

Of miracles and models: the rise and decline of the developmental state in South Korea

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ABSTRACT *This article argues that the South Korean economic ‘miracle’ was based on the ability of the state to implement a strongly developmental policy. The state was able to do so because, for a time, it was highly insulated from demands from social classes which might have diverted it from the objective of industrialisation. This insulation, or ‘relative state autonomy’, derived from an historical trajectory which left the state in an unusually dominant position in relation to these classes. Domestic dominance was one factor enabling the state to insert the South Korean economy into world markets in a more advantageous position than would otherwise have been possible. However, its very success in industrialising the country strengthened various class forces, whose demands and intrusion into politics undermined the autonomy of the state. With industrialisation, the state’s freedom of manoeuvre was lessened. International influence only reinforced those class pressures inside South Korea. The overall effect was to force a retreat of the state and an end to a developmental policy.*

In 1960 South Korean GDP per capita was about the same as in the Congo. The Philippines was considered by many South Korean planners as a nearly unreachable role model.¹ Yet by 1996 South Korea was the 12th largest economy in the world and had joined the OECD—the first of the Asian ‘tigers’ to be admitted. An average annual growth rate of GNP of about 10% between 1965 and 1980 laid the foundations for this spectacular success.² If we exclude the OPEC and centrally planned economies, South Korea had the fifth highest growth rate of real GNP in the world in the 1960s and the highest in the 1970s and for some of the 1980s.³ The *Fortune* list of the top 500 private, non-oil companies in 1986 included 10 from South Korea and only 10 from all other developing countries combined.⁴ The industrialisation of this country had its ugly and tragic side—paid for particularly by a highly exploited working class. But it was a rare and spectacular transformation nonetheless.

Theoretical responses to this transformation have largely fallen into two categories. The first—from a neoliberal position—has been to emphasise the allegedly ‘miraculous’ effects that the discipline of the world market can have on the economy of a developing nation. The idea that East Asia had undergone an economic ‘miracle’ was given official approval with the publication of *The East*

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Asian Miracle: Economic Growth and Public Policy by the World Bank in 1993.⁵ The difficulty for neoliberals in their analysis of the Newly Industrialised Countries (NICs) of East Asia, however, was that it was clear that substantial state intervention was involved. Partly in reaction to the rise of neoliberal theory, and partly as a result of the emergence of the East Asian NICs themselves, neo-statist interpretations of the ‘East Asian Miracle’ began to appear in the 1980s. Prominent in the early development of this framework was the publication in 1985 of *Bringing the State Back In*, edited by Peter Evans, Dietrich Rueschmeyer and Theda Skocpol.⁶ They called for a new emphasis on the role of the state by political scientists and development economists. In particular, following work by Chalmers Johnson on Japan, the neo-statists emphasised the importance of a particular kind of state—a developmental state which consciously distorted markets.⁷

Emphasising as it did the relatively autonomous power of the developmental state, neo-statism provided an important starting point for understanding the success of the NICs. But neo-statist theorists such as Linda Weiss, John Hobson and Alice Amsden have presented their case as if state intervention, or state ‘infrastructural strength’ can continue indefinitely.⁸ As the 1980s wore on, however, all the East Asian nations, including South Korea, started to behave less like developmental states—becoming less interventionist, selling state assets and loosening trade and investment controls. Also, the extremely high level of state intervention that characterised South Korea was not repeated in most other developing countries. Questions arose which the neo-statists were not easily able to answer. Why did the successful NICs decide to shed the statist powers that had apparently worked for them so well? Why didn’t other states, having witnessed the progress of their predecessors, decide to use the same methods? By the late 1980s the shine had worn off the statist position as well. To preserve the essential insights of the neo-statist position in these circumstances requires the addition of new dimensions to it: an appreciation of the varied forms of state historically created by differing class configurations, and an awareness of the dynamics of the NIC state and its changing powers and possibilities as the balance of class forces shifts.

State intervention and South Korean society in the cold-war era

In 1961 Park Chung-hee led a military coup which established the basis for strong state intervention orientated to the goal of rapid industrialisation. Park’s rule—lasting until his assassination in 1979—was the key period in which South Korea was promoted from the ‘Third World’ economic league. Throughout that period, until various changes in the 1980s and 1990s, the state was the engine powering economic growth. It allocated resources for investment, decreed prices and regulated capital movement—especially for off-shore investment.⁹ It shared risks and underwrote research and development.¹⁰ The state’s Economic Planning Board (EPB) was given powers unprecedented in a system which still described itself as based on the free market; the head of the EPB was awarded the rank of Deputy Prime Minister—second in the government hierarchy.¹¹ Five months after the coup the Park government nationalised the banking system and by 1970 it

controlled 96.4% of the country's financial assets.¹² This control allowed EPB planners to distribute resources to areas of industry deemed vital to industrial development.¹³ For business, access to cheap, government money was conditional on the rapid expansion of production without too much concern for immediate profitability.¹⁴

In the early 1970s the government moved away from its earlier emphasis on light manufacturing and towards heavy and chemical industries.¹⁵ Geopolitical factors were an important part of the reason for the shift. At that time President Nixon withdrew a US combat division (totalling 24 000 men) from duty in South Korea. Later, President Carter declared his intention to withdraw the rest by the end of the decade.¹⁶ Washington's defeat in Vietnam and the great reluctance of the US public to support the involvement of troops in distant wars was seen by Park as a sign of US unreliability. A new period of US retrenchment would leave South Korea dangerously exposed to the North; memories of the war in the 1950s were still fresh in the minds of the military and ex-military men at the core of state power. Even more worrying than this new, lower US security profile was the Nixon administration's attempted *rapprochement* with the People's Republic of China and its détente with the Soviet Union.¹⁷ Heavy industry was to provide the basis for self-reliance in defence should the USA cease to provide a shield against what the South Korean military saw as an ever-present threat.¹⁸ As a result, the industries selected for special emphasis in the Heavy and Chemical Industry Plan (HCIP) were largely defence-related: steel and petrochemicals, non-ferrous metals, electronics and shipbuilding.¹⁹

As an important US ally in the Cold War, South Korea received substantial quantities of economic aid from the USA. But this foreign aid was not the key to its success in industrialisation. Aid was vital for the government of Syngman Rhee in the 1950s, but thereafter it played only a small part. In any case, even under Rhee, aid contributed little to industrialisation.²⁰ Park was scathing about the reliance of the Rhee regime on aid—a habit he saw as weak and a distraction from the main goal of government, namely rapid development.²¹ In any case aid declined sharply in the 1960s. To fund rapid industrialisation, the Park government passed the Law Guaranteeing Repayment for Loans in July 1962. Loans were to be approved by the Minister of Finance as well as the Governors of the Bank of Korea and the Korea Reconstruction Bank.²² Both principle and interest on foreign loans would then be government-guaranteed.²³ As a result the inflow of foreign loans to the *chaebol* accelerated, accounting for up to 36.6% of gross investment by the early 1970s.²⁴ As long as these arrangements stayed in place, increased capital inflow could only take place via the South Korean state. It had established itself as the conduit between domestic and international capital.²⁵

A further example of this role during the Park regime was the way that Foreign Direct Investment (FDI) was carefully limited and regulated by the state. Ownership of the industrial base of the economy was to remain in South Korean hands. From 1966 most FDI was restricted to export-orientated and heavy and chemical industry sectors and the ceiling for foreign equity holdings was set at 50%.²⁶ The EPB had the right of final approval for all foreign investment.²⁷ In Free Export Zones (FEZs), such as that at Masan, 100% foreign ownership was allowed, along with tax and other concessions. But these enclaves were not

typical of the South Korean government's relationship with foreign capital.²⁸ In fact, foreign capital in the FEZs was only about 10% of all FDI by 1975.²⁹ Between 1964 and 1973 FDI accounted for only 5% of all gross investment in manufacturing and 1% of total gross domestic capital formation.³⁰

The Park government was obsessed with exports. The former head of the Industrial Policy Division of the Korea Development Institute and Fair Trade Commissioner at the Economic Planning Board summed up the militarised system by which exports were promoted by observing that: 'under President Park's government, larger South Korean firms were assigned annual "export targets" by officials in the Ministry of Trade and Industry. The export targets were seen by firms as virtual "orders" or assigned "missions".'³¹ In the first phase of the export drive (1965–73) South Korean exporters benefited from the long postwar boom in the advanced economies and from the Vietnam War, both of which provided expanding markets. But taking these opportunities meant forcing private businesses to do what they otherwise would not—make the expansion of production and exports, rather than short-term profits, their aim. In return, business was well rewarded. Between 1961 and 1972 exporters got a 50% tax cut on their export earnings.³² Subsidised credit was easily available for any exporter—in the main the larger firms.³³

While export promotion to 1973 might be seen as relatively easy for the government because of the favourable external situation, the same cannot be said about the rest of the 1970s. The oil price shocks and the recession of 1973–74 and rising interest rates in the late 1970s created problems for the South Korean economy—based as it was on exports and a high level of international borrowing. In this more difficult environment extensive state intervention was crucial for further rapid capital accumulation. The state response to the oil price rises and recession was characteristic. In January 1974 the government rapidly expanded domestic credit, borrowing abroad more heavily and running down its foreign reserve holdings. The result was that, at a time when most other non-oil producing countries were experiencing serious recession, the South Korean economy continued to post very healthy growth rates—7.7% growth of GNP in 1974, 6.9% in 1975 and an extraordinary 14.4% in 1976.³⁴ Government aid also took regulatory, non-monetary forms. Assistance to the shipbuilding company, Hyundai Heavy Industries (HHI), is an important example. HHI began building its first ship in March 1973, but immediately experienced difficulties as a result of the cancellation of orders. The government, which owned the only oil refinery in South Korea, responded by demanding that all deliveries of crude be in South Korean-owned vessels—those of the Hyundai Merchant Marine Company—whose ships were supplied by HHI. Given a start by the state, one decade later HHI was the world's largest shipbuilder.³⁵

Support for private business was quite different from the gifts presented to capital by many governments in developing (and developed) countries. The rewards for those who conformed to state plans and performed well were considerable. But so was the penalty for those who did not. As government finance was almost the only kind available to South Korean firms and since they generally found themselves with high debt:equity ratios, even the threat of the withdrawal of finance was serious. Examples of the government's ruthlessness

include: the carmaker Shinjin, whose assets the government, as the banker, transferred to Daewoo Motors; Asia Motors, which was allowed to go bankrupt; the Taihan group, whose failed consumer electronics division was transferred to Daewoo Electronics; and the construction firms Kyungnam and Samho, which were merged into Daewoo and taken over by Daelim Engineering, respectively.³⁶

South Korea and state autonomy

How was the Park regime able to succeed in this massive industrial transformation of South Korea? Certainly it was an authoritarian state—but no more so than many others in developing countries. Its *dirigiste* policy orientation was also fairly common. What was not common was the capacity of the state to undertake these policies consistently with, at first, little effective challenge from the main classes of South Korean society. The state possessed a high degree of autonomy domestically.³⁷ This enabled it to mobilise resources for industrialisation and to focus them on its planning objectives. Its domestic strength then allowed it to mediate in the relationship between South Korean capital and international investment capital and markets. South Korean companies could not do as they liked in the international marketplace, nor would the state allow foreign companies and banks to undermine its national development goals. This high *degree* of state autonomy is clear in the record of economic planning during the 1960s and 1970s. The specific *form* of autonomy that existed can only be uncovered by an understanding of the historical trajectory of the South Korean state and its relationships with the social classes of South Korea.

The Japanese state that colonised the Korean peninsula in 1910 abolished the political power of the Korean *yangban*—the class of aristocratic landowners.³⁸ It also limited the development of an indigenous bourgeoisie. Company regulations passed in 1910 made the formation of new corporations subject to official approval—which was seldom given to Koreans.³⁹ Even when these prohibitions were repealed in 1920, only small-scale Korean businesses, which could not pose a competitive threat to Japanese interests, were allowed.⁴⁰ The weakening of the *yangban* and the restrictions placed on the development of an indigenous bourgeoisie created a power vacuum in postcolonial Korea. Such a situation is certainly not unique. Elsewhere, various groups—either comprador, bourgeois nationalist, Stalinist or pre-capitalist in character—eventually emerged to fill the gap. All these were also possibilities in Korea in 1945. What made Korea different, and eventually shaped the form that state autonomy took there, was the battering which all such potential forces took in the maelstrom which engulfed the country in the following eight years.

Most of the elite had been collaborators and were therefore politically discredited. Meanwhile, millions joined radical peasant organisations and labour unions and a People's Republic was declared on 6 September 1945. At one time about half of all of south Korea was under the control of People's Committees.⁴¹ The National Council of Labour Unions (*Chun Pyung*), built in close association with the Choson Communist Party, claimed 574 475 members in August 1945.⁴² In 1946 this advance of the left culminated in what became known as the Autumn Harvest Risings. Massive peasant riots shook the countryside.⁴³ Over a quarter of

a million workers were involved in a general strike in September 1946.⁴⁴ The US Army Military Government in Korea (USAMGIK), along with the remnants of the colonial state apparatus and Korean conservatives, fought back ferociously. The number of insurrectionists they killed is not known—possibly over 1000. As many as 30 000 were arrested, including over 11 000 trade unionists.⁴⁵ The leadership of *Chun Pyung* were either forced to flee to the north or were arrested.⁴⁶ Its membership was reduced from over half a million to just 2465 in a few years.⁴⁷ After the defeat of the risings, genuine peasant and worker organisations simply did not exist on any scale. Although the peasant and worker upsurge of 1945 and 1946 was smashed, it pushed the US occupation authorities towards serious land reform designed to head off future peasant rebellion.⁴⁸ It began with formerly Japanese-owned land. Broader land reform legislation was adopted in 1950 and a three-*chongbo* limit (about 7.35 acres) on paddy holdings was decreed. The reforms completely removed the old landowners from political calculations. Another potential limitation on the power of a future developmental state had been removed.⁴⁹

The dominance of the state over all classes of South Korean society was completed by the war which broke out in June 1950—one of the most destructive ever fought in modern times. In its first year the fighting swept up and down almost the entire peninsula until the lines stabilised around the 38th parallel.⁵⁰ The only part of the country which escaped the ravages of battle was the Pusan perimeter in the south east. Nearly one million South Korean civilians and 320 000 South Korean soldiers were killed—in a population not much above 20 million. About 25% of the southern population became refugees.⁵¹ Five million were forced to live on relief.⁵² Seoul was one of the worst hit areas as it changed hands four times during the conflict. There, over 80% of industry, public utilities and transport and over half the dwellings were destroyed.⁵³ The war completed the destruction of the Left in the south, forcing many radicals to flee to the north. Those who did not were likely to be targeted by the US-backed Syngman Rhee regime. As they retreated south the Republic of Korea forces routinely murdered potential political opponents. Then, on retaking territory, they would kill those suspected of collaboration with the communist troops. One report suggests that 29 000 were slaughtered in Seoul alone.⁵⁴ On the other hand, war is a state-run activity. The long, vicious fighting immensely strengthened the position of the state in South Korean society. The bourgeoisie's hopes of recovering the wealth it had seen reduced to rubble rested with the state. State contracts, state finance and the state's role in doling out foreign aid, combined with their own originally weak position, all made South Korean capitalists uncommonly dependent. In short, the war had the effect of further stripping political power and influence from both elite and subaltern classes.⁵⁵

By the end of the war in 1953 South Korea had undergone a series of major social transformations that, taken together, contributed to a highly unusual situation. The landowning class had lost first its prestige, then its political power and finally the core of its wealth—the land itself—as a result of colonial occupation, the taint of collaboration, war and land reform. The nascent bourgeoisie was entirely reliant on state largesse, and could not summon the political self-confidence and organisation to seize and use the machinery of state. It would be

an exaggeration to claim, as some do, that the state created the bourgeoisie.⁵⁶ However, the feeble bourgeoisie could only first survive the challenge from the masses and then prosper and recoup their fortunes because of their links with the state.⁵⁷ The peasantry was a force to be reckoned with after liberation in 1945. But its organisations were shattered in 1946. Then land reform removed its central complaint. The small but powerful working class might have been able to impose a different outcome. But its ability to organise was also broken by the defeats of 1946 and then buried during the 1950–53 war. It would be two decades before workers again began to organise independently and make serious demands on capital and the state.

Against this background, it is clear that the South Korean state had a high *degree* of relative autonomy. But the *form* which that autonomy took and the manner of its coming into being also played a part in determining the strategy adopted by the state. Park's interventionist policy involved: (1) private ownership of industry; (2) state control of finance; (3) state planning; and (4) maintenance of a low-wage economy during expansion. It might be possible to see the fact that the state left industry in private ownership as a sign of its insecurity and weakness. On the contrary, it is an indication of its great strength relative to the private capitalist class in the 1960s and 1970s. Capital could be securely left in the hands of private owners because Park knew that the state still had real discretion over its use. State planning directives would be followed by the *chaebol* just as if they were managers of publicly owned enterprises. Although the state eventually made private business richer than it could have dreamed in 1961, the immediate interests of the state and the *chaebol* were not always identical. Instant profit-taking conflicted with long-term industrialisation, rent-seeking with strategic development. When their objectives diverged, the state always had its way—at least until the 1980s. It was prepared to use coercion if necessary and did so often enough to warn potential rebels within business. To maintain this position of dominance over 20 years and through the enormous growth of the *chaebol*, the state needed control over the blood supply of South Korean business—finance. The Park regime's blend of public policy was closely linked to the specific configuration of classes with which it was presented by the preceding historical trajectory.

The decline of developmentalism

The South Korean economic 'miracle' came under great pressure in the 1980s. Massive labour unrest broke out in 1987. In that same year, a major democracy movement emerged on the streets. The economy was slowing; within a year of the 1988 Seoul Olympics, GNP growth was cut in half. Conflicts between state and *chaebol* became common; now the state did not always win them. Economic and social policy lost its coherence, swinging, sometimes wildly, between one extreme and another. Eventually, the state retreated—under pressure—from its earlier, strongly interventionist policy. The key to understanding these changes lies in the erosion of state autonomy which had been central to the ascending phase of South Korea's economic growth. The very success of the South Korean developmental state now began to undermine the basis of its power. International

pressure to liberalise markets was felt by all NICs and developing countries in the 1980s. In South Korea, at least, that pressure coincided with powerful domestic forces which also hampered the operations of the developmental state and forced it to retreat step by step. There was no precise turning point when the South Korean state ceased to be a developmental state. But there was a period of transition in which, despite a complicated series of vacillations in state policy, the end result was a much weaker state, now facing a stronger private capitalist class and a potent, independent labour movement.

The most important reason why the South Korean state was no longer able to carry out its plans for industrial development with anything like the old certainty or focus was its inability to control the burgeoning working-class movement. The sheer pace of industrialisation created wage workers so fast that they overwhelmed the very considerable mechanisms of repression.⁵⁸ From the early 1960s South Korean industrial strategy had depended on wage levels far below those of comparable countries. Until the late 1980s the hourly rate of pay in South Korean manufacturing was 75% that of Taiwan and 80% that of Hong Kong.⁵⁹ The first stirrings of the working class which might disrupt this strategy began in the 'leading edge' industry of early South Korean industrialisation—textiles and garments. In 1970, at a complex of workshops in Seoul called the Peace Market, during a workers' demonstration, a 22-year-old male worker named Chun Tae-il set himself alight as a protest.⁶⁰ The suicide drew enormous sympathy from workers across the country and from radical students and other opponents of the regime. The first independent union at the Peace Market—the Chonggye Garment Workers' Union (CGWU)—was formed during, and struggled under, conditions of illegality and continual harassment from the authorities for the rest of the decade. It was the first of many attempts to organise independent unions. Indeed, between 1970 and 1979, 46% of major industrial disputes concerned questions of the freedom of labour to organise.⁶¹

Because of the pervasiveness of government intervention in industrial matters, many disputes had broader political implications. One well known clash of this kind took place in 1979 at the YH Trading Company, a needlework business specialising in wig-making in Seoul. After sackings at the plant, the women workers there set up their own union, which began a sit-down demonstration. When the company shut down part of the factory and brought in police, the workers moved their protest to the headquarters of the opposition New Democratic Party (NDP). After two days there, 1000 police attacked and ejected them. Workers and NDP members were injured and one woman worker was killed.⁶² Disputes such as this attracted huge public sympathy—both because of the savageness of the government and because the workers frequently appealed for outside help. Often they received it from students, from the broader movement for democracy that was emerging and among some sections of the Christian churches.

By the late 1970s the pressure on the regime from various opposition sources, but especially from the growing working class, had reached the point where the unity between key state actors began to dissolve. In the National Assembly elections of December 1978 the opposition NDP won the majority of contested seats. Park was able to keep control only because of his own direct appointments.

An attempt to throw the leader of the opposition, Kim Young-sam, out of the National Assembly caused riots in the streets—especially in the industrial city of Pusan, Kim Young-sam's home town.⁶³ The YH strike, connecting, as it did, the legal parliamentary opposition with a militant workers' strike, also proved a crucial turning point. Nation-wide protests in support of the YH workers left the regime unsure whether to employ even greater repression or to make concessions. Disagreements over how to respond ended with the head of the Korean Central Intelligence Agency (KCIA), one of the most trusted of Park's henchmen, shooting him dead at a dinner party in October 1979. The assassination was followed by a brief liberal interlude, but this was abruptly ended by the coup led by Chun Doo-hwan in May 1980. In the city of Kwangju, capital of the home province of opposition leader Kim Dae-jung, virtually the whole population—with students in the lead—rose in opposition to the coup. Troops were sent and, in the resulting massacre of 18 May 1980, the government claimed that 200 citizens were killed. The opposition said that up to 2000 died.⁶⁴ Then, between 1980 and 1983, all autonomous unions were destroyed, 500 news reporters and 80 professors were sacked and 500 politicians either arrested or banned from taking part in politics.⁶⁵ Despite the repression, the pressures continued to build on the regime. Sections of the middle class were moving into varying degrees of opposition. In the 1970s a radical student movement had already come into violent conflict with the Park government. In the 1970s and 1980s an estimated 3000 students left the universities and took jobs in industry with the aim of mobilising workers and forming trade unions, falsifying their backgrounds in order to escape detection.⁶⁶ In one year alone, 1985–86, the police claimed to have unmasked 671 such agitators.⁶⁷

On 13 April 1987 Chun announced that he would not accept a key demand of the movement for democracy—the direct election of the president—and thus the next president would be chosen by the regime itself. The gradualist and peaceful strategy of the moderate wing of the opposition seemed to have been blocked. Furthermore, the brutality with which the government defended itself outraged many; the sexual torture of a female student activist by police in Inchon and the torture and murder of a Seoul National University Student by National Police in Seoul galvanised the opposition.⁶⁸ In May 1987 a Headquarters of the National Movement for a Democratic Constitution was established to co-ordinate the push for democratic rights. It launched a series of massive marches beginning on 10 June 1987, which involved millions of South Koreans. Although they included students, workers and middle-class people, the South Korean media dubbed it a 'middle-class revolution'. The choice now facing the government was either to repeat the 1980 Kwangju massacre on an even greater scale and risk revolution, or to make concessions.⁶⁹ It was these marches which finally convinced it of the necessity of the latter course. In June 1987 Roh Tae-woo, at that time the chairman of the ruling Democratic Justice Party, announced that the next president would be directly elected.

After this limited liberalisation a dramatic working-class upsurge took place which changed forever the balance of forces in the conflict between the state and its growing number of opponents. In what became known as the 'hot summer' of 1987, more than 3700 labour conflicts took place.⁷⁰ Between the beginning of that

summer and late 1989 there were more than 7100 disputes and the number of unions was tripled.⁷¹ Wages now began to rise sharply, especially in heavy industry. Because of working-class pressure, South Korea was rapidly losing its comparative advantage—low wages—in a range of products. As well as the pressure on wages, two other, international, factors intervened to force a change in industrial strategy. Growing protectionism in the USA during the 1980s undercut the export goals of the regime.⁷² Second, competitors, China and the Philippines foremost among them, began to multiply, especially in textile and cheap electronics production.

As the major *chaebol* so dominated the South Korean economy, it became almost impossible for the state to allow them to falter.⁷³ They had grown to such proportions because of state support. But once large, it became difficult to arrest their expansion—despite several attempts by the Chun and later governments to do so. Chun attempted to divert finance to smaller enterprises, a scheme wrecked by the acquisition of large slices of the financial institutions by the *chaebol* themselves.⁷⁴ From 1988 the Roh government attempted to restrict the *chaebol* to their core firms, trying to direct credit to only three businesses in each group. Again, the *chaebol* managed to subvert the plan by siphoning credit from these core businesses to others in the group.⁷⁵ In short, no government since the 1980s has been able to discipline or restructure the *chaebol*. Their sheer size, diversity, increasing control of finance and importance to the economy as a whole has fundamentally altered the balance between them and the state.

Another reason why the state began to lose its ability to control the *chaebol* by the 1980s was the much greater global reach of their activities and the intertwining of their networks with foreign capitalist corporations. By the end of 1994 South Korean companies had begun 2650 projects overseas, involving investments of US\$4.2 billion.⁷⁶ As a more significant part of their operations was relocated outside the country, the *chaebol* were less prepared to accept state direction. The opening of South Korea to overseas investors also weakened the directive capabilities of the state. Measures to liberalise capital inflows began in 1981 with foreign securities firms allowed to open offices in South Korea, although, at this stage, still only very limited foreign investments were allowed on the Korean Stock Exchange.⁷⁷ But throughout the decade obstacles to foreign investment were gradually dismantled. The amount which required approval by the government's Foreign Investment Deliberation Committee was gradually raised.⁷⁸ In 1992 foreigners were allowed direct access to the stock market. By 1996 they owned 11.6% of listed stocks.⁷⁹ Barriers to imports were lowered in the 1980s. Average tariff rates fell from 31.7% in 1982 to 21.9% in 1984.⁸⁰ The import liberalisation ratio (the ratio of types of goods allowed to be imported without state permission to the total number of types actually imported) rose from 68.6% in 1980 to 87.7% in 1985.⁸¹

An important indication of the changing relationship between state and *chaebol* in the 1980s was the privatisation of banks and non-bank financial institutions (NBFIS). Denationalisation began under Chun in 1981; by 1983 the state had divested itself of all five major government-owned commercial banks.⁸² Despite this, the government still kept strong oversight and regulatory powers at this stage—continuing to set rates and adjudicate on policy loans. Most of these

restrictions remained in force until they were gradually removed in the late 1980s and early 1990s—especially with a major liberalisation of interest rates in 1988.⁸³ Financial deregulation and the privatisation of banks and NBFIS was touted by Chun as a means by which the near monopolistic power of the *chaebol* could be lessened. But despite a 10% legal limit on bank ownership, the 10 largest *chaebol* soon held up to 52% of all bank shares as a result of their control over NBFIS and by the simple ruse of registering bank shares in the names of family members of the *chaebol* owners.⁸⁴ As a result finance tended to flow even more strongly to the *chaebol* themselves—increasing their size and power further.⁸⁵ Despite the intentions of the government, economic concentration doubled in the five years after bank privatisation.⁸⁶ Foreign banks were allowed some access to the South Korean market in 1981 and restrictions on their operations were also gradually loosened.⁸⁷ In 1992 a further liberalisation of finance, the ‘1993–97 Financial Sector Reform Plan’, allowed much greater foreign participation and began to remove the remaining controls on the movement of capital.

As the machinery of planning was weakened in the 1980s and largely dismantled in the 1990s, *chaebol* investment became much less focussed on the great national project of industrialisation.⁸⁸ Short-term profit-taking, rather than long-term capital accumulation, increasingly came to dominate their activities. Company expenditure on research and development fell sharply in the 1980s and spending on plant modernisation and new equipment also declined.⁸⁹ Writing in 1996, a former Minister of Labour, Governor of the Korea Development Bank and Vice-Minister at the EPB claimed that the *chaebol*, ‘have become reluctant to build more new production facilities. They prefer to invest in service industries such as the leisure industry or they avoid investment altogether’.⁹⁰ Free of state discipline, a great deal of *chaebol* investment was diverted to speculative areas, especially the Seoul real estate market and arbitrage money lending—exploiting the difference in rates between bank loans and the curb (unofficial) market.⁹¹ By 1988 only 10% of the vacant land owned by the top 30 *chaebol* was earmarked for plant construction.⁹² The rest, it seems, was held for speculation. One estimate suggests that notional capital gains from real estate speculation in 1988 and the first half of 1989 were 2.2 times the South Korean GNP.⁹³

In the 1980s the regime was losing its earlier autonomy but it had not yet accepted its loss. Nor did it yet have the means to conduct relations with capital or the mass of the population in ways more typical of an advanced capitalist country. This period of transition, when the state was rapidly losing autonomy and alternating between contradictory policies in several areas gave it the public appearance of indecision and instability. The ground was moving from under the state apparatus.

Industrialisation and democracy

Throughout the late 1970s and until the democracy declaration of 1987, an uneasy alliance had been developing between the middle-class opposition and the growing working-class movement. But the workers’ movement produced no political expression—no party which could challenge for power at the level of the state as a whole. Therefore, the field was left open to relatively conservative

opposition politicians, above all the ‘two Kims’—Kim Young-sam and Kim Dae-jung—to take advantage of the erosion of the legitimacy of the regime. Each had his base in small and medium business, especially in his home region, and each was attempting to build links to the *chaebol*. After the democracy declaration, the differences between the various elements of the opposition began to express themselves. The milder middle-class democracy activists were placated by Roh’s concessions. Even more importantly, since the declaration had set off a huge wave of workers’ strikes, the material interests of some of the middle class—those who employed labour—were imperilled. The workers’ offensive hastened the rupturing of the alliance between the democratic middle class and the working class.

Then, unable to agree on a joint candidate for president, the two Kims both ran, splitting the vote and allowing Roh Tae-woo to become president in 1988, although with just 36% of the popular vote. Kim Dae-jung’s Peace and Democracy Party became the leading opposition party at the 1988 National Assembly election—weakening Kim Young-sam’s forces and credibility. Then, in a number of covert meetings, some of the leaders of the *chaebol* urged Kim Young-sam to deal with the old ruling party.⁹⁴ The result was the formation of the ‘Grand Coalition’ in 1990—a merger of Kim Young-sam’s party with the government party and another small conservative group to form the Democratic Liberal Party. The new organisation could boast more than two-thirds of the seats in the National Assembly. The Grand Coalition was an act of treachery by an ambitious Kim Young-sam. But it was also a desperate act on the part of the core of the military, which had controlled state power since Park’s coup in 1961. Weakened by strikes, demonstrations and protests over nearly two decades, they lacked any legitimacy among broad sections of the population and faced a now-powerful workers’ movement. So they decided to deal with one of their opponents—albeit the most conservative of them.

Inside the Grand Coalition it was clear that a credible candidate for the next Presidential campaign could not come from the military, so Kim Young-sam was chosen as the coalition’s candidate for the 1992 presidential election. In that year he became the first President since 1961 whose political career did not begin in the military. The final humiliation for the officers who had run the state for so long was the arrest of Chun and Roh in 1995 and the sentence of death imposed on them in 1996 for abuses of power.⁹⁵ Although they were later pardoned by President Kim Young-sam, it was clear that the military no longer had a reserved place at the head of the table of state power. The popular opposition movement which had developed in the 1970s and 1980s had succeeded in this at least.

The *chaebol* owners, meanwhile, played no significant part in the democratic movement. In part, this was because militant workers’ organisations and radical student groups were so central to it. The *chaebol* would hardly join a movement which was cheering the strikes and sit-ins besieging their factories. The state was still the guarantor of low wages and a controlled workforce. Big capital opposed the regime’s control of business but wanted a state prepared to use repression just the same.⁹⁶ Nevertheless, the pressure applied by the *chaebol* was a major contributor to the retreat of the state from its commandist role in economic management.

The decline of state autonomy and the crisis of 1997

While the *chaebol* worried about civil disorder and a revived labour movement in the late 1980s and early 1990s, they saw their own, increased economic freedoms as a bright new beginning for South Korean capitalism. Chey Jong-hyon, then chairman of the Federation of Korean Industries and head of the Sunkyong *chaebol*, told the *Korean Business Weekly*, in June 1993 that: 'The decade of the 1960s can be considered as the period of our economic infancy. The 70s and 80s were the adolescent years and the 90s mark a crossing into maturity.'⁹⁷ However, it is not so easy to cast off one's background and the 'mature' *chaebol* were seriously marked by it. The basic structure of their businesses was still a product of state tutelage. Rapid business growth was linked to easy access to credit, which had either been provided by or guaranteed by the state. Relaxation of state discipline over the *chaebol* and the winding back of the state's role did not end their hunger for credit. In fact, because state controls on overseas and domestic borrowing were removed or relaxed, *chaebol* debt and debt:equity ratios increased.⁹⁸

At least in the 1960s and 1970s their loans were regulated and only approved by the state for specific purposes associated with the Five Year Plan of the time. But taking full advantage of the new freedom from these restrictions, *chaebol* borrowing rose in the 1980s and, in the 1990s, became truly out of control. Between 1992 and 1996 overseas funds loaned to South Korea rose by 158%.⁹⁹ In many cases the *chaebol* used their enormous interlinked property holdings as collateral and loans were granted on this rather than on the merit of the investment plan. Their complicated structures enabled them to disguise poor performance and the real level of their debt. Moreover, as state restrictions were removed, a larger proportion of the *chaebol's* external debt became short-term—34% of the total in 1992 and 63% by late 1996. By the middle of the following year, the country's short-term debt amounted to more than three times its reserves.¹⁰⁰ By 1997 South Korea had the highest proportion of short-term debt of any country in Asia, Latin America or Eastern Europe.¹⁰¹ *Chaebol* debt had begun to affect the domestic banks; in the first half of 1997, 10 commercial banks posted losses.¹⁰² At the end of that year they held an estimated US\$4.2 billion in bad loans.¹⁰³

The external catalysts for the 1997 crisis were a change in the export conditions for South Korean firms and a broader loss of international confidence in the 'new' Asian economies. The inability of the Japanese economy to recover during the 1990s pushed the yen down, and thus cut into the growth of South Korean export revenue.¹⁰⁴ But this decline in export conditions would not have been disastrous except for the huge levels of borrowing undertaken by the *chaebol*. By 1996 the 20 largest *chaebol* were showing returns below the cost of the capital they had borrowed.¹⁰⁵ The ensuing calamity finally put an end to talk of the South Korean economic 'miracle'. In the aftermath of the crisis, more than one-quarter of the *chaebol* collapsed.¹⁰⁶ In 1998, the top five *chaebol* alone sacked over 80 000 workers. South Korea's unemployment rate rose from 3.1% in December 1997 to 8.5% in January 1999.¹⁰⁷ Ironically, an economy which once had neoliberals enthusing about its export-led strategy now required the largest

IMF bail-out in history: US\$57 billion in December 1997 with another \$10 billion to follow.¹⁰⁸ Any remnants of the developmental state were finished off by the IMF conditions: the almost complete opening of the South Korean market to foreign goods and investors, the removal of most remaining state controls on business borrowing and a change in the law to facilitate hundreds of thousands of sackings throughout industry.¹⁰⁹ In November 1997 South Korea had a GNP of almost \$500 billion and per capita GNP of about \$11 000. It was ranked as the 11th industrial economy in the world. Two months later, its GNP had crashed to \$312 billion, its GNP per capita to \$6600. It dropped to 17th place, behind India and that other, earlier, tarnished ‘miracle’, Mexico.¹¹⁰

At least one influential observer of South Korea has seen the 1997 crisis, in part, as a product of the end of the Cold War. Bruce Cumings has argued that, in the post-cold war era, US patience with neo-mercantilist states such as South Korea has vanished.

In the 1990s the second-best world, the world of blocs, or iron and bamboo curtains, unexpectedly disappeared—and therefore, so has American indulgence for the neo-mercantilism of its East Asian allies, which was always a function of the cold-war struggle with their opposites.¹¹¹

The point has considerable importance. International pressure is indeed a factor in the decline of the South Korean developmental state. But, on its own, it is not an adequate explanation. First, there is the problem of timing. The retreat of the state began under Chun in the early 1980s—during Reagan’s ‘New Cold War’—a time when the US State Department still placed great importance on defending the military frontier between the two Koreas. Second, this formulation fails to give sufficient importance to the domestic interests which have their own reasons for challenging the power of a relatively autonomous developmental state. In different ways, workers, sections of the middle classes and the bourgeoisie did so. Each had their own, quite distinct, reasons for wanting an end to the type of state that had operated in the 1960s and 1970s. US and other international pressure may well have played a part in tearing down whatever was left of the kind of state over which Park presided. But the job had already been largely carried out by South Koreans themselves.¹¹²

Conclusion: of miracles and models

Since the configuration of social classes and their relationship to the state is historically specific, state autonomy must be conceptualised as having a qualitative, as well as a quantitative dimension. The particular form of autonomy enjoyed by the South Korean state in its developmental heyday corresponds to a mix of public policy and a pattern of ownership and control of capital distinct from those of other NICs—such as Taiwan or Mexico—whose states might also be thought to have operated with some autonomy for a time. The implication of the South Korean model suggested by theorists such as Weiss and Amsden is that the relationship between state and society is static, theoretically capable of continuing indefinitely throughout the industrialisation process. The history of South Korea shows, however, that the developmental state has a use-by date

imprinted on its basic mechanism. An amended conception of the South Korean model needs to integrate the early period of rapid growth and relative state autonomy with the later phase of reorientation of state economic strategy and the usually slower growth that results as that autonomy is eroded. It is a model of NIC development that may still have implications beyond the example of the Republic of Korea, but it is also one that directs far more attention to the specificity of South Korean history.

Notes

- ¹ BN Song, *The Rise of the Korean Economy*, Oxford: Oxford University Press, 1994, p 1. In fact the Philippines seemed much the more likely to succeed in 1960. In that year college enrolment rates were only 5% of college-age youth in South Korea, but 13% in the Philippines. Only 20% of South Korean GDP was generated in industry. In the Philippines 28% of GDP came from industry. H Pyo, 'The transition in the political economy of South Korean development: issues and perspectives', in YC Kim (ed), *The Southeast Asian Economic Miracle*, New Brunswick, NJ: Transaction, 1995, p 2.
- ² W Bello & S Rosenfeld, *Dragons in Distress: Asia's Miracle Economies in Crisis*, London: Penguin, 1992, p 47.
- ³ YK Sung, 'The economic development of the Republic of Korea, 1965–1981', in L Lau, (ed), *Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan*, San Francisco, CA: ICS Press, 1990, p 65.
- ⁴ A Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, New York: Oxford University Press, 1989, p 9.
- ⁵ World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press, 1993.
- ⁶ P Evans, D Rueschemeyer, & T Skocpol, (eds), *Bringing the State Back In*, Cambridge: Cambridge University Press, 1985.
- ⁷ G White & R Wade, 'Developmental states and markets in East Asia: an introduction', in G White (ed), *Developmental States in East Asia*, New York: St Martin's Press, 1988, pp 6–8.
- ⁸ L Weiss & J Hobson, *States and Economic Development*, Cambridge: Polity Press, 1995; L Weiss, *The Myth of the Powerless State*, Cambridge: Polity Press, 1998; Amsden, *Asia's Next Giant*.
- ⁹ As a result of legislation passed in the 1960s, any unauthorised overseas transfer of \$1 million or more was subject to a *minimum* sentence of 10 years imprisonment and a maximum of death. In the 1980s, as the state began to lose its ability to control capital to the same degree, the law was probably not always complied with. But it was still important, and feared, into the 1980s. Amsden, *Asia's Next Giant*, p 17.
- ¹⁰ For the critical role of the state in the development of the semiconductor industry, see J Mathews, *High-Technology Industrialisation in East Asia: The Case of the Semiconductor Industry in Taiwan and Korea*, Taipei: Chung-Hua Institution for Economic Research, 1995. For the state's part in research and development in the electronics industries, see M Pecht *et al*, *The Korean Electronics Industries*, Boca Raton, FL: CRC Press, 1997. On state planning and direction of the automotive, steel, machine tool and other industries, see R Leudde-Neurath, 'State intervention and export-oriented development in South Korea', in White, *Developmental States in East Asia*, p 74.
- ¹¹ BS Choi, 'The structure of economic policy-making institutions in Korea and the strategic role of the Economic Planning Board (EPB)', *The Korean Journal of Policy Studies*, 2, 1987, p 5.
- ¹² For details of the almost complete government control of the financial system between 1961 and 1980 see: Leudde-Neurath, 'State intervention and export-oriented development in South Korea', p 75.
- ¹³ Government finance for projects favoured by the state was not only cheap—for a time it was essentially free. Some observers claim that the real interest rates available to the giant industrial conglomerates—the *chaebol*—remained negative until 1980. JE Woo, *Race to the Swift: State and Finance in Korean Industrialization*, New York: Columbia University Press, 1991, p 104. Sung claims that interest rates were negative only until 1965. Sung, 'The economic development of the Republic of Korea', p 95.
- ¹⁴ State-guaranteed lending also had a profound effect on company ownership structures. Because it cannot easily raise the necessary finance for large-scale expansion, the family-owned firm in modern industrialised economies usually gives way to publicly listed companies with diverse ownership. Because of their ability to borrow freely from the government, the South Korean *chaebol* were able to maintain their largely family-based structures yet expand enormously. About 52% of the combined

- equity of the top five biggest *chaebol* was still held by owners and their relatives by the early 1990s. MY Ahn, 'Hyundai tries to change its ways', *Korean Business Weekly*, May 1993, p 27. Individual owners often maintain a high degree of control, even when they don't own a high percentage of shares in the *chaebol*, by retaining control of the core company of the group. T Hattori, 'Chaebol-style enterprise development in Korea', *Developing Economies*, 35(4), 1997, pp 467–468. See also Amsden, *Asia's Next Giant*, pp 127–128. As late as 1984, only two out of the top 50 *chaebol* were under the control of a professional manager. J Lie, *Han Unbound: The Political Economy of South Korea*, Stanford, CT: Stanford University Press, 1998, p 95. Even in 1994, *chaebol* family members held more than 75% of all chief executive and managing director positions in *chaebol* companies and accounted for 46.9% of all *chaebol* equity. D Kirk, *Korean Dynasty: Hyundai and Chung Ju Yung*, Armonk, NY: ME Sharpe, 1994, p 11.
- ¹⁵ On the push into heavy industry see Woo, *Race to the Swift*, pp 128–147.
- ¹⁶ Bello & Rosenfeld, *Dragons in Distress*, p 57.
- ¹⁷ R Litwak, *Détente and the Nixon Doctrine*, Cambridge: Cambridge University Press, 1984, pp 133–134.
- ¹⁸ As a result of these new plans, more than three-quarters of total manufacturing investment in the late 1970s was undertaken in heavy and chemical industries. BS Choi, 'Financial policy and big business in Korea: the perils of financial regulation', in S Haggard *et al* (eds), *The Politics of Finance in Developing Countries*, Cornell Studies in Political Economy, Ithaca, NY: Cornell University Press, 1993, p 37. The effective corporate tax rate also heavily favoured heavy and chemical industries over others. JH Yoo, 'South Korea's manufactured exports and industrial targeting policy', in SC Yang (ed), *Manufactured Exports of East Asian Industrialising Economies: Possible Regional Cooperation*, Armonk, NY: ME Sharpe, 1994, p 151.
- ¹⁹ Choi, 'Financial policy and big business in Korea', p 36.
- ²⁰ Furthermore, US policy was not enthusiastic about the industrialisation of South Korea. NSC48 (National Security Council resolution 48), which was approved by Truman at the end of 1949, expressed its opposition to 'general industrialisation' in Japan and Korea. B Cumings, 'The Korean crisis and the end of "late" development', *New Left Review*, 231, 1998, pp 46–47. By 1959 foreign aid accounted for only 6.5% of capital investment in manufacturing. S Chiu, 'The state and the financing of industrialisation in East Asia: historical origins of comparative divergences', PhD thesis, Princeton University, 1992, pp 86–87.
- ²¹ See CH Park, *Our Nation's Path: Ideology of Social Reconstruction*, Seoul: Hollym Corporation, 1970, pp 110–111.
- ²² In 1966 commercial banks were also allowed to raise foreign loans—bypassing the National Assembly and Cabinet—but the other required approvals remained.
- ²³ Chiu, 'The state and the financing of industrialisation in East Asia', p 87.
- ²⁴ *Ibid.*, p 88.
- ²⁵ As Woo puts it, the state 'negotiated and brokered the flow of foreign finance'. Woo, *Race to the Swift*, p 191.
- ²⁶ Chiu, 'The state and the financing of industrialisation in East Asia', p 89.
- ²⁷ The government, until at least the 1980s, strictly enforced local participation requirements. Very few wholly owned foreign subsidiaries were allowed to operate in South Korea. Leudde-Neurath, 'State intervention and export-oriented development in South Korea', p 84.
- ²⁸ S Haggard & CI Moon, 'The South Korean state in the international economy: liberal, dependent or mercantile?', in JG Ruggie, (ed), *The Antinomies of Interdependence. National Welfare and the International Division of Labor*, New York: Columbia University Press, 1983, p 150.
- ²⁹ *Ibid.*, p 150.
- ³⁰ Chiu, 'The state and the financing of industrialisation in East Asia', p 90.
- ³¹ Song, *The Rise of the Korean Economy*, p 71.
- ³² Bello & Rosenfeld, *Dragons in Distress*, p 53.
- ³³ Interest rates on loans for investment to boost exports were maintained at a low 6% per annum. Amsden, *Asia's Next Giant*, p 73.
- ³⁴ *Ibid.*, p 98.
- ³⁵ *Ibid.*, p 278.
- ³⁶ *Ibid.*, p 15. At least one—the Kukje-ICC conglomerate—the seventh largest *chaebol*, was deliberately bankrupted by the state after it proved recalcitrant. Here, however, more direct political interests were involved. The owner of Kukje apparently refused to pay political 'donations' to the ruling party. In 1993 the Constitutional Court ruled that Chun had acted illegally in the break-up of Kukje. See *Korean Business Weekly*, September 1993.
- ³⁷ Nearly all theoretical frameworks which attempt an analysis of state power accord the state at least some degree of autonomy from other forces in society. I use the concept of state autonomy here in the sense that it has often been discussed within the Marxist tradition as the inability or unwillingness of

- the dominant economic class to take state power directly. This does not imply that the state has autonomy from the requirement to accumulate capital. On the contrary, under military or other pressure, the state may find that, to speed the accumulation process, it must keep the short-term and disparate interests of private capitalists in check. For some of the most important contributions to the debate on this question within Marxism, see R Miliband, 'Marx and the State', *The Socialist Register*, 1965, pp 278–296; Miliband, *The State in Capitalist Society*, London: Quartet Books, 1969; N Poulantzas, 'The problem of the capitalist state', *New Left Review*, 58, 1969; Poulantzas, *Political Power and Social Classes*, London: New Left Books, 1973; Miliband, 'Poulantzas and the capitalist state', *New Left Review*, 82, 1973; DA Gold, CY Lo & EO Wright, 'Recent developments in Marxist theories of the capitalist state', Part 1, *Monthly Review*, 27(5), 1975; and Gold, Lo & Wright, 'Recent developments in Marxist theories of the capitalist state', Part 2, *Monthly Review*, 27(6), 1975. For an excellent overview of Marx's views on the 'autonomy' of the state, see H Draper, *Karl Marx's Theory of Revolution*, Vol 1, *State and Bureaucracy*, New York: Monthly Review Press, 1977.
- ³⁸ The colonial authorities allowed the *yangban* to maintain some of their economic interests in the land, but here too they were somewhat hindered by the preference given to Japanese commercial agriculture. DC Cole & PN Lyman, *Korean Development, The Interplay of Politics and Economics*, Cambridge, MA: Harvard University Press, 1971, p 14; Chiu, 'The state and the financing of industrialisation in East Asia', p 106.
- ³⁹ *Ibid*, pp 107–108; Woo, *Race to the Swift*, p 40.
- ⁴⁰ Chiu, 'The state and the financing of industrialisation in East Asia', p 108.
- ⁴¹ Cumings, *The Origins of the Korean War*, Vol 1, *Liberation and the Emergence of Separate Regimes, 1945–1947*, Princeton, NJ: Princeton University Press, 1981, p 275.
- ⁴² *Ibid*, p 198; SK Kwon & M O'Donnell, 'Repression and struggle: the state, the *chaebol* and independent trade unions in South Korea', *Journal of Industrial Relations*, 41(2), 1999, p 283.
- ⁴³ The insurgents targeted landlords and police; more than 200 policemen were killed. Cumings, *The Origins of the Korean War*, p 379.
- ⁴⁴ *Ibid*, p 354; G Ogle, *South Korea: Dissent Within the Economic Miracle*, London: Zed Books, 1990, p 10; and Kwon O'Donnell, 'Repression and struggle', p 284. In many cases, workers took over factories and contracted out managerial positions to those with experience and expertise and shared the profits among themselves. LP Jones & I Sakong, *Government, Business and Entrepreneurship in Economic Development: The Korean Case*, Cambridge, MA: Harvard University Press, 1980, p 32; and Chiu, 'The state and the financing of industrialisation in East Asia', p 130.
- ⁴⁵ Cumings, *The Origins of the Korean War*, p 379.
- ⁴⁶ Ogle, *South Korea*, p 11.
- ⁴⁷ Bello & Rosenfeld, *Dragons in Distress*, p 30.
- ⁴⁸ North Korea's land reform began in 1946—a telling contrast to the early attitude of the authorities in the South. Cole & Lyman, *Korean Development*, p 271.
- ⁴⁹ Also, land reform, by eliminating the central grievance of the peasantry, robbed the left of a key issue around which to campaign and made rebuilding after the Autumn Harvest Risings even more difficult. *Ibid*, p 21.
- ⁵⁰ For detailed breakdowns by country of military casualties, see R Leckie, *Conflict: The History of the Korean War, 1950–53*, New York: Da Capo Press, 1996, p 429. The number of civilian casualties is less certain.
- ⁵¹ Cole & Lyman, *Korean Development*, p 22.
- ⁵² D Rees, *Korea: The Limited War*, London: Macmillan, 1964, p 441. For further detail on the extent of war damages, see: C Frank, KS Kim & L Westphal, *Foreign Trade Regimes and Economic Development: South Korea*, New York: National Bureau of Economic Research, 1975, p 7.
- ⁵³ W Reeve, *The Republic of Korea: a Political and Economic Study*, London: Oxford University Press, 1963, p 103.
- ⁵⁴ B Cumings, *The Origins of the Korean War*, Vol 2, *The Roaring of the Cataract, 1947–1950*, Princeton, NJ: Princeton University Press, 1990, pp 699–702.
- ⁵⁵ See HB Lee, *Time, Change and Administration*, Honolulu, HI: East–West Center Press, University of Hawaii, 1968, p 55.
- ⁵⁶ See, for example, S Pak, 'Two forces of democratisation in Korea', *Journal of Contemporary Asia*, 28(1), 1998, p 57.
- ⁵⁷ The history of the largest *chaebol*, Hyundai, illustrates this pattern of a high level of dependence on the state. It first got contracts with the US military during the 1950–53 war. Then it benefited from postwar reconstruction contracts largely financed by foreign aid. Between 1953 and 1961 government projects contributed 41% of the company's earnings. After the Park regime was established, Hyundai continued and intensified this growth through state connections. Government contracts made up 88% of company earnings between 1963 and 1971. Kwon & O'Donnell, 'Repression and struggle', p 280.
- ⁵⁸ The proportion of wage and salary workers in the workforce increased from 31.5% in 1963 to 54.2%

- in 1985. H Koo, 'The state, industrial structure, and labor politics: comparison of Taiwan and South Korea', in HHM Hsiao *et al* (eds), *Taiwan: A Newly Industrialised State*, Taipei: Department of Sociology, National Taiwan University, 1989, p 563. The industrial workforce alone rose from 10% of the labour force in 1965 to 23% in 1983. Bello & Rosenfeld, *Dragons in Distress*, p 23.
- ⁵⁹ Bello & Rosenfeld, *Dragons in Distress*, p 24.
- ⁶⁰ Ogle, *South Korea*, p 73.
- ⁶¹ Koo, 'The state, industrial structure, and labor politics', p 568.
- ⁶² JJ Choi, *Labor and the Authoritarian State: Labor Unions in South Korean Manufacturing Industries, 1961–1980*, Seoul: Korea University Press, 1989, p 289.
- ⁶³ Haggard & Moon, 'The South Korean state in the international economy', p 179; and Lie, *Han Unbound*, p 117.
- ⁶⁴ B Dalton & J Cotton, 'New social movements and the changing nature of political opposition in South Korea', in G Rodan, (ed), *Political Oppositions in Industrialising Asia*, London: Routledge, 1996, p 278.
- ⁶⁵ JT Lee, 'Dynamics of labor control and labor protest in the process of export-oriented industrialisation in South Korea', *Asian Perspectives*, 12(1), 1988, pp 150–151.
- ⁶⁶ H Koo, 'The state, Minjung, and the working class in South Korea', in Koo (ed), *State and Society in Contemporary Korea*, p 150. See also Pak, 'Two forces of democratisation in Korea', p 63.
- ⁶⁷ Ogle, *South Korea*, p 99.
- ⁶⁸ WJ Kang, *Christ and Caesar in Modern Korea: A History of Christianity and Politics*, Albany, NY: State University of New York Press, 1997, p 124.
- ⁶⁹ JJ Choi, 'Political cleavages in South Korea', in Hagen Koo (ed), *State and Society in Contemporary Korea*, Ithaca, NY: Cornell University Press, 1993, p 37.
- ⁷⁰ Koo, 'The state, Minjung, and the working class in South Korea', p 156; and Bello & Rosenfeld, *Dragons in Distress*, p 23.
- ⁷¹ *Ibid.*, p 41.
- ⁷² YI Lee & MJ Tcha, 'The Political economy of Korean foreign direct investment in Southeast Asia', in K Cao (ed.), *The Changing Capital Markets of East Asia*, Studies in the Growth Economies of Asia, Vol 1, London: Routledge, 1995, p 225.
- ⁷³ C. Eckert, 'The South Korean bourgeoisie: a class in search of hegemony', in Koo, *State and Society in Contemporary Korea*, p 104.
- ⁷⁴ JC Rhee, *The State and Industry in South Korea. The Limits of the Authoritarian State*, London: Routledge, 1994; Choi, 'Financial policy and big business in Korea', p 54.
- ⁷⁵ Kirk, *Korean Dynasty*, p 277.
- ⁷⁶ YT Kim, 'Nation exports production bases', *Economic Report*, October 1995, p 12. Of these projects, Asia (with 2200) was attracting most by 1994, reflecting the successful wage push of the South Korean independent unions after 1987 and the consequent search for low-wage production areas. In Asia, the most significant recipient was China, with 1300 projects. *Ibid.*, pp 12–13.
- ⁷⁷ LJ Brainard, 'Capital markets in Korea and Taiwan: emerging opportunities for foreign banks', *Journal of Asian Economics*, 1(1), 1990, p 174.
- ⁷⁸ MS Jeong, 'Korea looks abroad', *Korea Business World*, August 1988, p 12.
- ⁷⁹ H Smith, 'Korea', in RH McLeod & R Garnaut, (eds), *East Asia in Crisis: From Being a Miracle to Needing One*, London: Routledge, 1998, p 75.
- ⁸⁰ YK Sung, 'The economy of South Korea, 1980–1987', in Lau, *Models of Development*, p 219.
- ⁸¹ *Ibid.*, p 218.
- ⁸² On denationalisation of banking in the early 1980s, see *ibid.*, p 219; Brainard, 'Capital markets in Korea and Taiwan', p 174; S Haggard, *Pathways From the Periphery*, Ithaca, NY: Cornell University Press, 1990, p 135; Choi, 'Financial policy and big business in Korea', pp 43–45; Amsden, *Asia's Next Giant*, p 135; and Woo, *The Race to the Swift*, p 195.
- ⁸³ Brainard, 'Capital markets in Korea and Taiwan', p 174.
- ⁸⁴ Eckert, 'The South Korean bourgeoisie', p 107.
- ⁸⁵ Amsden, *Asia's Next Giant*, p 136.
- ⁸⁶ *Ibid.*, p 137.
- ⁸⁷ Choi, 'Financial policy and big business in Korea', p 45.
- ⁸⁸ In a final blow to the old, powerful apparatus which had organised, guided and controlled the *chaebol*, President Kim Young-sam announced the total abolition of the EPB in 1996 as part of his government's bid to join the OECD.
- ⁸⁹ Bello & Rosenfeld, *Dragons in Distress*, p 115.
- ⁹⁰ HK Lee, *The Korean Economy: Perspectives for the Twenty-First Century*, Albany, NY: State University of New York Press, 1996, p 32. However, Lee is typical of a generation of bureaucrats who emerged in the 1980s. He is an admirer of the policies of Margaret Thatcher in the UK, and proposed an increased role for the free market rather than a return to planning.

- ⁹¹ Woo, *The Race to the Swift*, pp 173–174.
- ⁹² Bello and Rosenfeld, *Dragons in Distress*, p 71.
- ⁹³ Ji You, 'The Korean model of development and its environmental implications', in V Bhaskar & A Glyn (eds), *The North, the South and the Environment: Ecological Constraints and the Global Economy*, Tokyo: United Nations University Press/London: Earthscan, 1995, p 163ff. This is only possible, of course, if real estate prices are rising very fast but real estate sales are actually relatively low. In other words, the *chaebol* were accumulating paper profits on the rising value of assets (and perhaps borrowing against them) but not attempting to convert these paper profits into cash.
- ⁹⁴ J Jee, 'Class structure and class consciousness in South Korea', *Journal of Contemporary Asia*, 27(2), 1997, p 139.
- ⁹⁵ Lie, *Han Umnbound*, p 155.
- ⁹⁶ Eckert, 'The South Korean bourgeoisie', p 128.
- ⁹⁷ JH Chey, quoted in *Korean Business Weekly*, June 1993, p 24.
- ⁹⁸ See R Wade & F Veneroso, 'The Asian crisis: the high debt model versus the Wall Street–Treasury–IMF complex', *New Left Review*, 228, 1998, p 10.
- ⁹⁹ Smith, 'Korea', p 72.
- ¹⁰⁰ *Ibid.*, p 67.
- ¹⁰¹ *Ibid.* For changes in the ratio of short-term debt to total debt up to 1984, see Amsden, *Asia's Next Giant*, p 95.
- ¹⁰² Smith, 'Korea', p 77.
- ¹⁰³ *Ibid.*
- ¹⁰⁴ D McNally, 'Globalisation on trial: crisis and class struggle in East Asia', *Monthly Review*, 50 (4), 1988, p 5.
- ¹⁰⁵ Smith, 'Korea', p 67.
- ¹⁰⁶ McNally, 'Globalisation on trial', pp 6–7.
- ¹⁰⁷ Kwon & O'Donnell, 'Repression and struggle', p 279.
- ¹⁰⁸ Cumings, 'The Korean crisis and the end of "late" development', p 53.
- ¹⁰⁹ Many Koreans who had taken nationalistic pride in their economic development began to see the IMF demands as equivalent to those made on China during the Opium Wars. Wade & Veneroso, 'The Asian crisis', p 14. On the IMF's demands for sackings and the workers' strikes which followed, see S Frenkel & D Peetz, *Globalisation and Industrial Relations in East Asia: A Three Country Comparison*, Sydney: Centre for Corporate Change, Australian Graduate School of Management, University of New South Wales, 1998, p 18; and K Moody, *Workers in a Lean World*, London: Verso, 1997, pp 13–14.
- ¹¹⁰ Cumings, 'The Korean crisis and the end of "late" development', p 56.
- ¹¹¹ *Ibid.*, p 51.
- ¹¹² To be fair to Cumings, he acknowledges this last point, suggesting that: 'the Americans have, paradoxically, had willing accomplices in Northeast Asian peoples who have sought to reform or nullify this same model [of the strong, neo-mercantilist states such as in South Korea] themselves'. *Ibid.*, p 45.