilization and atypicalization have been a great concern, but they were not widely recognised until the financial crisis in 1997-98. While the financial crisis further disclosed the gendered nature of Korean development, it was also a tipping point in the old gender regime of social reproduction which had been maintained by

women's stretched labour in both sites of reproduction and production. The expansion of social policy areas since the financial crisis can thus be understood as recognition of the endogenous as well as exogenous factors of the crisis, demonstrating the need to incorporate the dimension of social reproduction into macroeconomic policy.

However, the partial integration of women in the welfare domain as well as in the labour market has resulted in 'crisis tendencies', which signify 'dynamics which have the potential to transform and thus changes in fundamental ways of future social practice' (Connell 1987: 158), particularly since the financial crisis in 1997-98. Institutional changes are slower than the changing gender order because the institutions of the family, the market, and the state as 'bearers of gender' tend to resist responding to gendered needs, adhering existing gender norms and male privileges, and thus the crisis tendencies take shape in the reproduction site. Firstly, the family structure in South Korea is undergoing a major change with a sharp decline of households made up of three generations; a decline of 7.1 per cent to 1.1 million during the five-year period to 2006 (*Korea Times*, 25 September 2006). In the prevalent Confucian welfare system in which daughters-in-law of the eldest sons are the main carer of the elderly in the South Korean family structure (Sung 2003; Han 2003), this change in family structure with little change in the elderly care policy signifies a crisis in the care of the elderly population with very scant social support. Secondly, there have been noticeable changes in the marriage pattern; including a remarkable increase in divorce rates, decline in marriage rates, and later age of marriage. The number of divorces rose up by nearly four times from 45,694 in 1999 to 167,096 in 2003 (*Korea Times*, 03 February 2005), and subsequently the proportion of female household heads has risen up to 21.9 per cent in 2005 from 15.7 per cent in 1990 (National Statistics Office). The third crisis tendency is the considerable decrease in the birth rate, from 1.65 in 1995 to 1.08 in 2005 (National Statistics Office 2006). The low birth rate, as we have seen in the earlier section of this paper, has been viewed as a 'successful outcome' of the population policy. However, as the low fertility rate has now been interpreted as a threat to future national economic development with a rapidly aging population and various methods to counteract it have been introduced. However, since the policy has been geared only toward pertinence to economic development, the matter of reproduction has been narrowly considered only as one dimension of social reproduction, that is, biological reproduction, as can be seen in the recent introduction of 'Comprehensive Plan for

Prevention of Illegal Abortion‘ in February 2010. Such policies thus fail to tackle the dualist market and the women’s dual roles in the production and reproduction, and to understand the nature of the crisis of social reproduction.

Nevertheless, this paper is far from suggesting that Korea’s remarkable economic achievement has worked only for men, nor that Korea’s uneven development process has been done solely by women’s sacrifice. Taking the frame suggested by Amartya Sen (1999) and Peter Evans (this volume), of the capability-enhancing developmental state, we cannot deny that women have also benefited from the economic development process, particularly because there has been considerable increase in women’s participation in the labour force and in education, which have led to enhancement of women’s capability and women’s empowerment (Tinker 2006), as can be seen in the decomposition of old gender relations throughout the development process, such as the shifts in the family structure, marriage patterns, reduced son-preferences and the rise of women’s movements. While these are unexpected and unintended outcomes, a new approach to sustainable and equitable development can open up better possibilities for achieving gender equity.

Recently, attempts to enhance cross-sectional and bidirectional approaches between economic and social development through repositioning of social policies have been made (see Mkandawire this volume), and in this regard, the argument is noteworthy that the integration of gender equity in development policies does not necessarily hinder economic development, but rather can contribute to both economic and social development (Walby 2005). For instance, institutionalization of maternity leave with adequate income support and job security reduces job turn-over rates dramatically, which saves a great deal of the cost of training programmes (EOC 2004). Also, studies about gender and development have shown that increases in women’s income tend to be better utilised for the education and nutrition of children (Kabeer 2002), and similarly that increased access for women to education reduces infant mortality and enhances children’s education and nutrition (Subrahmanian 2002). These findings can be attributed to outcomes of gender impact assessment of social policy, which has been proposed by the Beijing Declaration in the UN World Conference on Women in 1995. As illustrated in this paper, with the lack of a gender lens, economic development and even meaningful policies for social

development have had disproportionate impacts on men and women. Further, the lack of recognition of the interdependence between the spheres of production and reproduction in government policy not only leaves gender inequalities persistent, but also makes economic development unsustainable and welfare provisions ineffective.

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Chapter 13

Korean Responses to Environmental Challenges: Origins, Drivers and Impacts of Green Growth on Development

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Introduction

This chapter focuses on Korean environmental issues and responses in the historical and contemporary contexts and their implications for developing countries. First, it presents a brief Korean background along with the literature review, develops clear objectives and research questions and states research methods employed for the study. Second, drawing on the secondary data analysis, it discusses past and present Korean environmental policies in three periods. These are: ex post restrictions, command and green belt policy between 1960s and 80s; ex ante restrictions, economic incentives and cooperation during 1990s and 2000; and the quality of life policies and governance approach after 2000. Third section looks at low carbon green growth policies and responses to climate change in terms of its concept, performance and limits. Fourth, it analyses social, economic and political dynamics of environmental policies. Drawing this overall analysis, the fifth section discusses what other countries can learn from Korean environmental policy failures and successes. Finally, in the conclusion, it argues that Korea can contribute to the development of sound environmental policies and actions in developing countries, which need to critically examine their own unique contexts, learn from Korean experiences and adapt and adopt Korean policies and aid that suit their contexts, and to equally focus on their own local innovations.

Korean background

South Korea, with barely one hundred dollars annual income per capita and one of the world's poorest countries until the early 1960s, has transformed itself into one of the top ten

economies in the world in just four decades. Korea has been in double-digit growth year upon year since the mid-1960s by adopting an economic development system. This strategy was driven and implemented by forceful leadership, the so-called 'development dictatorship', particularly between the mid-1960s and late 1980s. The system of the Korean developmental state means that each side of the state, including both political and bureaucratic sides, "uses the other in a mutually beneficial relationship to achieve developmental goals and enterprise viability" at any cost (Comings 1999; Johnson 1999: 60). According to the development state theory that penetrates politics, administration, social welfare, and government-business relationship – as well as explains the rapid economic growth of East Asia – the least developed countries of East Asia, including Korea, Japan, and Taiwan, have possessed the national autonomy and capacity in their particular historical conditions (unparalleled elsewhere in the world) necessary to implement this strategy (Comings 1999; PCSD 2008). The autonomy of the Korean developmental state was derived from the historical distinction that there was no social power that could match the power of state bureaucracy that was substantially developed during the colonial period for 35 years by Japan. Therefore, the state was superior in terms of the power relationship, and talented bureaucrats were easily recruited since the tradition of centralised bureaucracy was highly regarded in society. Hence, Korea has been 'the strong state' with tremendous state capabilities, which is unprecedented in the world.

However, the developmental state exerted a damaging influence on many areas, which not only led to negative side effects for both political and social realms but also had a detrimental effect on the social structure producing irrationalism and inequality (Jung 2003; Cho 2006). The Korean administration system performed a major role as the driving force in the developmental state system process that led to economic growth. Therefore, it should maximise the efficiency of resource mobilisation, input, turnover, production and the process of distribution. This system was seldom able to build an inner rationality, but it was able to function as a mobilised system to accomplish its goal by controlling the structure's central theme. The general administration system, due to its unique controlled structure, became more rigid to deal with problems creatively and actively (Jung 2003).

In this reality, as recently as the 1990s, while higher income and greater democracy increased, social issues and problems were paid attention, which resulted in raising the public awareness of the limits of the developmental state system, and also in developing involvement in

environmental issues. Although Korea's economic growth and development experiences are not similar to many developing countries, its early environmental degradation and impact may not to be dissimilar to them. Ku (2000: 102) contends that "Korea has sustained high economic growth rates since the 1960s, often at the expense of environmental degradation …" Ku's analysis further shows the characteristics of the Korean environmental movement during three periods: Pre-history of the environmental movement (the 1960 -1970s); era of the anti-pollution movement (the 1980s); and the era of the new environmental movement (the 1990s). Dalgon's (1992) analysis in the 1990s suggested that although Korea had environmental policies, their implementation was weak. During the same period Lee (1994:1) shows the gap between seeming public demand for cleaner environment and lagging policy response of the government. Environmental non-government organizations face many challenges in bridging such gaps in Korea, but they also succeed in their objectives (see Ju and Tang 2011). The buildup of environmental movement from local to national level and its politicization is well analyzed by Liu (2004; 2008; see also Ku 2000; Lee 2000). Towards this, the democratization process has played a significant role in addressing environmental issues through grassroots level movements. In their analysis of dynamics between democratization and environmental policy-making, Lim and Tang (2002:578) concluded as follows: "The Korean experience shows that democratization creates the potential for more effective governmental efforts in environmental protection, but such potential can be fully realized only if adverse legacies of the authoritarian era are overcome and multiple institutional arrangements are developed for peaceful resolutions of environmental conflicts." To deal with interurban environmental conflicts, based on discursive analysis, Lee (2002) has suggested the potential use of environmental democracy and participation of people. Through democratization, participation and politicization processes, environmental activism or movement rose as a key force and played a main role in the civil movement. Since then in the 2000s, the public concern on environmental policy went on to look for sustainable development issues encompassing the economic and social sectors as well as the environmental sector, for example, environmental industry, environmental health, environmental justice and so forth. Through this change, the concept of governance spread in relation to the transformation of governing structure, which much increased the participation of the private and the voluntary sectors, particularly NGOs (Hee-Yeon 2000; Shin 2003; Ju 2007).

In this context, the establishment of the Presidential Commission on Sustainable Development (PCSD) that moved Korea onto a sustainable path was accomplished by a series of external and internal procedures. In 1992, the Rio Earth Summit adopted Agenda 21, which called on governments to create the Commission on Sustainable Development (CSD) for the effective follow-up to the UN Conference on Environment and Development (UNCED); international cooperation; and the progress of Agenda 21's implementation at local, national, and international levels. Internally, civil society and academia in Korea had made continuous demands to the government to create a national advisory committee to report directly to the President about SD issues. In the end, the PCSD was formally inaugurated in September 2000 by presidential decree. The Presidential Commission was constituted as a presidential advisory body and as a representative governance organisation in which government, industry and civil society organisations jointly participate with the aim of realising SD in South Korea.

Recently, facing the problem of climate change, several important approaches have been taken. Particularly, the Lee Myung-Bak (MB) government since 2008 has driven the Green Growth project in order to to surmount the difficulties the world now faces in climate change, energy consumption and also economic hardship. It is said that Green Growth is the opportunity for Korea to develop in a sustainable and responsible manner into one of the truly most advanced industrialised countries in the world. To spread the vision of low-carbon green growth to all sectors of society, the Presidential Committee on Green Growth (PCGG) was established in 2008, and is currently carrying out a range of policies and programmes in diverse fields such as legislation, finance, culture and arts as well as from the more directly relevant fields of climate change, energy, green technology and green industry (Feldman 2011; UNEP 2010; please cite some references relevant to this paragraph).

This brief Korean background and literature review shows that although Korea has a very rich experience of dealing with environmental issues and several research projects and publications are available, our literature review did not come across any research projects or publications that look at what other developing countries can learn from the Korean experiences of and policies for dealing the environmental issues. To bridge this gap, our study looks at Korean environmental issues and responses in the historical and contemporary contexts from the perspective of their implications for developing countries. Looking at the unique contexts of the Korean economic development and environmental policies, many developing countries and

development thinkers and practitioners wonder: How has Korea achieved development? What is its environmental record? Are there any lessons for developing countries? How can developing countries do the same? Reflecting on these and similar questions, this chapter focuses on the following objectives.

Objectives

The main objectives of the chapter are to:

- Analyse the Korean key environmental policies and programs that address environmental concerns and emerging climate change issues
- Examine the process of dealing with social, economic and political forces and dynamics in resolving environmental issues and in developing climate change adaptation and mitigation strategies.
- Discuss what developing countries can learn from the Korean environmental policy making and implementation processes and outcomes, and how Korea can aid other countries to achieve better environmental outcomes.

Research Questions

Along with these objectives, we raise the following research questions and accordingly focus our analysis and discussion.

- What were and what are the key environmental issues in Korea?
- How has Korea responded to its environmental issues in terms of policies and programs?
- What are the major environmental policies, programs and institutions and implementation mechanisms in chronological order?
- What are the social, economic and political forces and dynamics that hamper or facilitate environmental policies and programs?
- How did it deal with social, economic and political forces and dynamics in taking policy decisions and implementing them?
- What can developing countries learn from Korean positive experiences of developing environmental policies and programs?
- How can developing countries avoid negatives experiences or mistakes in developing environmental policies and programs and in achieving better outcomes?

- How can Korea aid other countries in developing environmental policies and programs and in achieving better environmental outcomes?

Research methods

The qualitative content analysis method (Williamson, Karp and Dalphin 1977) was employed to conduct the study. Secondary data (Stewart and Kamins 1993; Pawar 2004) was collected from relevant (1) policy documents; (2) key environmental legislative pieces; (3) scholarly journal articles and books, and (research) reports; (4) Korean environmental agency (NGOs) websites; (5) relevant newspapers; and (6) Korean government annual reports and reports from implementing institutions. In light of the chapter objectives and research questions, the data was analysed by employing the qualitative content analysis method, which involved identifying relevant themes in the content and analysing and interpreting it for the purpose of the chapter. In addition, the authors' reflections and experiences were used to discuss the implications for developing countries. The analysis and discussion are presented as follow.

3. Korean Environmental Policies – past and present

How have Korean environmental policies changed? Undoubtedly, Korean environmental policies have significantly changed over a period of half a century. Keeping the objectives and research questions in mind, past and present environmental policies have been analyzed and discussed under three phases. These are: ex post restrictions, command and green belt policy between 1960s and 80s; ex ante restrictions, economic incentives and cooperation during 1990s and 2000; and the quality of life policies and governance approach after 2000. The analysis shows that Korean environmental policy actually took root since 1980s and it had developed in various ways since 1990s under the influence of the democratization processes and the concomitant environmental movements.

Between '60s & '80s: ex post restrictions, command and 'green belt' policy

The origin of Korean environmental policy may be identified with the Environmental Pollution Prevention Act established in 1963. However, it was just a symbolic policy or a piece of legislation without a budget for the pollution prevention (Moon 2008). In 1977, under President Park Chung Hee's rule, the Environmental Protection Law was enacted, which may be

considered as a turning point for the environmental policy in Korea. Thereafter, in 1979, the Environment Agency was created to manage environmental administration as a control tower. Nonetheless, during this period the environmental policy remained as a tool of command and control mechanism, which did not result into any effective formulation and implementation of environmental policies. Like in many other countries, significant environmental degradation occurred due to rapid heavy industrial growth. The data clearly show that high economic growth and high environmental degradation went hand in hand. During the period from 1965 to1979, while the total energy consumption increased by a factor of about 3, SO_x emission increased by a factor of 9. Relating to population growth, energy consumption per capita increased 2.5 times and SO_x emission increased 7 times. From 1980 to 1986, while the Gross National Product increased 64 percent, the quantity of specific industrial increased 100 percent, general industrial waste increased 90 percent, and CO_2 emission increased 75 percent. The rate of pollution appeared to be greater than economic growth rate (see Rhee 2000:82-83; Ku 2000:107).

However, there is one noteworthy exceptional environmental policy, which contradicts the above remark and that policy is known as the green belt policy that was introduced in Korea in 1971. According to Bengston and Yeo-Chang (2005:27), "A greenbelt 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 1971-1973, green belts, earlier known as restricted development zones, were demarcated around Seoul and 13 other cities. It was part of the City Planning Law of 1971, which was influenced by the 1972-1981 National Comprehensive Physical Plan of 1973 (Lee 2000, 2004; cited from Bengston and Yeo-Chang 2005). Bae's(1998) analysis suggests seven objectives of Seoul's green belt. These included national security, eradication and prevention of illegal shantytowns on the outskirts of Seoul, controlling urban expansion, reducing rapid growth in population and industrial concentration, limiting land speculation, protecting agricultural land and promoting food security and environmental and natural resource protection. In the recent past, the significance of the last objective has increased. Beginning with the creation of green belt on the outskirts of Seoul, 15km away from the city centre, in width from 2 to 10km, in the suburb around the major cities in Korea, each green belt was established until 1977 (Jang 2000). As a result of this policy, 5.45 percent of the whole national territory and 37 percent of the urban area was occupied as the

green area (Jang 2000), though, recently, changes to green belt policy have been proposed and debated, and opinions on the issue are at best divided (see Bengston and Yeo-Chang 2005).

In 1980s, the necessity and logic of economic growth still overwhelmed the importance of environmental policy; for example, the government's economic departments were uncooperative on the environmental issues and oppositions and complaints from companies about environmental policies were increasing. Despite this unfriendly condition, the tools of environmental policy were developed and they were characterized by the establishment of an environment standard and emission standard, the introduction of emission charges as an economic incentive, and the implementation of environmental effects evaluation, a precautionary approach (Moon 2008). In addition, the organisation of Environment Agency was expanded in 1986; the Regional Environment Offices were newly organised in six cities including Seoul, Busan, Daegu, Gwangju.

Between 1990s & 2000s: ex ante restrictions, economic incentives, and cooperation

In terms of environmental administration, the Environment Agency was raised to the status of one of government departments, the Environment Office, in 1990. New individual laws related to the environment that replaced the existing Environmental Protection Law were passed in the National Assembly in 1990, which became a legal basis (plural environmental laws) for more robust and systematic environmental policies (Moon 2008). Finally, in 1994, the Environment Agency grew to the ministry status which had the executive authority in fact as well as in name.

Since 1990s, not only precautionary measures but also more economic inducements (incentives) were introduced and implemented. In particular, the Environment Office brought in the volume-rate garbage disposal system and the burden charges, and the deposit-refund systems. The evaluation of environmental effects was enhanced with regard to the process of ascertaining public opinion and of consultation. The details of the consultation with the Environment Office were guaranteed to be reflected in the related final project schemes. These changes show that the most important alteration of environment policy in 1990s was chracterised by the voluntary participation and the cooperative relationship between the public, private, and voluntary sectors.

In fact, these developments occurred in the context of the United Nations Conference on Environment and Development, known as the Rio Earth Summit, held in 1992, in which 172

governments participated and took a more proactive approach to environmental policies – e.g. alternative sources of energy, new reliance on public transportation systems, the growing scarcity of water, etc. The Rio Earth Summit also adopted Local Agenda 21 (LA 21) that refers to a programme or action plan for implementing Sustainable Development at local levels, which took root in Korea in a short period.

Since 2000s: the quality-of-life policies and governance approach

Since 2000s, the key points regarding the transition of environmental policy were marked by the constitution of the Presidential Commission on Sustainable Development (PCSD) and the preparations for the global climate change response. The PCSD was created to set major policy directions and formulate plans to simultaneously promote considerations for development and sustainability issues. The commission aimed to create a national strategy and policy on SD, taking into account future generations and including diverse tasks such as policy integration between the economy, society and the environment, and the implementation mechanisms (PCSD 2002; 2006a). Under these developments, environmental policies appeared to move towards the environmental health-focused and the quality-of-life policies (Moon 2008). The most important progress in terms of environment-related organisations and institutions was the creation of the Presidential Commission in 2000 and the Framework Act on Sustainable Development (FASD) in 2007. A variety of environmental issues in the paradigm of Sustainable Development (SD) were brought about, which included the response to global climate change, ecosystem conservation for SD, and arrangements of eco-efficient industrial structures and urban spatial setting. In other words, the environmental problems transitioned to more complex problems, which required an integrated approach of various sections including economy, society, land use, health, and so forth.

During this phase, unlike the government of command and control mechanism and of economic incentives for enterprises, the private sector or companies, NGOs and other civic groups participated in the process of environmental policy decision making. Influenced by the governance approach, the authority of decision-making was gradually shared with the voluntary and private sectors. In fact, as incomes and the democratization process increased, social issues received greater attention and that resulted in developing the public awareness of and involvement in environmental issues. Particularly, environmental activism by a range of NGOs

rose as a force and played a main role in the civil movement, which had a great impact on the policy making process.

Low Carbon Green Growth Policy and Responses to Climate Change

What is Low Carbon Green Growth?: the context and process in Korea

"Green growth is ecologically sustainable economic progress that fosters low-carbon, socially inclusive development" (UNESCAP undated). The term of Green Growth is first officially used in the 5th MCED (Ministerial Conference on Environment and Development in Asia and Pacific) in Seoul in 2005, held by the UNESCAP (Economic and Social Commission for Asia and Pacific) (Yun 2009). The Ministerial Conference focused on how developing countries caught up in the problem of poverty can harmonise the necessities of economic growth and of environment conservation, and it adopted the Green Growth initiative. This is to ensure environmental sustainability to maintain economic growth, create a win-win synergy between the environmental protection and the economic growth, and improve ecological quality by applying 'ecological efficiency' concept (KEPB 2009).

The recently inaugurated 'Lee-Myung Park Government' has worked and placed a great emphasis on the Green Growth initiative since 2008. This included a massive transformation of the organisational composition and human constitution, putting much weight on experts regarding specific issues related to 'low carbon green growth'. The Presidential Committee on Green Growth (PCGG) was established by integrating three national bodies including the Presidential Commission on SD in late 2008, and the Basic Act on Low Carbon Green Growth that was proclaimed together with the launch of the Commission and finally enacted with an approval of the parliament in late 2009. This tremendous drive was carried out under the direct control of the President for the implementation of the Low Carbon Green Growth project. In August, 2008, Low-carbon Green Growth was declared as a national vision for the next 60 years, which aims to shift the Korean growth paradigm towards a quality-oriented growth with a focus on the utilisation of renewable energy sources and green technologies (KEPB 2009). The national vision corresponds to a new development paradigm needed in terms of continuing

economic growth and improving quality of life, and making the existing economic growth pattern to be compatible with limited ecological carrying capacity.

Meanwhile, in terms of dealing with the issues of climate change and global warming, Korea joined the UNFCCC (United Nations Framework Convention on Climate Change) – initially adopted in the 1992 Rio Earth Summit and went into effect in 1994 – and ratified the Kyoto Protocol in 2002. The Kyoto Protocol at the UNFCCC was adopted in 1997 and came into force in 2005; currently in 2010, 191 states have signed and ratified the protocol (KEPB, 2009). Korea has stayed as one of the Non Annex I countries which has the general duty including submitting the National Communication; there are two OECD countries remaining in the Non Annex I, Korea (South) and Mexico. As the total carbon dioxide (CO2) emission levels of Korea have reached the 9th place (after UK, 8th place) in the world, there is an increasing international expectation that Korea participates in international efforts to deal with global warming.

Given this situation, since 1999, the Korean government has set up measures in relation to the UNFCCC, which can be categorised into the three-phase comprehensive measures as follow (KEPB, 2009; KEPB, 2010). From 1999 to 2001, the first comprehensive countermeasure was established, including 36 tasks as sectional emission reduction plan, greenhouse gas emission reduction, technology development, the Kyoto mechanism adoption, etc. The second comprehensive countermeasure (from 2002 to 2004) consisted of 84 tasks with 5 sections that were created by the relevant ministries so as to strengthen negotiation ability, develop greenhouse gas emission reducing technology, build up the Kyoto Protocol and statistics infrastructure, and encourage the public participation and cooperation, and so on. The third comprehensive countermeasure was established from 2005 through 2007, which covered 3 sections with 90 tasks after considerations with 19 ministries, including the convention execution infrastructure-facilities building projects, sectional greenhouse gas emission reduction projects, and climate change adaptation projects.

The reality of Low Carbon Green Growth: performance and limits

Since 2008, the national vision of Low-carbon Green Growth was declared, and the Korean government presented the Green Growth National Strategy and Five-Year Plan in July 2009 for

enhancing Green Growth in a systematic and efficient way. The Green Growth National Strategy envisages three main objectives: preparing measures to effectively mitigate climate change and energy dependency; creating new engines for economic growth; and improving quality of life and enhancing the profile of the country in the international community (KEPB 2009).

The Five-Year Plan, a mid-term program (2009-2013) was designed to formulate a long-term strategy. With regard to Green growth investment, the Korean government will invest a total of 107.4 trillion won (US$ 97.6 billion, at the rate of 1,100 won to the US dollar) until 2013 in green sectors, equivalent to 2 percent of Korea's GDP (KEPB 2009). The government is expecting that the five-year green growth plan will generate total production inducements of 181.7 to 206.0 trillion won, annual production inducements, 36.3 to 41.2 trillion won, equivalent to 3.5 percent to 4.0 percent of Korea's annual GDP (KEPB 2009). Moreover, the Basic Act on Low Carbon Green Growth Korea was enacted in early 2010 in order to lay the legitimacy for the Green Growth National Strategy. The President was the main driving force behind this process, though there were a series of discussions among experts from the government, political circle, and academia. In terms of tacking short-term economic problems and creating jobs in the current economic problems, the Green New Deal project was launched based on large-scale public investment. The Korean government also believes that long-term green growth targets will be met by implementing Green New Deal projects.

Importantly, the Four-River Restoration Project is shown as the most representative project of the New Deal projects, which is one of the 50 core tasks included in the Five-year Plan. The Restoration Project is about the development of four major rivers in Korea – the Han, Nakdong, Geum and Yeongsan – by investing 22.4 trillion won (US$ 20.3 billion) (KEPB, 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 Project's main objectives include securing water resources; preventing floods and droughts; improving water quality and restoring their water ecosystems; and developing the regions around the rivers (KEPB, 2009).

With regard to dealing with global warming and environmental problems, a range of programs have been or will be introduced. These include the expansion of renewable energy use, imposition of stricter auto emission standards, energy-related tax system reform, and construction of green transportation systems. In particular, an ambitious plan to voluntarily

reduce greenhouse gas emissions was formulated, which aims for 30 percent reduction from its business-as-usual (BAU) level by 2020.

For example, according to KEPB (2009; 2010), first, with respect to expanding renewable energy use, the Korean government plans to take firm actions so as to decrease the use of fossil fuels and promote the supply of renewable energy sources such as those from waste and bio mass. The Five-Year Plan aims to raise the share of new or renewable energy to 3.78 percent from the current (2009) share of 2.78 percent. Second, regarding stricter regulations on auto emissions, the bar for auto fuel efficiency and greenhouse gas emissions is raised above current U.S. standards. For instance, the Five-Year Plan requires cars to be designed to either drive 17 km per liter or cut greenhouse gas emissions below 140 grams per km. Third, the Korean government is introducing an emission trading system and is going to try to enact energy related tax reforms for increasing green house gas reductions. In addition, legal and institutional devices will be provided for the implementation of an emission trading system. Fourth, Korean plans to build a green transportation system-activation of public transportation and bicycles in order to reduce emissions in the transportation sector. The Korean government aims to expand the proportion of rail to 22 percent (from the current level of 18 percent) in 2013, also the share of public transportation in metropolitan areas from 50 percent to 55 percent.

However, even though the above efforts and performances related to the Low Carbon Green Growth project have been carried out in a meaningful way, they are still controversial, facing a lot of criticism. The formulation of the Low-carbon Green Growth national vision has been looked at with doubt because the new term of Green Growth was introduced all at once without a range of discussions between various stakeholders including civic groups in the public sphere (Yun 2009; Kim and Lee 2010; Lee, 2010). For example, the Basic Act on Low Carbon Green Growth seemingly encompasses the aspect of Sustainable Development (SD) but pays no attention to social integration, one of the important three factors of SD, including economic growth, environmental conservation. This criticism continues to gain momentum. Also, despite focusing on both economic growth and environmental conservation, the Green Growth strategy makes light of a tax system reform for ecological economy and of enhancing participation of civil society and build a consensus with a range of private and voluntary actors (Yun 2009).

Many scholars including Yun (2009) and Kim and Lee (2010) have criticised that the current policies and plans related to the national vision of Green Growth do not actually reflect ‘green’

values but rather they are carried out in a different way. While a range of green growth policies in the international communities are mainly to overcome the global ecological crisis through greenhouse gas emission policies such as enhancing energy efficiency of building and transportation, the Korean green growth ones are those of growth strategies focusing on increasing the government budget in order to secure profits of the industry and business (Oh and Choi 2009).

In particular, this paper notes that much weight is placed on the Green New Deal policy for overcoming economic recession and on the Four-River Restoration Project which is very controversial. The Restoration Project has faced a backlash from a number of civic groups even though work has begun on the construction of the Restoration Project since late 2009, been completed over 70 percent in April, 2011. As Oh and Choi (2009) have argued, Green New Deal policies of overseas countries focus on increasing energy efficiency in buildings[205] whereas, Korea pays attention to the field of civil engineering including the Four-River Restoration Project. For example, the U.S. government carries out the Green New Deal policy with main objectives including the production of hybrid cars, the promotion of new & renewable energy industry, and the expansion of information network. Also, the Chinese Green New Deal policy places an emphasis on energy efficiency even though China has insufficient infrastructure, compared to Korea.

It has also been criticized that the multiple goals of the Four-River Restoration Project are contradictory to each other. Growing concern is being voiced over an artificial ecosystem destroying nature, which would be created by the Four-River Restoration Project. Many experts such as including Oh and Choi (2009) and Yun (2009) have expressed much concern about the growing budget and the private capital inducement, the 'helter-skelter' master plan, the environmental effects evaluation that was roughly carried out, and so on. Moreover, the process of the Project has a lack of a social consensus on the necessity of itself; according to a survey, over 80% of national people are against the Restoration Project. Given this, regardless of the accuracy of the survey, it is generally pointed out that there is a lack of persuading and understanding of national people in terms of the legitimacy of the Restoration Project. Much

[205] http://ec.europa.eu/energy/efficiency/buildings/buildings_en.htm

concern remains about turning to a trigger for the Great Canal Construction Project that was withdrawn because of public opposition across the country.

Social, Economic and Political Dynamics of the Environmental Policies

It can be said that since the establishment of the Government of the Republic of Korea in 1948, there was no governmental agendas regarding environmental issues until the rapid industrial policies of the Third Republic were carried out. The military government through the 5.16 military coup in 1961, led by the general, Park, Jung-Hee, implemented the 5-year economic plan and led the country into the way of industrialisation. In this process, smoke from the chimney symbolised the country's modernisation. Environmental problems were inevitably followed.

Economic growth and environmental degradation

The economic strategy of the Third Republic, characterised by the light industry-led and export-oriented industrialisation, changed into the heavy and chemical industry promotion in the 1970s and early 1980s (Moon 2009). This is not irrelevant to the fact that serious environmental problems appeared since 1970s.

On the one hand, in a surprise move, the green belt policy was introduced in early 1970s, which was influenced by the political and military context – national defense in the divided country. In fact, a wide open space around Seoul was needed to hide a range of military facilities for the capital, Seoul defense. In addition, a robust regulation to prevent urban sprawl of a Seoul suburb was required due to land speculation and a rapid rise of land prices in the planned area of development around the large major cities. Therefore, this resulted in the designation of the green belt. Thus it may be argued that the green belt policy was created during the early periods of rapid urbanisation and industrialisation and triggered by the military demand for the defense of the capital area.

Looking at the economic dynamics of the environmental policies, the argument of Grossman and Krueger (1995) on the relationship between per capita income and environmental indicators is relevant to the Korean context, particularly until 1980s. This indicates that increases in GDP may be associated with worsening environmental conditions in developing countries, in other

words, the environment and economic growth are inversely related at large. This is so called 'inverted U-shaped relationship' (or 'Kuznets curve'). According to Kim's (1999) study on the inverted U-shaped relationship between income growth and environmental pressure, it is seen that the Korean economic growth pattern might have been a burden on the environment. For example, in the 1980s, with 10% of the average annual growth rate, industrial waste increased 90% and CO_2 emission increased 75% (Ku, 2000). The huge environmental damage was necessarily produced in getting the fruit of economic growth, which basically resulted from the industrial structure, consumption patterns, and 'growth-first' principles (Rhee and Kim 2000).

Social & Political responses and transition in the globalisation era

Since the middle of 1980s, government intervention (the command and control approach) in the environmental issues has been gradually reduced. Importantly, 'environmental right' – as a Civil Right – article was newly enacted in the constitution in 1980, which brought about a turning point in terms of civic awareness and civil environmental movement. As Ku (2000) has explained, citizens played a major role in the environmental movement and in the 1990s, a variety of environmental civic groups were founded while social and political opportunities were expanding. The civil environmental movement focused on not only environmental pollution problems but also more national-wide issues such as the quality of life.

Most Korean, since 1980s, appeared to be very concerned about environmental degradation, which can be seen by a national survey (Table 1 below); around 90 percent of Korean considered environmental problems as a serious issue. Most people supported 'the harmony of economic growth and environmental protection' in the 1980s, about 80 percent of respondents preferred environmental protection to economic growth in the 1990s.

<Table 1> Perspectives on Environmental Protection and Economic Growth (%)

	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	-

Source: based on Ku (2000: 112)

In addition, many people began to look favourably on environmental civic groups that were rapidly developed in the 1990s. Responding to the growing environment movement, various environmental policies were produced and the environmental administration was successfully established, though they were not very well integrated with economic policies and administration. A range of environmental laws also were comprehensively legislated in the 1990s (as some details are mentioned in the previous part).

The 1990s can be said as the era of the new environmental movement as a number of social movement bodies were created, the civil society lobbied on several issues and the environmental movement had a great impact on the Korean society, producing ideologies and strategies. The environmental movement formed in the globalisation era that was characterised by the liberalisation of trade and capital, privatisation, and deregulation. In this context, the 1992 Rio UN Conference on Environment and Development (Earth Summit) and its series were very influential on the Korean environmental policies.

After the turning point of the World Commission on Environment and Development (WCED) in 1987, global discussion about Sustainable Development (SD) increased, and another ground-breaking event, the UN Conference on Environment and Development (UNCED), was held in Rio de Janeiro in 1992, known as the Rio Conference or the Earth Summit. The Rio Conference made SD its main agenda and produced two conventions (the Framework Convention on Climate Change and the Convention on Biological Diversity) and three non-binding instruments (the Declaration on Environment and Development (Rio Declaration), Agenda 21, and the Statement of Forest Principles) (Rieu-clake 2006). A decade after the Rio conference, the World Summit of Sustainable Development (WSSD) took place in Johannesburg, assessing the implementation performance over the preceding decade and formulating future implementation plans. The WSSD adopted ‘People, Planet and Prosperity’ as its priority theme and thus emphasised that the global paradigm should be transformed from that of passive, environmental conservation to one of positive, SD. In this regard, SD has since been understood as being comprised of three pillars: social development and inclusion; environmental conservation; and economic growth.

In 1992, the Korean government was encouraged by the Rio Earth Summit to take a more proactive approach to environmental policies and to adopt Local Agenda 21 (LA 21). LA 21 refers to a programme or action plan for implementing SD at local levels and it took root in Korea in a short period. It is unprecedented in comparison with other Asian countries or anywhere else for that matter, inasmuch as 'a national action plan for Agenda 21' was only formulated in 1996 and by 2002 86 percent of 246 local governments had adopted LA21. This figure rose to 91 percent (223 of 246 local governments) in 2006 (PCSD 2002; LSAK 2009). This success was not only due to the Rio Summit and, accordingly, the activities of NGOs, but also the introduction of the devolution system in 1995 (PCSD 2006a). Importantly, LA 21 has provided the grounds for governance in Korea, through which NGOs have gained recognition as legitimate partners in dialogue and cooperation and also had opportunities to reinforce their cause. As a result, the governance, the framework of LA 21 has brought about various partnership activities and has also been a cornerstone for advancing the cause of SD at local and regional levels. LA 21 ultimately played a key role in the inauguration of the Presidential Commission on Sustainable Development (PCSD) in 2000, which provided the grounds for national governance for SD.

The establishment of the PCSD that moved Korea onto a sustainable path was accomplished by a series of external and internal procedures. The 1992 Rio Earth Summit adopted Agenda 21, which called on governments to create the Commission on Sustainable Development (CSD) for the effective follow-up to UNCED. Internally, civil society and academia in Korea had made continuous demands to the government to create a national advisory committee to report directly to the President about SD issues. In the end, the PCSD was formally inaugurated in September 2000 by presidential decree, after the president, Kim Dae-Jung, had declared the 'new millennium national environmental vision' and the establishment of the commission on World Environment Day in June 2000. It was created to set major policy directions and formulate plans to simultaneously promote consideration for development and for sustainability issues (PCSD, 2002; 2006a). The entire Presidential Commission, from the first term of 2000 to the fourth term of 2008, worked on the basis of governance philosophies and practices for SD. The Commission adhered to principles of multi-stakeholder participation and participatory decision-making between government and non-government actors in an attempt to reverse the failures of the existing government (PCSD 2005). As a result, governance provided the basis of PCSD

inasmuch as it refers to a cooperative management system through which government, market and civil society together strives to overcome limits placed on the government and cooperating for a common goal: the realisation of SD.

Dynamics of Green Growth policy: going forward or backward?

Since 2008, the new Lee Myung-Bak government placed a great emphasis on its own 'low carbon green growth' project, which altered the entire policy direction in relation to sustainable development. This included a massive transformation to the institutional and organisational settings. The Lee Myung-Bak government has been in the adversarial relationship with major civic environmental groups.

In fact, the priority of the previous government, Participatory Government, was placed on Sustainable Development, not Green Growth. Sustainable development is one of the most widespread issues in the world and has attracted much attention across the international community. As a result, there have been a number of efforts to implement SD globally; a variety of international organisations are involved in SD issues, such as the United Nations (UN) organisations like the Economic and Social Council (ECOSOC), the General Assembly (GA), and the UN Environment Programme (UNEP). The concept of SD (or sustainability) should not be put into the equal category of Green Growth, which is widely understood as a basic term presenting a direction of global development (Kim and Lee 2009).

In this sense, Green Growth can have the status of a subordinate conception consisting of the prerequisite as one aspect of SD. In other words, as Yun (2009), Kim and Lee (2009), Choi (2010) have argued, Green Growth is an important concept for tackling the poverty problem in developing countries but it cannot replace the ideas of SD. Given this, in order to locate Green Growth as a superior conception instead of SD, legitimate processes of social discussions and consensus on it were surely required. However, it is regrettable that such a process was hardly found in the establishment of the Presidential Committee on Green Growth.

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 – environmentalists have demanded so far – were selected as main policy objectives, they are currently carried out in light of reinforcing a driving force for 'new growth' (Yun 2009). Also, the Korean government which

have supported and had a trust in nuclear power still adheres to the 'anti-green' Green Growth, taking the growing energy consumption for granted.

With regard to the Four-River Restoration Project, many experts and environmentalists have argued that the term 'restoration' does not fit with the Project at all, and hence, it should be defined as 'reconfiguration of the Korean river environment', which would be more accurate and valid. Looking at the huge difference between the reality and limits revealed and the statements of the government, there may be another reasons why the government has chosen the term, 'restoration'. In fact, the government has tried to hide the effect of environmental damage created by the Project by naming the Project as 'making rivers alive' and 'restoration of rivers'. The Korean government has an expectation that the policies related to the Four-River Restoration Project would be more widely accepted by using such positive names and images.

In order to deal with the cutting-edge climate change problems, both low-carbonisation of the social and economic structure and effective government engagement in the market such as a change of tax system are basically required. Moreover, one of the most significant matters is to get civil society involved because such social and economic change can be built on a basis of a wide social consensus and cooperation. However, in reality, the Korean Green Growth strategy could not involve a range of demands for such change and had a lack of communication with civic groups and did not provide avenues for their participation. Since various policies and plans of Green Growth have not formed according to the value of 'green', Low Carbon Green Growth has failed to earn social trust on itself (Yun 2009; Lee 2010; Choi 2010). Thus, it can be argued that a different approach needs to be taken to connecting environment with economic growth with a re-focus social equality as an over-arching plan of SD including the authentic quality of green.

Implications for Developing Countries

While nation-states are politically separated in terms of international boundaries, the ecological, environmental and climate change issues demonstrate that the globe is united and connected. Ecological degradation, environmental pollution including greenhouse gas emissions by one country will affect many countries and the whole globe. Thus, there is an environmental imperative that all countries in Asia and beyond act now to reduce green gas emissions and practice green growth by effectively employing both climate change mitigation and adaptation

strategies. Towards this end, is there anything that can be learned from Korean experiences? Or what lessons Korea offers for developing countries so that they are able to address their environmental issues proactively and effectively. For such questions, it may be prima facie opined that no country has a good record of environmental protection as most of them have caused significant environmental degradation in the process of their industrialization and economic growth, and Korea may not be an exception to it (Mkandawire, 2011). Despite such widely held perceptions, our analysis of Korean development and environmental issues and strategies shows that other developing countries may gain some useful insights from Korean experience for protecting their environment by introducing appropriate measures.

History of the authoritarian regime, industrialization and economic development in Korea experienced environmental degradation and pollution, like many other countries, and many people became victims of environmental pollution and initially found it difficult to communicate to or raise their voice against the prevailing social economic and political system. The first lesson we can learn from the Korean experience is that people do not have to bear environmental degradation and pollution for such a long time and economic growth must be balanced with environmental protection, and there are ways to achieve it. Second, the Korean experience clearly shows that a systematic democratization process is important to addressing environmental issues. Many developing countries need to peacefully democratize their social, economic and political systems and institutions from grassroots to top levels. This is the foundation for any meaningful reform and renewed approach for sustaining ecological systems.

Third, the Korean society gradually engaged in awareness raising, developed interest groups, formed a dedicated institute to address environmental issues, established many NGOs and systematically engaged intellectuals and the media, and developed an environmental movement to dialogue with the government and the business to address environmental concerns. It has been a difficult and long process for the Korean society, but relatively an effective and successful one. Gaining insights from such experiences, many developing countries need to initiate people's movements to address environmental concerns. Along with building the environmental movement, it is also important to effectively politicize it and this is what Korean people did so well. Fourth, Korean experience suggests that it is important to facilitate the participation of and

cooperation among people, communities, civil society, NGOs, the business and the government to address the environmental issues. It was heartening to see such a spirit in Korea, at least to some extent. In any democratic process, opportunities to express critique and comment and offer responses to them are important and such healthy process relating to green growth policies and debate may be seen in Korea.

Fifth, Korea is a good example of developing and implementing green belt policy. Irrespective of its defense, economic and political objectives, among other things, at the given point of time, the protection of green zones in Korea, has helped to maintain ecological systems. Many countries can learn from such a policy and may implement similar policies to create green zones in their respective countries. Some countries may already be having such policies in different forms, but they need to implement them without any compromise.

Sixth, Korea's nearly 5 percent of research and development budget is invested for environmental research and development, which is highest among the select developed countries. Taking inspiration from such prioritizing, many developing countries according to their capacity need to invest in environmental research and development that helps them to address their local issues in an effective manner.

Seventh, Korea has shown leadership in developing a national strategy for green growth. Many developing countries can learn from such a strategy. The UNEP's (2010) review of the Korean strategies for green growth, suggests seven areas of learning for other countries. These are:(1) governments need to examine economic, social and environmental costs and benefits of different strategies and policy options; (2) clear and appropriate parameters and indicators or targets need to be determined and achieved; (3) significant public and private investment is needed to initiate the process of change; (4) in addition to enhanced investments, governments should change those policies that are not favorable for environmental protection and sustainability; (5) developing countries' green economies should ensure the good balance between sustainable economic growth, reducing poverty and enhancing wellbeing; (6) bold leadership is needed to introduce necessary changes; and (7) countries must ensure participation of all sectors so as to gain their support for transformational policies and programs.

Eighth, since environmental challenges are local, national and global in nature and well connected, and they impact at all the three levels, international cooperation, aid and knowledge transfer are necessary. Korea's East Asia Climate Partnership program through its official development assistance, shares green technology and knowledge in ten Asian countries through its 20 projects (see KOICA undated). Many countries which are in a position to do so need to follow the suit, and they also should learn to use the aid effectively.

On the whole, Korean experience suggests that although Korea has caused significant environmental degradation that has impacted many people and eco systems, particularly from 1960s to 1980s, it has demonstrated bold leadership in recognizing the environmental issue, making necessary fiscal allocations and developing clear policies and programs. Many countries need to take such initiatives. Finally, it may be noted that although the above presented broad lessons may be learned from Korea, each developing country needs to critically examine its own socio-economic, political and cultural contexts and adapt and adopt Korean experiences and green growth policies which suit their contexts as no policy or program can be transplanted as is.

Conclusion

As per its objectives, this chapter has looked at Korean key environmental policies and programs that address environmental concerns and emerging climate change issues; the process of dealing with social, economic and political forces and dynamics in resolving environmental issues and in developing climate change adaptation and mitigation strategies; and broad lessons Korea offers for other developing countries to address their environmental issues. It has also raised several research questions to direct the discussion of the chapter, though it was not feasible to thoroughly address some of the research questions due to paucity of the space. Some other limitations of the chapter are full reliance of the secondary data, the authors' biased interpretation, lack of in depth analysis and generalizability and short period of some policies (for example, green growth policies), which makes it difficult to analyse in terms of their impact and outcomes.

The analysis shows that although from 1960s to 1980s economic growth and environmental degradation went hand in hand under the authoritarian regime, the democratisation process, the

engagement of civil society, the participation of people, communities and NGOs in addressing environmental issues and the building up of environmental movement with politicisation show that the Korean society has unitedly stood up against the environmental degradation and is able to create effective pressure on the government and the business sector to transform their policies and programs to appropriately respond to growing environmental concerns. In the midst of the massive environmental degradation track, the Korean green belt policy stands apart as an exemplary to show to other countries how it has protected its environment, though recent developments suggest that there may be alterations to such a policy. Although a lot more needs to be done, Korea's green growth policies, despite some criticism, show bold leadership, initiative, significant fiscal allocations and an attempt to mobilise all sectors together to address the common cause. Such transformative policies may pose new environmental challenges. Achieving a balance between economic growth, environmental sustainability and people's wellbeing will remain as an ongoing challenge for many countries.

The Korean experiences of dealing with its environmental issues, both in historical and contemporary contexts do offer significant insights for many developing countries. We have clearly discussed these lessons under eight points above. Many developing countries may learn from Korea's implementation of the green belt policy, the democratisation process, the building up of the environmental movement with politicisation, bold leadership, emphasis on research, development and innovation, necessary fiscal allocations and long-term and significant investment plans, cooperation among various sectors and stakeholders, and international cooperation and aid. As noted earlier, each developing country needs to critically look at its own unique socio-economic, political and cultural contexts and carefully adapt and adopt Korean experiences and green growth policies which suit their contexts as no policy or program can be transplanted as is. Equally, they should focus on their own innovations and local solutions.

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