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PERSPECTIVE

South Korea: The Miracle on the Han River & Alternative Futures (1953-1997)

Future of Global Regional & National Development Plans Program (GRAND)

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This document is solely intended for informational purposes. It is not intended to provide policy advice to any national government, corporation, academic institution, or organization responsible for shaping economic policies. Its purpose is to offer readers insight into a significant event in economic thought - South Korea's remarkable economic transformation, evolving from a low-income agrarian society in the early 1950s to an advanced economy by 1997 driven by a state development model and egalitarian economic policies. It should be noted that various economic beliefs and doctrines, regardless of their alignment with liberal or conservative strains of capitalism, existed before, during, or after this pivotal moment in economic history and had a similar impact. Therefore, when conducting analyses and determining the most effective economic approach and course of action, readers are advised to consider this information.

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Summary: *This paper is an attempt to decode the South Korean economic miracle, with an objective to create avenues for its replication in full or part in other economies interested to achieve similar unprecedented growth. South Korea's remarkable economic transformation from a low-income agrarian society in the early 1950s to an advanced economy within five decades is unprecedented globally. This transformation began with structural changes post-liberation from Japanese colonial rule, notably land reforms that dismantled the "yangban" class. Subsequent industrialization and strategic economic policies led to a per capita GDP of approximately USD 11,000, facilitating South Korea's entry into the OECD. The paper outlines this transformation through five sections, emphasizing leadership, cultural factors, economic planning, and the fundamental economic principles, specifically egalitarian economics and the developmental state model.*

Key figures like Lee Han-bin and Chung Ju-young significantly influenced South Korea's economic landscape, supported by Confucian values that fostered unity and a strong work ethic. Human capital development, aided by U.S. support and universal education, created a skilled workforce. The economic journey involved three stages: Import-Substitution Industrialization, Export-Oriented Industrialization, and Restructuring, with Five-Year Plans guiding the transition. The state's interventionist role and public-private partnerships were crucial, particularly during President Park's era. However, the 1980s democratization led to economic instability, culminating in the 1997 financial crisis. Overall, South Korea's experience offers valuable insights for other economies seeking similar growth trajectories.

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Introduction

South Korea's economic growth story, popularly known as the "Miracle on the Han River" is unparallel in the world economic history. The country transformed from a low-income agrarian economy in early 1950s to an advanced developed economy within a short period of five decades. This is exemplified by the fact that South Korea's annual real Gross Domestic Product (GDP) growth rate "averaged 7.3 percent in the 1990s, when it transitioned from middle income to a high-income economy." Also, during the same period, South Korea's Gross National Income (GNI) per capita "grew at an average annual rate of 7.7 percent, well above the OECD [Organisation for Economic Co-operation and Development] countries." Such tremendous success was made possible because of the initial structural changes carried out just after its liberation from the Japanese colonial rule. During this time, the system of the dominance of the "yangban" class was dismantled through land reforms. "Yangban" were the land-owning class of South Korea's society which had dominated for centuries. Although this was made possible because of the politics of the United States under the rubric of Cold War politics, this structural transformation played key role in South Korea's economic transformation.

Subsequent industrialization, clubbed with other economic measures adopted by successive governments, made possible for South Korea to achieve per capita Gross Domestic Product (GDP) of about USD 11,000 (adjusted to the prices of 1997). This effectively enabled the country to join the Organization for Economic Cooperation and Development (OECD). At

At that time, South Korea was one of the few countries from the Third World to figure in this elite club.

The key element that could be identified as most instrumental in South Korea's basic transformation from an agrarian society to an industrial state could be identified as the land reform. The dominance of "Yangban" class in land ownership had been stifling the economy for long and the dismantlement of this class, through the land reform, in favour of a more equitable one, opened the door for further economic changes. Subsequent developments, that were carried out through the actions of key leadership of the country, were made possible because of this structural change, so much so that the country charted on a journey of industrial growth story that is unmatched in the world's economic history.

To present the South Korean economic transformation, this paper is divided into five sections. The first two sections delve into the nature and role of its key leadership, and the cultural and human development factor. Subsequent sections discuss the economic planning and their impact and the role of developmental state model and Keynesian Economics in South Koea's growth trajectory. Finally, in the last section, we carry out "what-if analysis" or future scenario analysis for this case to be fruitfully applied in other cases.

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I: The Leadership

The Era of Park Chung-hee

For the period covered in our analysis, i.e., 1953 to 1997, in total, South Korea has seen six Presidents. These include President Syngman Rhee (1948-1960), President Yun Po-sun (1960-1962), President Park Chung-hee (1961-1979), President Chun Doo-hwan (1980-1988), President Roh Tae-woo (1988-1993) and President Kim Young-sam (1993-1998). For our study of South Korea's economic transformation, out of these six Presidents, three require our particular attention. These include President Park Chung-hee (1961-1979), President Chun Doo-hwan (1980-1988), and President Roh Tae-woo (1988-1993). It was during these leaderships that South Korea made the real rapid transition. Amongst these three, President Park Chung-hee could be given the real credit for the actual transition of South Korea from an agrarian economy to an advanced industrial economy.

Key identifier of President Park Chung-hee that can be emphasised as playing crucial role in the rapid transformation of South Korean economy include his approach to insert state in the economy. Thus, the role of the state became prominent in devising and implementing economic and industrial policies. This strategy was augmented by President Park's support to the big family business owners or chaebols, who steered the nation's economy. Another key element of his approach was five-year plans, which President Park meticulously used to transform South Korea's economy from agrarian to industrial nature. Riding on these gains, President Park charted South Korea's foray into international markets. Thus, he first focused on export in light industries segment, later graduating into more capital intensive heavy industries.

South Korea after President Park

A major landmark in South Korea's economy was 1979, when President Park Chung-hee was assassinated, leaving the country on the brink of instability, that could have derailed South Korea's growth trajectory. This was a particularly significant episode of global history due to the oil shock, which had touched almost all nations in general and energy importing economies in particular. However, in South Korea's case, the leadership transition was smooth, bringing Park's successor, President Chun Doo-whan into the foray, who continued South Korea's economic progress. President Chun's era saw both continuity and change in his administration. The primary continuity was the leadership style, which matched his predecessor's authoritarian model. To address the situational challenges, President Chun introduced some changes including, key among them giving priority to the small and medium businesses over the big family businesses. This economic restructuring helped him in controlling inflation and sustain the global oil shock. His two primary roles, i.e., economic restructuring and economic stability paved the way for South Korea's continued growth after the end of his era.

The subsequent leadership of President Chun Doo-hwan (1980-1988) was defined by its emphasis on a shift away from authoritarian model of his predecessors' styles. This initial sign of democratisation was also reflected in the economic policies of South Korea during this time. Thus, President Chun focused on reforming the governance in the field of loans and subsidies. His era saw reduction of preferential loans as well as government subsidies. Such changes in the economy sector were a product of the twin factors of change in internal as well as external dynamics of South Korea which compelled it to make the economy more sustainable.

Roh Tae-woo administration (1988-1993) had the distinction of becoming first direct democratically elected President of South Korea. He built on the economic progress made by his predecessor and charted South Korea's trajectory into the democratic direction. Although, this democratic transition had its own pressure on the rapidity of economic growth, South Korea nevertheless continued its economic development on the sound footing, achieving an average growth rate of 8.7 percent . His democratic credentials allowed him to pursue a welfare economic model which included promotion of national health care system. The pressure of democracy was particularly felt in the realm of labour sector, which became more articulate in their demands, followed by rising wages and eventually resulting in international competitiveness.

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Scholars, Scientists and Businessmen

Apart from the prominent leadership personalities as mentioned above, there were various scholars, scientists and businessmen, who played key role in South Korea's growth story during the later half of twentieth century. Examples of such prominent personalities include Lee Han-bin, Dr. Jeong Geun-mo and Chung Ju-young. Lee Han-bin was a prominent scholar who had studied at the Harvard University and applied his knowledge in his position of the head of South Korea's Budget Bureau under the country's Finance Ministry. In 1969, he introduced the computerization of South Korean budgeting. Similarly, a prominent scientist Dr. Jeong Geun-mo played a key role in the establishment of the Korea Advanced Institute of Science, that played critical role in South Korea's human development. Similar are the role of businessmen such as Hyundai founder Chung Ju-young, LG founder Koo In-hwoi and Samsung founder Lee Byung-chull, who played critical role in South Korea's industrialisation.

II: Culture, Human Development and Innovation

Cultural Factors

In the rapid economic transformation and growth of South Korea, cultural factors are credited heavily. South Korean society has traditionally followed Confucianism, which constitutes whole set of values, ideas and institutions, something that permeates all walks of life. President Park's authoritarian rule saw deep integration of Confucianism in his governance. Thus, the values of Confucianism such as obedience, disciplines and unity were harnessed to develop national unity and work ethos. This was instrumental in the implementation of economic strategy of President Park which hinged on authoritarianism, industrialization and state-regulated economic system.

The values of Confucianism effectively played at two levels. At broader level, it was state that was harnessing the values, and at a sub-system level, it was the Chaebols, who were themselves followers of Confucian values. Thus, large family conglomerates or Chaebols, who played key role in South Korea's rapid economic transformation, were themselves benefiting the South Korean Confucian cultural ethos which saw emphasis on hierarchy and loyalty. These two factors, i.e., hierarchical system and employee loyalty, worked across all levels, working at the level of business organization as well as at the state level.

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Human Capital Development

Human resource has played a key role in transforming South Korea into an industrial and developed state. Some factors that played key roles in the growth and development of human capital include the United States' assistance, the Korean War, and the active support of the state in universalization of education. In the initial years after South Korea's independence and due to the Cold War geopolitics, the United States was forthcoming in giving educational aids to South Korea which proved useful in laying the groundwork for further development. Moreover, many South Koreans also got direct education from the US universities by studying there. Although such numbers were small, but this produced a highly skilled workforce.

This provided South Korea with many trained professionals especially in the field of science, economics and engineering. Such workforce was instrumental in supporting the state policy which were implemented later. "According to the Human Capital Index published by the Penn World Table, [South] Korea quickly caught up with the advanced economies and surpassed the average level of human capital of the OECD countries in 1991. On average, human capital explains about 10 percent of Korea's growth during 1990 to 1997. Despite a decline from the 1980s, human capital still contributed more to growth than in many OECD countries."

The human displacement that happened from rural areas to the urban areas, also contributed indirectly to the growth of human development as more and more children had better access to the primary schools that were existent in the urban areas. Subsequently, the state focused more on the key areas such as investing in primary education sector and teacher training programs.

The universalization of education was also enabled by the fact that the state decided to divert most resources to the primary sector by leaving higher education sector in the private foundations. Consequently, "half of the high schools and three-quarters of the colleges and universities were private in 1961."

While these efforts resulted in rapid universalization of education at one end, it resulted in tremendous growth at higher education sector. "Korea's average years of schooling increased from 7.6 in 1980 to 9.8 in 1990, and further to 10.8 in 1995." South Korea's middle and high school enrolment rate grew from 29 percent in 1960 to a whopping 90 percent in two decades.

Also, "since the mid-1980s, most youngsters – more than 80 percent of each cohort – attended secondary schools, and since the mid-1990s, more than half of the high school graduates advanced to tertiary education."

Technology and Innovation

While the development of human capital was the key driver of technological development of South Korea, the successive administrations proactively supported this segment of economy. Even before the two decades of governance of President Park, South Korea was ready to adopt the ethos of innovation through the emergence of an entrepreneur class supported by his predecessor President Rhee. President Park's key approach of encouraging technology and innovation constituted policies such as state's support in mitigating financial risks in the private sector, curbing import of key products to support domestic production and in some cases also banning the import of certain items to support the domestic industries. Such industries included automotive sector, heavy industries and later the electronics sector.

It was the result of such state policies which saw the thriving of large family-owned businesses some examples of which include Hyundai, LG and Samsung, respectively led by chaebols such as Chung Ju-young, Koo In-hwoi and Lee Byung-chull. These prominent people, who were thriving their businesses during the era of President Park, became predominant players at global stage, narrowing the gap of South Korea in the field of technology and innovation among other peers such as Japan. This transformation of South Korea in the field of technology and innovation also makes it "a case where innovation processes move from imitation to self-creation."

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III: Economic Growth and Egalitarianism

South Korea's economic development progressed through three main stages. These included: 1) Import-Substitution Industrialization (1954-1960), which focused on building the necessary infrastructure for industrial growth; 2) Export-Oriented Industrialization (1961-1979), which shifted to promoting exports as a key driver of economic growth, under Park's development plans; and 3) Restructuring (Post-1980), which involved the economic reform to address the 1980 debt crisis. In the latter two stages, five-year plans played crucial role.

Five Year Plans

One year after assuming power, President Park Chung-Hee announced South Korea's First Five Year Economic Plan in 1962. Since then, South Korea implemented seven Five Year Economic Plans, steering the economy up to the 1997 financial crisis. While these plans constitute the vehicle of South Korea's economic transformation from agrarian to industrial economy, their study also brings to forth the approach and role of the state the country's economy.

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The First Five Year Plan for Economic Development was carried out during the period of 1962 to 1966. This plan was strategically devised to build South Korea's basic infrastructure and promotion of some chosen industries such as cement, refined oil and fertilizer. The expected outcome of this plan was export substitution. The Second Five Year Plan was implemented during 1967 to 1971.

The focus of this plan was capital accumulation, which was instrumented by the promotion of light industries such as those of manufacturing shoes, plywood, bags etc. Because of South Korea's cheap labor these products were competitive in the international market. "This period marked the beginning of Korea's transition from a traditional agrarian society to modern industrial society."

The Third Five Year Plan, implemented during 1972 to 1976, saw the increased focus on heavy and chemical industries. It was during this plan period, in 1973, that "The Heavy and Chemical Industry Development Plan" was announced, which played a key role in accelerating the technologically sophisticated industries.

Public-Private Partnership

With its own distinguishing socio-economic system of chaebols, Public-Private Partnership (PPP) played an important role in South Korea's economic development during the successive governments after President Rhee. This was most prominently promoted during President Park, until at least 1997 financial crisis, which hindered this process. Consequently, between the 1960s and 1997, South Korea's Public-Private Partnership projects evolved from the initial focus on small scale infrastructural projects to bigger and more structured ones. These projects included in the sector of port, rail and roadways. In fact, the PPP model was specifically meant to develop the much-needed infrastructure. So, South Korea "started pushing for PPP during the early 1990s to encourage private sector participation in infrastructure investment with the enactment of the Act on Promotion of Private Capital Investment in Social Overhead Capital in 1994."

Economic Stability vs Egalitarianism

For the analysis of South Korea's economy from the perspective of interplay between economic stability and egalitarianism, three pointers are worth noting. These are the "yangban" class, the "chaebol" class and the democratization transition. As elucidated in the beginning of this paper, South Korea's social structure was traditionally dominated by the "yangban" or the land-owning class.

This system, which was in place for centuries, had been the result of great social and economic inequality. The economic transformation early 1950s, which was premised on land reform and redistribution of land effectively dismantled this "yangban" class, paying the way for a more equitable system.

However, the approach of President Park during his two decades of tenure prevented the dawn of egalitarianism as his economic policies created yet another dominant class – the chaebols. The economy created a system in which the wealth was largely concentrated in the hands of these large family businesses, leaving less room for social equity.

Nevertheless, some factors did play an equalizer, and most important among them was the human development. The government gave greater emphasis to the primary education, striving to universalization of education. The education was an important instrument to provide social mobility to the people falling in the lower strata of economy.

Relatively more promising equalising element was introduced in 1988-1993 period during President Roh Tae-woo era when South Korea saw the transition to democracy . The ensuing political reform paved the way for social welfare policies, making the society more egalitarian. Although President Roh's two successors viz., President Kim Young-sam and President Kim Dae-jung also continued the South Korea's democratic journey, there was pressure on economy. The focus on social reforms resulted in economic instability and eventual financial crisis in 1997. This created a setback for the democratisation process and brought back a stronger state, eventually giving precedence to economic growth over social equity.

IV: Developmental Model and Keynesian Economics

Developmental State Model

State's predominant role, industry-led economic growth, and Five-Year Plans were key steering factors behind South Korea's rapid transformation from an economically backward agrarian state to an advanced industrial economy in less than five decades. These are defining features of what is known as the "Developmental State Theory," initially applied by Chalmers Johnson while evaluating the Japanese economic story. This model is equally good to evaluate South Korea's economic growth, during the period of our focus, i.e., 1953 to 1997 generally, and during the period of President Park specifically.

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Some other features of South Korea's growth story such as public-private partnership and human capital development also aligns well with this theory. Notably, President Park's administration had achieved rapid economic growth by the effective application of state's strategically crafted economic policies, which was made possible because of the authoritarian nature of his rule. Towards this, a strong bureaucratic system epitomised by the Economic Planning Board had played crucial role as it was this agency that was tasked with the implementation of the successive Five-Year Plans, amongst which the second plan implemented during 1967 to 1971 was most instrumental.

Further, the favouritism towards the chaebols and consequent industrialisation were instrumental in the rapid industrialisation. This public-private partnership is another defining feature of a developmental state model. President Park applied this policy by selecting particular industries to focus at a particular point of time, support them through financial support, tax mitigation, export-import policies and protectionism. Through this approach he was able to first steer the growth of light industries and once the basic infrastructure was built, further accelerated the economy by basic infrastructure was built, further accelerated the economy by subsequently focusing heavy industries. This was possible because of his autonomous rule, which may not have been possible in a democratic system.

Effectively, South Korea's economic rise from one of the poorest countries in the 1960s to an OECD member by the 1990s is attributed to its developmental state model, characterized by strong state intervention in the economy, particularly in strategic industries. This period of rapid industrialization and growth is often termed the "Korean economic miracle."

Evidently, the developmental state theory provides a comprehensive framework for understanding South Korea's economic transformation during Park Chung-Hee's tenure, highlighting the critical role of state intervention, central planning and public-private partnerships in steering the economy. In broader paradigm, these features also place South Korea's growth story during President Park era a fit case to be studied under the Keynesian economics. Indeed, the key defining feature of the Keynesian economics i.e., state's fiscal intervention for growth stimulation, was at its full play during President Park's era.

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Keynesian Economics Theory

Keynesian Economics gets its name from the economist John Maynard Keynes who advocated strong role of state in managing a country's economy. He saw merit in state's active intervention especially during economic downturn and suggested the management of economic growth through fiscal stimulus. This is against the classical economists who trust market to find its own equilibrium and abhor state's intervention in market.

When we compare the Keynesian framework with South Korea's developmental model, especially under President Park's era, several parallels emerge. Under Park's leadership, the South Korean government played a highly interventionist role in the economy, much like the central role Keynesian economics assigns to the government. The Park administration was also deeply involved in designing economic policies through Five Year Plans and implementing them through powerful bureaucratic institutions such as the Economic Planning Board. Thus, the fiscal policy under Park's regime which enabled the state spending to promote growth aligns well with Keynesian principles. The Five-Year Plans were crucial in directing resources, first towards the light industry, and subsequently towards heavy industry. This type of government spending, as applied by President Park's administration, is a key element of the Keynesian economics.

This approach was further instrumental in demand management, another key feature of the Keynesian economics. In President Park's case, this was done by steering export-oriented industrialisation in such a way that South Korea's competitiveness in the international market was capitalised. While Keynesian economics traditionally emphasizes domestic demand management, South Korea's approach to achieve this through exports can be seen as a variation within the broader framework of demand-driven growth. Evidently, despite many parallels, South Korean economy also differed from Keynesian economics in some respects. Key difference was that as against the Keynesian focus on demand side management, President Park focused more on supply side management. This was done by promotion of chaebols and their specific industries, and financial control in implementing such measures. South Korean growth story after President Park saw further dilution of the Keynesian tenets. Starting in the early 1980s, the South Korean government gradually started to dismantle the state controls. Although the reform process was initially slow, by the time of the 1997-1998 crisis, the old economic governance system had effectively been dismantled and the post-crisis restructuring paved the way for neoliberal reforms .

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V: "What-if" Analysis and Future Scenarios

Given that South Korea's economic growth is unprecedented in the world economic history, it will be useful to do a "what-if" or scenario analysis to delineate the most effective factors that played key roles in this growth story. Such an exercise could be useful for other economies who wish to emulate South Korea's model or wish to benefit from its best practices towards piecemeal enhancement of their economic systems.

In case of South Korea's "what-if" analysis, key variables would include factors such as the nature of leadership, role of state and Five Year Plans, human capital including technology & innovation, public-private partnership, and finally cultural factors. Other set of important variables are the three primary economic models including the developmental state or Keynesian model, neoclassical economic model and mixed economic model.

The baseline scenario can be delineated by the fact that after 1953, the South Korean economy saw a strong role of state in economic development under the authoritarian leadership of President Park. This growth model, which hinged on export-led industrialisation, was comparable to the Japanese economy. The role of chaebol in the public-private partnership, brings the South Korean model closer to the Taiwanese economy which also thrived on state's support to business conglomerates. Other factors such as human development, education, technology & innovation, and Confucianism brings South Korean economy closer to the Singaporean model. Against the backdrop of the above actual scenario, the best-case scenario could be envisaged by altering key variables in favorable manner. For instance, as against the political upheavals such as coups in South Korea, if the country had seen a slightly more stable political environment, the growth could have been sooner due to policy continuity as seen in West Germany after the second world war. Similarly, if economic liberalization would have been introduced like China did after 1978 during the reign of Deng Xiaoping, that could have added positive impetus in South Korea's economy.

If South Korea would have followed neoclassical model, there would have been more inflow of foreign direct investment, expediting the growth of heavy industries much earlier and South Korea would not have to much as long for this sector to grow as it did by first promoting light industries. This would have made South Korean economy more efficient and internationally competitive much earlier. Finally, if South Korea would have applied a mixed economic model like Singapore, it could have been more beneficial for the economy in terms of the development of hi-tech industries such as electronics and semiconductors. A similar exercise can be carried out by selectively picking up key variable to show their impact in the worst-case scenario. For instance, if there had been extreme political upheaval instead of smoother leadership transition, South Korea's economy could have matched the ill-fate of Argentina whose economy suffered badly due to the political turbulence. In South Korea's case such a case was highly likely after the assassination of President Park, but successive leaderships proved more stable. The political upheaval and discontinuity of policies could have adversely impacted South Korea's economy the way it happened in case of Philippines, constricting its growth due to political instability.

Similarly, if South Korea had not focused amply on education and human development, it would not have seen the rapid progress in the field of technology and innovation, which played key roles in rapid transformation of South Korean economy into an advanced industrial society. An earlier opening up of South Korean economy could have brought some risk of under development of fundamental structure, proving counterproductive in the longer run, as seen in case of Mexico. Similarly, a mixed economic model would have resulted in stable but relatively slower economic growth as witnessed in case of India.

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Conclusion

Key factors that were most instrumental in South Korea's rapid economic growth include strong role of the state, human developmental, technology & innovation and conducive cultural practices provided by Confucianism. It is possible to study South Korea under the broader paradigm of Keynesian economics and the more focused developmental state model. South Korean economy presents a fascinating story of how one class – yangban – gives way to the other class – chaebol – and how this transformation ran parallel to the economic transformation of the country from low-income agrarian economy to industrially developed economy. While this class transformation and prevalence of Confucianism are factors unique to South Korea, other factors such as public-private partnership and Five-Year Plans have been tried and tested elsewhere in the world. In effect, South Korean experience presents a lesson of how a mix of these factors could be applied towards optimum result in a nation's economic cycle aspiring rapid growth.

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Established in Dubai, UAE, in 2021, the Center for the Study of Global Economic Future (CSGEF) is a multidisciplinary policy research organization scrutinizing the economic, geoeconomics, socio-economic, and systemic forces that bear upon the future of the economic system worldwide. The aim is to offer an extraordinary methodical perspective on the socio-economic and systemic forces that sustain the global economy's future.

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