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## SOUTH KOREAN DEVELOPMENT MODEL

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### *Summary*

*South Korea is one of economic wonders of the late twentieth century. War-torn desolated and poverty-stricken country in the 1950s with a per capita income less than Haiti, Ethiopia, India or Yemen, achieved unprecedented economic development and legendary growth that brought her from one of the most backward countries into an economic giant by the 1980s and later on one of the most advanced countries in the world in the 21st century. The process was characterized by rapid industrialization, phenomenal growth rates and incremental social transformation.*

*The paradigm of Korean path was under scrutiny from politicians and academicians and many studies were devoted to this issue. The paper is briefly highlighting major schools of thoughts analyzing Korea's model from different angles – developmental concept, new institutionalism, cultural school of values, historical trajectory theory and of international relations concept. The study does not have an ambition to go deeply into historical perspectives and developmental cycles of Korean economic success that are very well covered in a number of economic expertizes. Instead, the paper focuses on some selected aspects that, though sometimes forgotten to get a due attention, but substantially subscribed on the Korea's industrialization successful story. The study includes considerations of the applicability of Korean model on other countries and brings also a brief insight into the modernization period that followed the path of democratization of the country after 1987.*

**Keywords:** South Korea, Korean War, Korean Miracle, industrialization, the role of the USA, foreign loans? five-year plans, “chaebols” (money clans), applicability of Korean model of development.

### **1. MIRACLE ON THE HAN RIVER (1962-1980)**

South Korea's dramatic economic growth is sometimes commonly described by catch phrases The miracle on the Han River and Korean phoenix - a nation from ashes or From rags to riches.

Despite all controversies, the accomplishment of sustaining an average yearly economic growth of 8,9 % for 19 years (1961–1980) and expanding the nominal size of the economy by more than 100 times in 30 years is unparalleled in the world. In 1990, nearly 30 years after launching the 1st five-year plan in 1961, GNP was 113 times that of 1961 while per capita GNP had grown 68 times. In light of this and together with democratization of the country the economic and political success of South Korea is clearly outstanding.

South Korea became the first country after the World War II to transform from aid recipient to a donor country and from the very backward country (155,6 USD GDP/capita in 1960) to one of the most advanced countries in the world with over 27,221 USD GDP/capita in 2015<sup>1</sup>. She is the world 6th biggest exporter, the 4th strongest economy in Asia and the 11th globally. South Korea has become world biggest semiconductor and smartphone producer, second biggest in ship building, fifth in car and sixth in steel production. Innovations are becoming the moving driver of the economy with 4,3% GDP investments into R&D that is the biggest among OECD countries.

<sup>1</sup> World Bank Databank 2016. URL: <http://databank.worldbank.org/data/home.aspx>

Despite experiencing economic hardships of poverty after the Korean War (1953) and political authoritarianism for nearly 26 years following the May 16, 1961 military coup, South Korea has succeeded in making compressed achievement both in economic growth and political democratization and by some politicians and scholars (UN Secretary General Pan Ki-moon, Professor of Columbia University Jeffrey Sachs, President of the World Bank Jim Yong Kim) has been labeled as an exemplary case for developing countries and sometimes evaluated as a representative case of the Third Wave Democracy [5, p. 245].

## **2. SCHOOLS OF THOUGHTS BEHIND KOREA'S ECONOMIC SUCCESS**

There are concepts stressing some factors over the others trying to extrapolate certain aspects as the most decisive in Korea's development process.

Adherents of the theory of development explain Korea's economic miracle on the logic that under the leadership of the Park Chung-hee regime (1961–1979), Korea adopted developmental state system and with its effective public policies facilitated rapid economic development. It is judging Korea as a developmental state possessing certain standardized characteristics, such as strong state intervention, competent bureaucracy as a pilot agency, effective public policies focused on industrialization, diligence among the people for economic growth, Confucian cultural background, informal networks, export – oriented industrialization strategy, strong leadership and political stability. This concept is contrasting neo-institutional and cultural approaches.

According to new institutionalism, Korean economic growth was a result of Korea's unique economic governance structure and of institutional innovation that lowered transaction costs and expanded trade and markets, allowing Korea to gain great economic benefits [6]. In contrast with the experience of Latin America, for example, South Korea had established powerful bureaucratic institutions, such as Economic Planning Board and policy of implementation was effective.

There were attempts to attribute the origin of Korea's development to the cultural and social values of Confucianism. In contrast to the West with its experience of democracy and civil rights, in countries with Confucian tradition and hierarchical political order, the state takes on more meaning than the individual and also authoritarianism (centralized political authority) is more dominant than democracy. The former Prime Minister Lee Kuan Yew even once tried to argue the Confucian culture of East Asia as being a main source of the region's economic success. The cultural approach is emphasizing the Confucian tradition and the value of micro-human behavior over political and economic institution.

Concept of historical trajectory contend that economic growth can't be seen as a historically isolated incident but should be placed in a broader historical context. They explain that main features of Korean developmental state were a historical extension of the Japanese colonial administrative structure and Korea's economic transformation can be best described as "Japanese ethos with an American outfit". They argue that Korea's measures for macroeconomic stabilization, liberalization and the transition to an export promotion strategy of industrialization were a result of US pressure that provided even US technocrats with technical details for designing this strategy [1].

Others locate the development success of South Korea not in domestic institutions or culture but in the Cold War structure after the World War II and international politics. These scholars argue that though economic institutions and cultural characteristics were important factors, more crucial for the emergence of developmental states in East Asia were US centered international politics. In other words, Taiwan, Japan, South Korea were able to develop mostly due to political military cooperation with USA within the structure of the Cold War. South Korea enjoyed the benefits of this bipolar world as an anti-communist bulwark.

## **3. WHAT, WHEN, HOW AND WHY HAPPENED: FRAMEWORK OF STRATEGIES, METHODS AND POLITICAL INSTRUMENTS**

Historical perspectives of policy evolution and developmental cycles are in a very detailed well covered in a number of economic studies. This paper is going to refresh some interesting aspects of industrialization that subscribed to the Korea's economic success story though being sometimes left without a due attention.

From the historical perspective of policy evolution, the post-Korean War era can be distinguished into three phases: import substitution (1954–1960); outward orientation (1961–1979); and balance and stabilization (post–1980). Distinct sets of policy goals and instruments can be identified for each phase. [3, p. 2]

First, import substitution policies in the wake of the Korean War (1950–1953) resulted in a lackluster growth performance. The economy was driven by foreign aid. This period, however, was devoted to the

building of physical and human capital infrastructures that served as the basis for subsequent industrial development.

The second phase of export-based industrialization started with Park's military regime in 1961. For the ensuing twenty years, the state-guided strategy of industrialization through the development of a powerful export machine worked well. Capital intensive heavy and chemical industries built in the 1970s provided basis for further industrialization during the 1980s. Favorable developments in the overseas trade climate in 1980s together with price stabilization and surge of investment accompanied the rapid rise of industrialization. By the early 1980s South Korea had emerged as one of the leading newly industrialized country in Asia together with Singapore, Hong Kong and Taiwan.

The third phase started with structural imbalances. Toward the end of the 1970s Korean economy had overextended itself and bottlenecks brought by the rapid growth policy of the past two decades were beginning to manifest themselves - rapid buildup of foreign debt, inflation, widening disparities within industry as well as between rural and urban sectors. Assassination of President Park in 1979 resulted in political power struggle, followed by the oil-induced worldwide recession in 1980–1981. As inflation became rampant in a stagnant economy, the government had to impose a stabilization program. Coming to the 1980s, the government started removing subsidies and preferential policy loans, gradually shifting policy concerns to the problem of making rapid growth more harmonious and less wasteful. The government's role moved from picking the winners to that of a referee in a competitive market. Government's goal was not directed toward regulatory welfarism as in the advanced capitalist countries nor to achieve egalitarian redistribution as in communist countries.

### 3.1. THE AFTERMATH OF THE ECONOMY AFTER THE KOREAN WAR

Japan's forceful mobilization of Korea for its imperialist ambitions had left the country in extreme destitution, fiscal hardship and a weak financial market with legacy of hyperinflation. There was no production of commodities on the territory of South Korea after the Korean War because Japan's strategy during the colonial times was to use Korea as a military supply base. Japan built the majority of its facilities for power generation, manufacturing and mining in northern Korea and agricultural base for rice production in southern Korea. This deepened the regional disparity between northern and southern Korea. When electricity to the South was cut off after the North and the South were divided, even remaining light industries in the South became useless.

The Nathan Report<sup>2</sup> estimates that close to half of the industrial, power generating and mining facilities were destroyed during the three-year war, totaling approximately 1,8 billion UJSD in damages including damage done to public facilities, ships, vehicles, houses. The land was in complete ruins and could not be farmed, the food situation was stark.

### 3.2. US ROLE IN KOREAN ECONOMIC DEVELOPMENT

#### 3.2.1. US grants and economic assistance – decisive factor of survival

USA provided southern part of Korea first years after liberation (1945) a grant-type aid in the form of military assistance. After the Korea – US Economic Agreement signed in 1948 Korean economy remained aid-based on the finances and industrial production of US grant aid until the beginning of the Development Decade<sup>3</sup>.

The outbreak of the Korean War (June 25, 1950) left South Korea even more dependent on the USA. In March 1961 the American government announced a new policy of reducing grant and providing loan aid with technical assistance to replace the aid framework that was in place from the latter half of the 1950s.

From the time of the end of Korean War (1953) until coup d'état (1961) the Korean government depended on US grant aid to cover nearly 50% of its budget on average each year. Based on the Security Supporting Assistance (SSA), USA provided South Korea for 17 years (1954–1970) financial aid of 1,876 billion USD. The early termination of the SSA in 1970 was attributed to Korea's faster-than-expected achievement of financial independence. Fiscal self-reliance ratio of the Korean government had reached 94 % by 1970 (less than 50 % in 1950) and percentage of tax revenues increased to 75,1 % in 1970.

That was a turning point of economic independence of South Korea. Despite this fact during the Cold

<sup>2</sup> A proposal for the reconstruction of the Korean economy written by the UN Korean Reconstruction Agency (UNKRA) in March 1953 as part of its aid policy.

<sup>3</sup> US President J.F. Kennedy in his speech to the UN declared that the 1960s would be the decade of development, promising to assist the economic development of underdeveloped nations. UN set a goal of 5% growth and provided resources and aid through the World Bank and the IMF. The country that best performed during this decade was the RoK as the best success case.

War period USA continued in heavy assistance to South Korea providing her with security guarantees and with preferential treatment for her export to US market including huge technical assistance.

### **3.2.2. US security umbrella - important guarantee of economic success**

The longstanding U.S. – South Korea alliance, originally established during the Cold War as a bulwark against the communist expansion in Asia, has undergone a series of transformations in recent years. In any case, Washington maintained security commitments to its Korea ally had been a guarantee for peaceful economic development of South Korea in the aftermath of Korean War and later on not only a crucial mean of preserving the global non-proliferation regime but also an important instrument that South Korea was not seeking its own nuclear arsenal. This has had a major influence on South Korea by giving her an opportunity to focus fully on economic development without needs of bearing high financial burden of nuke and ballistic programs.

### **3.3. FIVE-YEAR PLANS – MAJOR INSTITUTION FOR LEGENDARY DEVELOPMENT GROWTH**

World Bank was in the mid-1950s captivated by India's government-led economic program and was convinced that Korea also needed long-term development plan. But the proposal was scrapped by President Syngman Rhee's "allergic" reaction who considered "planned economy" as a Communist controlled economic system.

Coup d'état on 16 May 1961 staged by General Park Chung-hee (father of today's South Korean President Madam Park Geun-hye) brought to South Korea the military rule for 26 years. One of the main pledges of the military government concerned the reconstruction of the economy. General Park wanted to win a kind of legitimacy for unseating a democratically elected government and needed to improve public welfare and revitalize industry and the economy at the earliest possible time. That is why he displayed unusually keen interest in economic development plan<sup>4</sup>.

The newly created Economic Planning Board was a uniquely designed central organization with a task of formulating a comprehensive plan for national development and the mandate of mediating inter-ministerial differences and managing price stabilization and external economic policy. Economic Planning Board was an important institution with substantial powers to bring chaotic economic situation in the country under the control.

It was during the period of the second Five-Year Economic Development Plan (1967–1971) when the South Korean economy entered the trajectory of rapid growth. The third economic development plan (1972–1976) brought the completion of an important infrastructure, 428 km expressway linking Seoul and Busan, and the Pohang Iron and Steel Company. Heavy and chemical industries by the 1970s accounted for around half of the country's export and were built on importing raw materials, skillful labor force and rapidly growing technical and engineering expertise. The key industries in this sector were petrochemical, steel, shipbuilding, automobile and home appliances. Then construction of other expressways followed one after another. A defining feature of the fourth five-year economic plan (1977–1981) was the inclusion, unlike its predecessors, of the concept of social development and welfare. Policy consideration was given to societal aspects as education, health, medicine. Its basic goal was to promote social development and advance innovation in technology and efficiency. The construction sector saw a great deal boom in overseas markets.

### **3.4. BUDGET AND PUBLIC FINANCE – INSTRUMENTS OF GROWTH ENGINE**

The budget is not a simple statement of tax revenues and expenditures. It is the numerical expression of policy that a nation is determined to execute, and it is the most powerful tool with which to implement national policies.

One of major reforms contributing strongly into the economic development was the budgeting reform. The country adopted the laws that provided the grounds for budget execution and in parallel introduced conception of modern budgeting system executed by the Budget Bureau under the Ministry of Finance, led by Harvard University educated Director Lee Han-bin and catalyzed by the recruitment of young intellectuals with innovative thoughts (factor of quality of human resources). Computerization of budgeting in 1969 was proactive about introducing new systems. This institution took a form of the nation's key growth engine for designing planning and executing comprehensive economic development.

Economic growth continued to depend on foreign capital for a long time during development decades.

<sup>4</sup> The Korean Miracle, Publication Committee for Narratives of the Korean Economic Miracle, Korea Development Institute, 2016.



Government devoted the entire budget to the projects of expressway, steel factory and Four Core Factories Project that were implemented at an alarming pace, while simultaneously stabilizing inflation. National defense budget at 6 % GNP and almost 30 % of the expenditures in the general account. Substantially reduced budgets of defense and also education prompted other ministries to ask Economic Planning Board for money. This marked the beginning of civilian bureaucratic control over the national defense budget under the military regime.

### 3.5. FOREIGN LOANS - INDISPENSABLE FACTOR

Foreign loans were necessary for economic development. Korea was to turn to foreign capital after coup d'état in 1961. USA showed a cold attitude to the military government's request for economic assistance. It feared that its public support of a government established by a coup d'état would trigger similar coups d'état across Asia.

Judging it would be difficult to depend on the USA for the capital the military government prepared the law to provide guarantees for foreign commercial loans taken out by private enterprises to encourage private borrowing (1962). But this did not the tangible progress. Looking for solutions, government waived the penalties for firms with illegally accumulated wealth inducing them to build factories but that brought no major gains. Another measure was to raise its own capital through a covert second round of currency reform initiated in 1962. There was a considerable amount of accumulated capital acquired through corrupt and illegal means but not used as industrial capital. Government wanted to divert this money for investment while simultaneously preventing inflation. This ended with failure and Korean economy continued to deteriorate. To make matters worse, prices skyrocketed, the drought caused agricultural products to rise. Lack of foreign exchange meant raw materials could not be imported. It cause decrease of the production of basic necessities and consumer goods were in extremely short supply and inflation soared.

Korean government had to find another source of capital and turned to the West Germany that provided government loans and commercial loans from German exporters. Apart from it Korea needed strongly to enter the fisheries market through deep sea fishing and to procure the vessels. First commercial loans secured from France and Italy for fishing vessels and then from the West Germany. Foreign loans played a major role in getting businesses in Korea into economic life.

### 3.6. MIDDLE EAST CONSTRUCTION BOOM AND OIL MONEY – “BLESSING IN DISGUISE”

First experience of Korean manpower export started in Vietnam. From the deployment of troops in 1966 to the end of war in 1975 more than 850 million in foreign currency was earned by Korean businesses in Vietnam market that was a significant amount in those days. Revenues came from no-trade activities in Vietnam such as wire-transfers from military troops and technicians, military payments for services and construction, special compensation. Another revenues came from military supplies to Vietnam that amounted another 215,6 million USD. This period became the opportunity for the export of Korean manpower on a large scale and was an impressive amount of foreign currency during a period of economic hardship and chronic dollar shortages.

Experience of Korean construction companies in Vietnam led to entry into Middle East in the mid-1970s and beyond. Korean government came with measures for expediting entry into the Middle East in 1975 to help Korean construction companies. Such moves served as an engine of Korean economic growth. Soaring price of oil that started in 1973 put the Korean economy in a great crisis (crude oil was the very engine of Korean production lines). The demand from Middle East for construction residential houses and factories was truly help from above and heavily assisted in Korean economic development. Korean companies experienced boom in the Middle East and oil dollars flowed in rapidly. For the first time in its history Korea overcame its shortage in foreign capital. It was for Korea “blessing in disguise”.

### 3.7. EVOLUTIONS OF “CHAEBOLS” (MONEY CLANS)

The word *chaebol* translates to “money faction” or “wealth clan”, but a chaebol is more than a company. In South Korean culture, chaebols are dynasties. Chaebols are responsible for such an extreme portion of the South Korean economy that their chairmen are celebrities. Big four Korean mighty conglomerates-chaebols are Hyundai Motor Company, SK Group and perennial rivals, Samsung and LG.

Key managerial posts within a chaebol are almost always given to the relatives of the chairman, the patriarch. Not only must a conglomerate be family-owned to be considered a true chaebol, the conglomerate must have businesses in at least two disparate areas: for example, Samsung Group, South Korea's largest

chaebol, is known for its flagship subsidiary, Samsung Electronics – manufacturer of TVs and smart-phones – but it also owns subsidiaries that run a luxury hotel, build crude oil tankers and sell life insurance. Chaebol system benefitted heavily from Korea's Confucianism legacy that ingrained a paternalistic, top-down mentality that South Korean still possesses.

Cultural habit of deference to authority enabled General Park to effectively command the chaebol heads who were in turn to command their employees. General Park coaxed, intimidated, manipulated and outright threatened the companies for cooperation. But the president also offered incentives-government and foreign loans, relaxed regulations and tax cuts. Government actively intervened and worked closely with companies. Chaebols built roads, bridges, hospitals and other infrastructure sometimes at prices they knew would lose them money. They did it because they knew General Park would reward them in the long run with other profitable contracts. Samsung and LG were already flourishing, both among the top ten companies in South Korea, even before Park's regime took charge, and they didn't always welcome the government's initiatives. During Park's five-year plans, rolling periods of government-outlined economic development, the government sometimes took successful subsidiaries away from the chaebols. For instance on Park's orders, Samsung would cede a bank, a fertilizer manufacturer and a broadcaster, much to its dismay. On the other side government policy brought in new blood to some chaebols – most famously Hyundai, which began as an unimpressive, middling construction firm, but become a powerful chaebol during Park's presidency.

Government and chaebols even today need each other and cooperation relationship among them still defines South Korean politics and economy today.

### 3.8. LABOR FORCE AS "INDUSTRIAL SOLDIERS"

The writer Isabella Bird Bishop visited Korea in 1987 and wrote that "Seoul is a boring, dirty and dead city: Jack London, who spent four months in Korea, wrote in 1904 that Korean were "weak and lazy". Okita Kinjo in his book *Korea, Behind the Mask* (1905) called Korean "the world laziest people". But these characteristics from 1960s onwards very much changed. South Koreans worked under tough, somewhat militaristic conditions and showed themselves as very hard working people. The way in which Koreans work bears also the imprint of the President Park Chong-hee and of his military government [7].

General Park realized the potential for harnessing the discipline and nationalism inherent in the military for the use in industry. He realized the country would have to make up the difference through low-wage, intensive labor as the main basis of production. He needed millions of disciplined, hard-working young people to generate rapid economic growth. General Park understood well that rank and organizational hierarchy are of great importance in Korea and workers are expected to be loyal of their employers. Confucian legacy led historically to a school system that focused on discipline and rote learning than imagination. This helped to produce a generation of young workers who were ready to take orders and not ask too many questions. In order to restore national pride and foster a sense of unity, the people were taught that they were the products of an unbroken five-thousand year line descending from legendary founder of Korea.

Park's government presented industrialization as a kind of sacred quest to revive the nation. That sacred quest required sacrifice. Average Korean worker put 51,6 hours per week and Saturdays were work-days until 2014. The idea of sacred quest was also important for bringing women into the labor force too. According to traditional Korean Confucianism a woman's place was in the home with the family. The radical change was possible by presenting factory work as a patriotic duty, necessary during the period of industrialization.

One of the reasons South Korea became such a strong exporter was that wages held down throughout the entire Park era which served to increase the price competitiveness of Korean products. Though the legions of factory workers were indeed building the nation during 1960s and 1970s, they were not compensated well for it. During General Park's rule only on trade union was allowed and his role was to transmit government policy down to the workers rather than enabling the workers to resist poor treatment under the government – business compact.

### 3.9. POLITICAL REGIME AND ECONOMIC GROWTH

Korea's economic miracle suggests the question if there is substantial evidence that authoritarian regime of General Park Chung-hee (1961–1979) positively affected economic growth. There are contrasting views about the role of authoritarianism of that period. Some scholars are arguing that it was because authoritarianism that rapid and stable economic growth was possible while others contradict that economic growth was possible due to hardworking people and international conditions.

President Park Chung-hee's authoritarian regime and his executive leadership was characterized by strong state intervention, government regulation, large conglomerate-centered industrial policies, strategic allocation of resources, growth-centered policies and export oriented industrialization while suppressing the people's demands for freedom and democracy. This coincided with general character of many East Asian countries of that period.

We can read arguments that authoritarian regimes are more friendly to economic development than democratic regimes. This is mostly used as counter arguments against an idea of liberal democracies but at least empirically there are cases showing that in the initial stages of industrialization the free market and government intervention can be mutually combined.

In reality, though authoritarianism positively affected economic growth in several East Asian countries including South Korea bringing them out of chaos, it was only short time period through mobilization of resources and increased input factors, but in the mid and long term effects this argument is losing its ground. That is why South Korea had to adopt in the end of 80-ies a different model of development along democratization of the country.

#### **4. KOREAN MODEL OF DEVELOPMENT BEYOND INDUSTRIALIZATION EPOCH**

The 1987 democratic transition of South Korea and the 1997 economic crisis were historical events that refashioned the Korean model of development. Korean model of industrialization became difficult to sustain in the environment of democratization and globalization. It was impossible to maintain authoritarian methods of policy implementation or protectionist and mercantilist economic policies any more.

Democratization of Korea was peaceful, gradual and represented a historical trigger for further growth. Roh Tae-woo became president for the 13th presidential term in the first direct presidential election in 16 years. The government set out to eliminate past vestiges of authoritarian rule by revising laws and decrees to fit democratic provisions. Freedom of the press was expanded, university autonomy recognized, and restrictions on overseas travels were lifted. However, the growth of the economy had slowed down compared to the 1980s, with strong labor unions and higher wages reducing the competitiveness of Korean products on the international market, resulting in stagnant exports, while commodity prices kept on rising. Shortly after Roh's inauguration, the Seoul Olympics took place, raising South Korea's international recognition and also greatly influencing foreign policy. Roh's government announced the official unification plan of Korean Peninsula, "Nordpolitik", and established diplomatic ties with the Soviet Union, China, and countries in East Europe.

Financial crisis 1997 was primarily the result of hasty deregulation and the failure of the government to monitor the situation and led to reform of the Korean model of development. Globalization progressed too fast, making the Korean economy vulnerable to external factors. The major issue was that over the years the private sector (chaebols) had loaded up on debt in order to fund expansion and their debt reached over 500 % ratio to their assets. The result was bankruptcy of flagship names such as KIA which ended in Hyundai Motor hands and the collapse of the third largest chaebol Daewoo. Unemployment rose from 2,2 to 7,9 %. IMF "bailed out" Korea with a 58,3 billion USD aid package but in return to shock therapy conditions. The crisis had wide-range implication for Korean society and economy. The country showed unique capability of mobilization of the nation to overcome the hardships and ordinary Koreans donated voluntarily personal gold treasures that were melt into ingots ready for sale on international markets to help chaebols in troubles to bail out. But perhaps the most extraordinary aspect of the campaign was not the sums involved, but the willingness of the Korean people to make personal sacrifices to help to save their economy.

New Korean model was formed with strategies of adaptation to globalization in the political environment very different from industrialization period and as a reaction to the fast global connectivity and informatization. In fact, promotion of information started to play a positive role in transforming Korean model into a more transparent and accountable one. The new model is going through modifications, it is based on looking for high added value sectors and on introduction of new technologies with large support for innovations. The pursue of this blueprint is very strong and has been reflected not only by the highest inputs into R&D among OECD countries (4,3 % GDP, 2016) but also on systematic front by the creation of the new institution - ministry of science, IT and future planning - with the role of building creative economy.

## **5. REPLICATION POSSIBILITY OF KOREAN PARADIGM: LEGACIES AND LESSONS OF KOREA'S MACROECONOMIC MANAGEMENT**

### **5.1. WHAT LESSONS COULD BE LEARNT**

Combination of historical and cultural circumstances conducive to development existed in South Korea and this helped government policies to work. There are some unique factors but also a number of traits in Korea's development paradigm that can serve as positive lessons for other industrializing countries in the development macro-management.

Korean experience exemplifies the continual process of interaction between government and market. Government intervention had been justified, whenever necessary, in order to enhance economic efficiency as a whole. International competitiveness of Korea's exports was the result as much of realistic exchange rates and market-based low wages as of government subsidies and policies. It is worth noting that public enterprises were established mainly in infrastructure activities that required massive capital-intensive technologies but Korean public enterprises were rarely involved for long in activities commercially competitive with the private sector.

Government's role continued in providing the directions of the economy by participating directly or indirectly in basic economic activities and by guiding private sector activities. Flexibility and adaptability to changing circumstances including dynamic sequencing of industries have been a major strength in Korea's industrial policy. The important point to note is that both factors - endowment conditions as well as a set of articulate, conscious policy measures - contributed to a dynamic sequencing in industrial development for comparative advantage. As the economy becomes large and diversified, there should be a gradually reduced role of the government and an increased liberalization of the economy.

In regard to outward looking orientation the Korean experience tells us that success in industrial exports cannot come overnight through some quick-fix magic formula. Korean model is an eclectic one that while emphasizing an outward-looking policy, considered the protection of selective import substituting no less important. Korea's pace of import liberalization has been extremely cautious and gradual. Perhaps one important lesson learnt from Korea's experience with outward oriented strategy would be that such a strategy provides an effective instrument to gauge performance of the domestic sectors of the economy, thereby forcing them towards increased efficiency and technological progress.

Korean experience shows the importance of concrete but flexible planning and management of action policies. The distinctive virtues of Korean management were the pragmatism and flexibility of its policies as well as effectiveness in implementation. Detachment from so called "straightjacket" economic ideologies and dogmas and their willingness to experiment on what would work best at a given time and place seem to have been the key to Korea's success. A distinctive trait of the Korean model lies in the ability of policymakers to quickly and flexibly manipulate both positive and negative external factors to promote their own goals, formulate plans to realize their goals, and effectively implement these plans under an efficiently functioning bureaucratic system.

Korean model is not that of industrialization only at the expense of all other areas. For instance, despite the priority accorded to industrial development, the agricultural sector has not been totally ignored. In fact, there were periods, in particular, during the earlier part of the 1970s when agriculture came to the fore of development strategy. By and large, the goal of governmental policies has been avoidance of an excessive urban-rural disparity in income. The Korean government did not have to spend a large amount of its budget for social welfare and could concentrate its limited resources on high-growth sectors of the economy.

Perhaps the most tangible lesson that the Korean experience tells us is the importance of human capital investment. Koreans, in common with other East Asian newly industrialized countries have shown an awesome commitment to investment in human capital both by way of the quantity and the quality of education. The unusual educational zeal is partly cultural, but also reflects the result of government measures to increase the efficiency of public education. Related to the issue of human capital is efficient management at the company's level as well as the high quality of the labor force; both have been fundamental strengths of Korea's industrialization process. Korean manufacturing sector was characterized by efficient factor use and high rates of capacity use by international standards. On the other hand, labor productivity grew at an average rate of about 7 % per year during the 1966–1976 period.



From the point of view of the experience of Korea's industrialization policy the Korea's economic success can be characterized as a developmental cycle in the following ways: 1) government selection of industries and corporations to be supported, 2) mobilization of tax and financial resources and the drafting the trade policies supporting selected industries and corporations, 3/ government-led restructuring of industries and corporations in distress [2].

### **5.2. KOREA'S ATTEMPTS TO INTERNATIONALIZE THE KOREAN MODEL THROUGH OFFICIAL DEVELOPMENT ASSISTANCE (ODA)**

Korea's international development cooperation takes three forms – concessional loans, grant aid and the Knowledge Sharing Program (KSP) that is particularly designed to identify and share lessons drawn from Korea's development experience with developing countries. Korea launched KSP recognizes “knowledge sharing” as an effective and innovative tool for economic development. KSP offers comprehensive development assistance programs to partner countries which include in-depth analyses of current conditions, policy recommendations in priority areas and policy training workshops. As an alternative to theory-oriented policy recommendations from advanced countries, it has drawn much attention from developing countries as well as international organizations. Korean Development Institute since 2011 has carried out the modularization of Korea's development experience which documents in detail policies that greatly contributed to Korea's economic development. This program consists of 118 modules for sharing Korea's developing experience. The goal of modularization is to increase the applicability of the Korean model in developing countries.

Major role in disseminating Korean model of development to developing countries has got so called New Village Movement or New Community Movement (Saemaul Undong) that South Korea tries to present as a global strategy for global rural development and modernization. This movement was in the 1970s and 1980s the most important modernization campaign in Korea's countryside – a rural development scheme – which had far-reaching impacts on her society and economy. It was not until the late 1990s that the campaign began to attract serious scholarly attention. Once manifestation of nationalism is now an exportable model and has been adapted by several countries including Vietnam, Cambodia, Rwanda. Korea is working on “exporting” experience of this model also through UNDP programs.

Korean ODA intends to focus on the well-known effective principle – “teaching people to fish” rather than simply “giving them fish” and is based on soft power rather than hard power. The increase of Korean e-government systems to partner countries has increased Korea's standing in the global community as well as its “brand value” and has enabled the diffusion of the Korean model through information technology.

## **CONCLUSION**

If a new book of economic history of the period after World War II is to be written, South Korea economic achievements should feature, without doubt, on the first place. It is a miracle in the sense that the country was able to achieve in three decades such structural economic changes what other countries did in one century.

South Korea is an important country in the community of nations and in our modern world – not just economically but also culturally and politically. Overshadowed in North Korean problem, Chinese growth and Japan's cultural power, South Korea has never got the credit it has deserved. However this country has become a political model for Asia. Around the region there are countries with successful economies but authoritarian politics, such as Singapore and China. Only Japan presents a serious challenge in the region to South Korea in terms of combined economic and democratic development.

There are no established theories, panaceas or sure formulas in social science that could bring universal receipt for all countries. There are some general aspects of Korea's successful story but also some very distinctive characteristics of Korea's capitalism based on old cultural influence like Confucianism and the unique means of industrial development known as chaebol system. The study of Korean transformation is interesting by itself. We should look at the Korean model of development as a successful combination of a number of factors and as a dynamic interplay of historical political environment, external geopolitical factors and domestic factors such as human capital endowment (skilled and educated labor force), effective institutions (vigorous entrepreneurship), Confucian culture, outward-looking economic policy orientation (greater investments and growth in export markets), political leadership commitment to development and taking into account speed and range of transformation as well as historical evolution.

There are lessons to be learnt also on negative side from Korean paradigm. In simple words it is a lack of balance. Korea has overcome a number of crisis over the last years and gone on to achieve stunning economic growth but excessive focus on industrialization and economic development while depriving the society of freedom and democracy brought a lot of social problems. This path created command-driven labor force and made the creativity a generally missing point in Korean society. Korean economy started to be unbalanced, dominated by the country's top five companies and their affiliates. Role of chaebols has been reflected not only in getting economy upward but on the other side also in stifling small and medium enterprises. Chaebols do not provide solutions for youth unemployment and their growth don't necessarily lead to a trickle-down effect. Hidden unemployment and polarization of income is striking in Korean society and these disparities are one of highest among OECD countries. Though the country has achieved high level of informatization and the highest internet penetration in the world, she suffers to high extent from the lack of interaction with the outside world. Even more, despite high GDP per capita Koreans belong to the most unsatisfied people in the world with the highest percentage of suicides. Overwhelming accent on economic pursuit brought a highly career oriented culture with only a little space for inward oriented human activities. Every success comes at certain price.

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### Южнокорейская модель развития

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#### Аннотация

*Южная Корея — одно из экономических чудес конца XX в. Разорванная надвое войной, опустошенная и нищая страна, душевой доход в которой в 1950-х гг. был меньше, чем на Гаити, в Эфиопии, Индии или Йемене, достигла беспрецедентного уровня экономического развития и продемонстрировала ставший легендарным рост, который к 1980-м гг. вывел ее в число экономических гигантов, а в дальнейшем — и самых передовых стран XXI в. Этот процесс характеризовался быстрой индустриализацией, феноменальными показателями роста и постепенными социальными преобразованиями.*

*Парадигма, заданная корейским путем развития, находилась под пристальным вниманием политиков и ученых, и ей было посвящено много исследований. В настоящей статье кратко обзревается основные интеллектуальные подходы, под углом которых анализировалась корейская модель: теория развития, новый институционализм, культурологическая школа, теория исторического пути, теория международных отношений. Автор не претендует на глубокое погружение в историческую перспективу и циклы развития экономического успеха Кореи, которые были хорошо освещены многочисленными экспертами-экономистами. Вместо этого в статье делается акцент на ряде незаслуженно забытых аспектов, которые существенным образом повлияли на историю успеха корейской индустриализации. Работа включает в себя обсуждение применимости корейской модели к другим странам, а также краткое рассмотрение периода модернизации, последовавшей за демократизацией страны после 1987 г.*

**Ключевые слова:** Южная Корея, Корейская война, корейское чудо, индустриализация, роль США, внешние заимствования, пятилетние планы, «чеболи» (финансовые кланы), применимость корейской модели развития.

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