

# The Rise and Fall of Korea's Economic Development

Sung-Hee Jwa

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Lessons for Developing and Developed Economies

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## PREFACE

The Korean economy has for a long time been a most interesting and controversial area for economic research. Beginning from the 1950s when South Korea was an underdeveloped, agrarian economy that depended heavily on foreign aid, the nation rose at remarkable speed to become a major international economic power, the fourth largest economy in Asia and the 13th largest in the world. Korea's modernization was brought about by Park Chung-hee, who is widely regarded as almost single-handedly having initiated the transformation of the Korean economy through his economic management and policies which I characterize as development policy by "economic discrimination": that is, a meritocratic system based on economic performance that by treating differences differently helps those who help themselves. This economic discrimination paradigm instilled in all Koreans, individuals, villages, and corporations, the "self-help" spirit that allowed them to grow and develop. Specifically, a conducive climate was created that encouraged small- and medium-sized firms to grow into large conglomerates to lead national economic growth through exports and industrialization.

As I write this preface, the impeachment of Park Geun-Hye (daughter of Park Chung-hee) the 18th term President of South Korea who took office in 2013 has taken the country by storm. In between the regimes of father and daughter, Korea's political landscape has changed drastically by which "economic egalitarianism" has substituted "economic discrimination" and has positioned itself at the center of social and political discussions. From "Park to Park"—father to daughter—and all the many

episodes in between, this book takes a closer look at Korea through the new General Theory of Economic Development lens tracing its trials and tribulations for over the 60 or so years.

The study of the Korean economic development has so far failed to come under satisfactory scrutiny by mainstream economists largely because Korea during the miracle years adopted heterodox policies that are not fully supported by the mainstream economic schools, as well as world economic organizations like the World Bank and IMF, while the recent experience in the post-miracle years with the introduction of the market economy and political democracy with the hope to transform Korea into a developed economy has thus far turned out to be far less satisfactory than expected.

A central theme of this book is the interpretation of the Korean economy with my General Theory of Economic Development (published by Edward Elgar in 2017) that serves as the analytical framework to better understand the Korean economy. The theory I have proposed goes beyond the market-centric view as well as the contemporary neo-classical models that see Korea's unprecedented rise more of an anomaly than something which can be explained in their model. My theory also goes beyond the pro-government school that looks at Korea's economic miracle as a result of infant-industry protection. Neither interpretations, as I argue in the book, are satisfactory.

Incidentally, almost 15 years back in 2001, I wrote a book titled "A New Paradigm for Korea's Economic Development" which is also published by Palgrave that looked at Korea's future economic reform from the broad market-centric perspective as well as blending in ideas with the New Institutional Economics. That book also looked closely at macro-economic policy issues as Korea had then been hit by the 1997/98 Asian financial crisis. In contrast, this book I believe goes deeper by applying my General Theory of Economic Development to better understand the Korean economy, as well as looking more thoroughly at institutional factors that have affected Korea's past and current economic evolution, and thereby deriving some important lessons to be learned by developing and developed countries.

The Korean economic story is of course not all rosy, and I carefully dissect and provide reasons for the long-term economic stagnation of the recent decades that have seen a rise in inequality, a slowdown in economic growth, and an overall increasing dissatisfaction of the Korean

people with life in general. Ironically, all these economic and social woes have coincided with increased extent of the market economy and political democracy. This book attempts to provide an explanation for this apparent paradox. And by tracing the rise and fall of Korea's economic development, an important purpose of this book is to provide lessons for developing as well as developed countries. What would be the useful lessons that could be learned by developing countries in Africa, Southeast Asia, and Latin America? What are the things to be avoided? What can non-developing developed countries (including Korea) learn about the current economic stagnation? The book hopes to provide answers to these perennial and important questions.

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# CONTENTS

<b>1</b>	<b>Introduction</b>	<b>1</b>
<b>2</b>	<b>Myths and Realities of Korea's Economic Development</b>	<b>5</b>
<b>3</b>	<b>A Brief Overview of Economic Development Theories</b>	<b>11</b>
<b>4</b>	<b>Pathway to a New Theory of Economic Development</b>	<b>23</b>
<b>5</b>	<b>An Overview of Global Economic Development Experiences</b>	<b>49</b>
<b>6</b>	<b>Korea's Economic Development</b>	<b>61</b>
<b>7</b>	<b>Eight Key Lessons from Korea's Development Experiences</b>	<b>91</b>
<b>8</b>	<b>Reproducibility of the Korean Economic Miracle</b>	<b>129</b>
<b>9</b>	<b>Concluding Remarks</b>	<b>135</b>
	<b>Appendix</b>	<b>139</b>
	<b>Index</b>	<b>161</b>

## LIST OF FIGURES

Fig. 4.1	Constitution of market economy	25
Fig. 4.2	Economic development and economic discrimination (ED)	42
Fig. 5.1	Average world GDP per capita, 400–2000	50
Fig. 5.2	Political-economy axis of social order and application	55
Fig. 6.1	Korea's long-term growth trend	63
Fig. 6.2	Korea's path to sustainable economic growth	83
Fig. 7.1	Korea's per capita corporate assets	108
Fig. 7.2	Korea's per capita corporate assets growth	108
Fig. 7.3	Trend of farm (in <i>red</i> ) and urban (in <i>blue</i> ) sector average household income	114
Fig. 7.4	Shared growth experiences (Avg. over 1965–1989)	119
Fig. 7.5	Rising trend of Korea's Gini coefficient for Market Income	120

# LIST OF TABLES

Table 4.1	Political-economy matrix of social order	39
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