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EE463 GLOBALIZATION AND INTERNATIONAL DEVELOPMENT
Semester 2/2020 (20 January – 19 May 2021)

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Effectiveness of South Korea's Economic and Social Development plan under Park Chung Hee Regime (Miracle on the Han River)

GROUP 10

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A good and reasonable start on the paper. Please shorten the discussion in the 'overview and government strategies' section as some of the discussions are too long. On the other hand the issues section will need a bit more elaboration. It would also be good to include a reference ~~see~~ / bibliography at the end of the report.

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Overview/Background choose 1, either "Overview" or "Background"

- background/history of the overall country part (~~we~~'ll make an improvement on structure and timeline) OK

The Korean Peninsula extends southward from the northeastern part of the Asian continent. The country has a long history. Buddhism and Confucianism have influenced the nation's society and culture. Koreans are a homogeneous ethnic group with their own language, culture, and customs. Over the last several decades, South Korea has transformed the country into an industrial leader on the world economic scene. Progress is being made in education, science and technology and social welfare and many more.

After The Korean War, the country was split into two parts. A republic was set up in the southern half of the Korean Peninsula while a communist-style government was installed in the north. At that time, US and other UN forces intervened to defend South Korea from North Korean attacks supported by the Chinese.

South Korea has also maintained its commitment to democratize its political processes. For their governance, South Korea is a presidential representative democratic republic, specified by the constitution. Legislative power is vested in both the government and the National Assembly. Head of state is the President, the president is also the chairman of the cabinet, the chief executive of the government, and commander-in-chief of the armed forces.

- Overall economic performance/ In~~dicate what important milestones/occurrences happened during the period~~

Following the Korean War, South Korea remained one of the poorest countries in the world for over a decade. In 1960 its gross domestic product per capita was $79. The growth of the industrial sector was the principal stimulus to economic development. In 1986, manufacturing industries accounted for approximately 30 percent of the gross domestic product (GDP) and 25 percent of the workforce. Benefiting from strong domestic encouragement and foreign aid, Seoul's industrialists introduced modern technologies into outmoded or newly built facilities at a rapid pace, increased the production of commodities—especially those for sale in foreign markets—and plowed the proceeds back into further industrial expansion. As a result, industry altered the country's landscape, drawing millions of laborers to urban manufacturing centers.

probably could reduce the Overview section to 2-3 pages.

A downturn in the South Korean economy in 1989 spurred by a sharp decrease in exports and foreign orders caused deep concern in the industrial sector. Ministry of Trade and Industry analysts stated that poor export performance resulted from structural problems embedded in the nation's economy, including an overly strong won, increased wages and high labor costs, frequent strikes, and high interest rates. The result was an increase in inventories and severe cutbacks in production at a number of electronics, automobile, and textile manufacturers, as well as at the smaller firms that supplied the parts. Factory automation systems were introduced to reduce dependence on labor, to boost productivity with a much smaller workforce, and to improve competitiveness. It was estimated that over two-thirds of South Korea's manufacturers spent over half of the funds available for facility investments on automation.

(we'll work on adding more details on this parts) OK

From the 1960s-1980s, With the coup of General Park Chung-hee in 1961, a protectionist economic policy began, pushing a bourgeoisie that developed in the shadow of the State to reactivate the internal market. To promote development, a policy of export-oriented industrialization was applied, closing the entry into the country of all kinds of foreign products, except raw materials. An agrarian reform was carried out with expropriation without compensation of Japanese large estates. General Park nationalized the financial system to swell the powerful state arm, whose intervention in the economy was through five-year plans. The spearhead was the chaebols, those diversified family conglomerates such as Hyundai, Samsung and LG Corporation, which received state incentives such as tax breaks, legality for their hyper-exploitation system and cheap or free financing: the state bank facilitated the planning of concentrated loans by item according to each five-year plan, and by economic group selected to lead it.

One of the first things Park did after assuming power was to persecute South Korean business leaders for profiting from the corruption in the South Korean government. Twenty four of the leading businessmen were arrested. The founder of Samsung, Lee Byung Chull, escaped this treatment only because he was out of the country at the time. When Lee Byung Chull returned to Korea he met with Park and agreed to cooperate with Park's economic development program. Later Lee and other prominent business leaders offered to donate all or a substantial portion of their fortunes to the government. They ended up paying fines but not giving up their businesses. The Park regime morality campaign was probably less about corruption than asserting the traditional Confucian social system in which "merchants" had to recognize their

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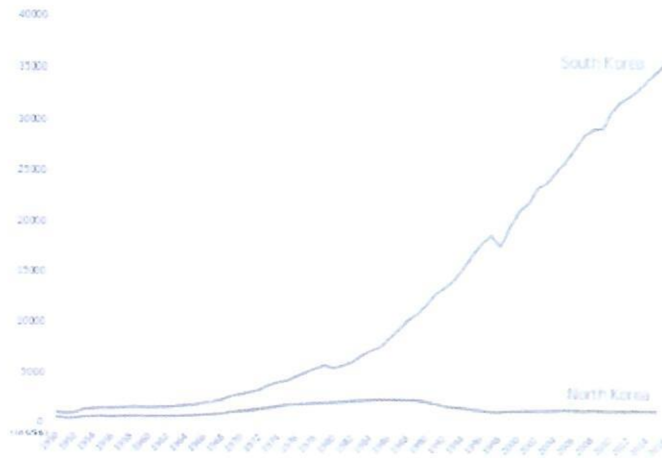
and the next 2 pages.

status at the bottom of the social hierarchy. There was a campaign against foreign products such as cigarettes and foreign cultural influences such as dancing.

Although the Park regime did not take over all of the business holdings of those labelled "illicit profiteers," it did nationalize the banks. The motivation for this was to gain control of the flow of capital in the country so it could be directed into the sectors that the government wanted to develop.One of the first projects of the Park regime was the building of the Seoul-Busan highway. This highway connected the two largest cities of South Korea but at the time of its construction it served more of a symbolic purpose than a transportation need based upon benefits versus costs.

The next development of the Park strategy for the economic development of South Korea was the Heavy and Chemical Industries (HCI) Plan. This was a shift in orientation. The HCI Plan formulated in the early 1970's, in addition to calling for the development of heavy industries and chemical industries, involved a more centralized, import-substitution orientation of the economy. The HCI plan followed the creation of a new constitution, the Yushin Constitution, that increased the power of the government and suppressed political opposition. Although the HCI plan achieved increased industrialization it was at the cost of distorting the economy and ultimately the plan was a failure.

South Korea's real gross domestic product expanded by an average of more than 8 percent per year, from US$2.7 billion in 1962 to US$230 billion in 1989, breaking the trillion dollar mark in 2006. Nominal GDP per capita grew from $103.88 in 1962[41] to $5,438.24 in 1989, reaching the $20,000 milestone in 2006. The manufacturing sector grew from 14.3 percent of the GNP in 1962 to 30.3 percent in 1987. Commodity trade volume rose from US$480 million in 1962 to a projected US$127.9 billion in 1990. The ratio of domestic savings to GNP grew from 3.3 percent in 1962 to 35.8 percent in 1989.



Economic Growth of South Korea and North Korea

Source :

good use of graph

The most significant factor in rapid industrialization was the adoption of an outward-looking strategy in the early 1960s. This strategy was particularly well-suited to that time because of South Korea's poor natural resource endowment, low savings rate, and tiny domestic market. The strategy promoted economic growth through labor-intensive manufactured exports, in which South Korea could develop a competitive advantage. Government initiatives played an important role in this process. Through the model of export-led industrialization, the South Korean government incentivized corporations to develop new technology and upgrade productive efficiency in order to compete in the highly-competitive, global market. By adhering to state regulations and demands, firms were awarded subsidization and investment support to rapidly develop their export markets in the fast-paced, evolving international arena. In addition, the inflow of foreign capital was greatly encouraged to supplement the shortage of domestic savings. These efforts enabled South Korea to achieve rapid growth in exports and subsequent increases in income.

By emphasizing the industrial sector, Seoul's export-oriented development strategy left the rural sector relatively underdeveloped. The steel and shipbuilding industries in particular played crucial roles in developing South Korea's economy during this time. Except for mining, most industries were located in the urban areas of the northwest and southeast. Heavy industries generally were located in the south of the country. Factories in Seoul contributed over 25 percent of all manufacturing value-added in 1978; taken together with factories in surrounding Gyeonggi Province, factories in the Seoul area produced 46 percent of all manufacturing that year. Factories in Seoul and Gyeonggi Province employed 48 percent of the nation's 2.1 million factory workers. Increasing income disparity between the industrial and agricultural sectors became a serious problem by the 1970s and remained a problem, despite government efforts to raise farm income and improve rural living standards.

In the early 1980s, in order to control inflation, a conservative monetary policy and tight fiscal measures were adopted. Growth of the money supply was reduced from the 30 percent level of the 1970s to 15 percent. Seoul even froze its budget for a short while. Government intervention in the economy was greatly reduced and policies on imports and foreign investment were liberalized to promote competition. To reduce the imbalance between rural and urban sectors, Seoul expanded investments in public projects, such as roads and communications facilities, while further promoting farm mechanization.

The measures implemented early in the decade, coupled with significant improvements in the world economy, helped the South Korean economy regain its lost momentum in the late 1980s. South Korea achieved an average of 9.2 percent real growth between 1982 and 1987 and 12.5 percent between 1986 and 1988. The double-digit inflation of the 1970s was brought under control. Wholesale price inflation averaged 2.1 percent per year from 1980 through 1988; consumer prices increased by an average of 4.7 percent annually. Seoul achieved its first significant surplus in its balance of payments in 1986 and recorded a US$7.7 billion and a US$11.4 billion surplus in 1987 and 1988 respectively. This development permitted South Korea to begin reducing its level of foreign debt. The trade surplus for 1989, however, was only US$4.6 billion, and a small negative balance was projected for 1990.

Identification of Key Issues

Suffering from the unprepared Korean war, South Korean has become one of the poorest countries in the world. During the period of the 1950s, income per capita was less than 100 USD (Kongdan 2010). Millions of people were unemployed, homeless, and wounded. Economic status for South Korea stagnated. The country's budget has to rely on the financial assistance. The USA's financial support with 383 million dollars was equivalent to 14% of the country's GDP. However, with the corrupted administration, a huge amount of financial aid was used for private benefits and economic development was abandoned from the priority of the government. Consequently, protests from the people started to emerge. All combined, South Korea's economic situation is stagnated.

The Korean War of 1950-1953 devastated the country, killing and injuring millions of people and scaring those who survived. Aftermath of the war the economy was ruined and millions of families were separated and relocated. Raw natural resources were lost due to the war with North Korea and most resources were with North Korea. Food was scarce in the 1950s. After autumn harvest had been eaten, poor people would scour the hills for edible plants. Children heavily depended on foreign food donation and aids.

This not only created constraint to Korea's economic development but also the quality of life for Koreans. The unemployment rate rose to an all time high at a 6.1%. Not only the civilians were in need of an occupation but veterans were also seeking employment during the post war period. With the combination of scarce resources and unemployment Korea was in a critical position in need of financial assistance.

should be in the overview section

Korea is a land with high scarcity of natural resources, this actively demonstrates that they heavily rely on imports of those industrial goods.

Political corruption was one of the factors why Korea was poor and undeveloped at that time. Syngman Rhee, president who won election in 1948, was unable to provide effective leadership. HIs party has no ideology other than perpetuating Rhee's rule and using his administration to personally advance the political and economic fortunes of its members. Rhee and his party rise not only use bribery, electoral manipulation and strong-armed to maintain power. But he also rises discontent by a rapidly growing urban population, increasing public disgust with corruption, and the slow pace of economic recovery growth. His regime took to increasing measures to maintain himself in power by the new National Security Law. He won reelection in 1960, dissatification with election fraud and poor state of the economy was widespread.

Following an economic recession, due to lower government expenditure, the amount of money supplied in the economy was gradually lessened in correlation with unemployment and the relocation and spread of their citizens which also ended up with creating frictional unemployment and cyclical unemployment. The infrastructure damaged from war was also accounted to the recession.

The heavy reliance on financial aid boasted an important role in Korea's underperforming and corrupt government. This emerged a more heavy issue after John F Kennedy ended the financial aid and came to realize how poor their government was, when Park Chung Hee rose to seat as the President of South Korea.

What were some of the challenges facing

Government/State Strategies, Policies, and Legislation

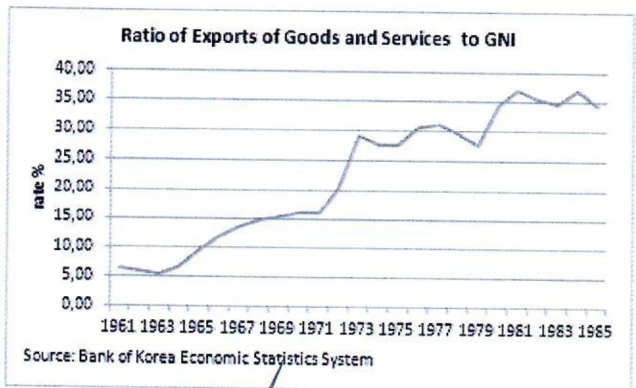
In the 1950s, South Korea was undeveloped, mostly in the agriculture sectors and the country mainly depended on foreign aid. Under the Syngman Rhee government, the countries were suffering economic situations such as falling national productions and higher rates of

Korea's industrialization

unemployment. Thus, the country is turning into a bottom point and could apparently not survive.

Economic Plans

With the crucial economic situation, Park Chung-hee took over Syngman Rhee and became the President of South Korea under the military junta rule known as administrative democracy. His objective was to wipe out the corruption and strengthen the social justice and ability of people. In the economic development program, Park established the five year plan policy to alleviate the countries from third world to heavy industrialized countries. It began in 1962, where the first five year plan consists of initial steps towards the self-sufficient industrial structure such as fertilizers, oil, and synthetic fibers. In the same time, agricultural sides are improved as well because by developing the country technological capacity would be able to increase in agricultural production. WIth this result, the government would be able to neutralize the balance of payments because of the increase in export products.



The second five year plan policy

The second five year plan policy (1967-1971) mainly focused on shifting to heavy industry as well as promoting education at the same time. For heavy industry, it stressed modernizing the industrial sector and encouraged building import-substitution industries such as steel, machinery, and chemicals. Then the education is coming from the development of industry and infrastructure. The firms now need more higher labor skills that result in higher education. As we see that more people are attending high school and college to serve the demand for high skilled laborers.

The third of five year plan policy

The third of South Korea's five-year plans was implemented in the year 1972 – 1976. Park Chung-hee aimed to improve the economy of the country further by developing its own heavy industry to produce higher value goods for exporting and minimizing the country dependent on the United States for raw materials, capital goods and possibly create a structure for developing the country's own military force. The influence of Park Chung-hee's decision during this period was from the growth of South Korea's economy since the 1960s, moving South Korea from being one of the poorest countries to the middle rank of Countries. South Korea has begun to specialize textile goods and electronic appliances. However, South Korea still needs to import a huge amount of raw material from the foreign country in order to produce those finished goods. In order to further improve the country's economy, South Korea needs to be able to produce its own raw material to be less dependent on foreign countries and capable of producing higher value products, additionally, deepening South Korea's industrial structure. Another influence was from the Korean DMZ Conflict which occurred during the late 1960s. During this time, the US was also occupied with the Vietnam War and thus it is possible that the US will concentrate its military force to the South East Asia region which will lower their military presence in South Korea. At the same time, North Korea was able to build its own military force and the industrial sector that was able to support its army. In order to ensure the country's security, Park Chung-hee aims to build the country's industrial infrastructure that could be the base for the potential for the country to build and support its own army. Thus, the Heavy – Chemical Industry Drive plan (HCI plan) was put into practice in the third five-year plan period.

The Heavy-Chemical Industry Drive (HCI), also known as "The Big Push" was the economic development plan enacted during the regime of Park Chung-hee. The plan was aimed to shift South Korea from being an agriculture focused state into the industrial states. Initially, the US was against this idea because South Korea had a high comparative advantage in producing agricultural goods. Transforming the country into the industrial sector would take time and yield a high opportunity cost and South Korea should import the needed industrial goods from foreign countries instead. However, Park Chung-hee and the South Korea government saw HCI as the path for South Korea to become a self-sufficient country and still insist on using the plan despite the opinion from the United States. The plan to start the industrial infrastructure in South Korea was originally planned since 1962, however, it did not come to use due to the lack of funding. The originally planned structure hydroelectric power plants, thermal power plant, fertilizer oil refining, cement, combined steel, machine tools, shipping and automobile producing facilities was cut short due to the budget constraint. In order to acquire the fund for the plan, the

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South Korean government needed to borrow an enormous amount of capital from the other foreign countries which led to the Normalization relationship between South Korea and Japan in 1965 and Korea deployed its own military to aid the United State in the Vietnam war in 1964. These political acts resulted in South Korea being able to acquire the massive amount of capital which needed to launch the HCI plan in the 1970s.

With the fund now acquired, the South Korea Government began to work on their HCI plan. Park Chung-hee designed the HCI plan into 5 separate fields: Electronics, Shipbuilding, Machinery, Petrochemicals and Non-ferrous metal. Although the HCI Plan slowly improved the South Korea economy, it's real benefits started to become more apparent when the United States military withdrew from South Korea in order to normalize relations with China during the 1970 due to US President Nixon Doctrine. This left South Korea defenseless against North Korea in the middle of the period which tension between North and South Korea are still rising. Park Chung-hee interpreted these changes in the international situation as a potentially existential crisis for the state. He saw no alternative but to pursue an independent defense policy, and create a national defense industry capable of producing the weapons.

The fourth of five year plan policy

The Fourth period of Park Chung-hee's five-year plan took place during 1977 – 1981. During the year 1977, the South Korea economy began to prosper from the HCI plan of the third five-year plan shown by the rise in GNP per capita up to 1,000 US dollar. During this period, the government focused on improving the newly created industries sector to be able to compete with the foreigner product in the international market. They aim to reach this goal by producing the higher skill labor and higher level of technology in industrial production. It was during these five years that South Korean exports began to grow enormously. This result of this plan was the massive growth in the heavy and chemical industries. South Korea also gained the reputation in exporting iron, steel, and shipbuilding due to their high productivity and low cost of production. However, South Korea's economy also suffered from the second oil shock which is the worldwide recession during 1979 and effect of the Gwangju Democratization Movement and the unmet goals of the previous period during 1980. The country faced the inflation problem due to the overemphasis on investment in heavy industry at the time when the world is not ready to buy heavy industrial goods due to the second oil price recession. Even then, the industries still overall grow from its previous states, judging by the result of heavy and chemical industries growing by 51.8 percent in 1981 and their export increased to 45.3 percent of total output.

The fifth of five year plan policy

The fifth five year economics plans are sought to shift from heavy and chemicals industries to technology intensive industries. The reason for these economic plans are serving the demand of the world on precision machinery, electric appliances. WIth building high technology products will increase the opportunity and greater demand for korean products on the world market..

Lesson learned

There are lessons learned from the five-year plans for Korea's growth that can be applied to future planning development. Since policy decisions in Korea are made by elected officials, the President and his team at the Blue House have complete control over the decision-making process. Policy decisions and execution are based on policies devised by Korean presidents to increase their political prestige, influence, and ensure regime longevity. Their policy plans, on the other hand, are filtered by the dynamic interaction of structures, culture, meaning, proposals, and coalition politics, and are far from autonomous. The first step in opening the Korean developmental state's "black box" and understanding the state's rationale behind decision-making is to examine the foundations of the mechanism of "socialisation of private risk." Three significant structural and policy reforms occurred during Park's period that marked a turning point in the country's economic growth history: the consolidation of power in the executive, the reorganization of the regulatory machinery, and the implementation of policy changes, especially in the financial sector.

The first big structural lesson we learnt was the importance of bolstering executive power. In terms of the executive's role in policymaking, President Park established a number of executive processes by which he could command, organize, and oversee the bureaucracy's success in carrying out the country's development strategy. Park bolstered, encouraged, and made full use of the presidential secretariat, which consisted of a chief secretary and six or seven other senior secretaries who were usually among the country's finest economic bureaucrats and supported the President in bureaucratic planning and management. This current presidential style of activity demonstrated Park Chung Hee's strong focus on performance, with only those who met or exceeded the goals over a certain number of evaluation periods surviving or being rewarded, with those who did not meet the goals over a certain number of evaluation periods facing potential dismissal. Finally, the President became directly interested in the execution of programs that he saw as critical to the country's progress.

Second, during the 1960s, a number of changes were implemented in the Korean bureaucracy's organization. These events prompted the establishment of new institutions as well as the redefinition of competencies and conventions in order to improve the country's economic management. The formal creation of the Economic Planning Board (EPB) and modern processes for recruiting, preparation, and advancement within the bureaucracy to boost professional competence were among the main institutional reforms. The EPB quickly rose to prominence as Korea's largest economic governmental body in charge of comprehensive preparation and successful implementation of the country's five-year growth plans. Park Chung Hee placed a high value on economic ministries and technocracy, constantly seeking to insulate the EPB from political tensions and appointing mostly economic experts to these ministries. Although it is less well known, the establishment of the Office of National Tax Administration (ONTA) in 1966 was possibly just as significant for the institutionalization of the mechanism of "private risk socialisation" as the EPB. Since its conception, the ONTA has been regarded as the government's most effective coercive policy tool for ensuring that: (1) money allocated to the private sector goes through officially authorized business areas; and (2) businessmen who breach national economic guidelines are punished. This will normally take the form of tax fraud prosecutions, in which the companies found guilty were subjected not only to extra taxes and fines, but also to criminal prosecution. Furthermore, a tax audit may result in a reduction in financial institutions' indirect financing funds.

In summary, as the country concentrated on export-oriented industrialisation, Park pursued a reform strategy for the bureaucracy that increased its scale, enhanced professional competence, and strengthened its capacity to deal with increasingly complex economic issues. Park developed a framework of "socialization of private risk" by redefining the Korean state's position and bolstering its autonomy and ability through four key strategies: (1) executive power concentration; (2) powerful clusters of skilled economic bureaucrats; (3) state regulation of the financial system; and (4) an alliance with bureaucrats, farmers, and other business groups. It could be argued that historical legacies, economic circumstances, US demands for economic change, and a belief in state-led economic nationalism influenced Park's decision to establish such a structure. Park Chung Hee laid the groundwork for the “socialisation of private risk” scheme. Park Chung Hee's ability to stabilize the scheme through a credible commitment to an alliance with bureaucrats, chaebol, and farmers was crucial to its institutionalisation. Not only did the credible pledge include benefits, but it also included fines.

Conclusion

South Korea, after the Korean war, has been underrated by many people. Douglas MacArthur, an american general, once said that South Korea has no future, and it would take more than a hundred year to restore this place (Arirang 2013, Documentary). However, with the power of dictatorship, the miracle of the Han River emerged. Even Park Chung Hee has passed away, but his heritage and contribution still remains. South Korea would not be this great if it was not for the Coup d'etat in 1961. Economic structure and institutions have been reformed. From the one of the poorest countries in the world to the top ten best economies around the world (Yonhap News 2021). Unfortunately, the land of Kimji has provided us with the evidence to support that coup d'etat is not always bad. On the other hand, it has turned the ruin from the war to the land of modern entertainment and technology.

(Conclusion will be adjusted again after the revision of the other contents) ok