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THE POLITICS OF KOREAN DEVELOPMENT

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**DRAFT**

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## I

## SOUTH KOREA AND SOUTH VIETNAM

Since the U.S. began to doubt its ability to succeed in South Vietnam, the American relationship with South Korea has been colored by analogies between South Korea and South Vietnam. Because both South Korea and the United States were involved in the Vietnam war, both drew conclusions from it. Because Americans knew little about either South Korea or South Vietnam, they were quick to draw analogies based on rather skimpy information. In particular, since both South Korea and South Vietnam were small, authoritarian states on the mainland of Asia, it was frequently deduced that they must face similar problems and present similar dangers for U.S. involvement. As Gregory Henderson has argued,

...the situation recently confronting us in Cambodia and Vietnam sheds stark light on what our long-range options in Korea are likely to be. Both in Cambodia and Vietnam there were more troops, and far more expensively armed and maintained troops, on "our side" than on the communist side. The same was strikingly true in China from 1946 to 1949. The same is true--as official figures now confirm--in Korea today. What confronts us is not in basic terms a war of arms but a war of ideas and politics, which we (as also Kim II Sung and Stalin in 1950) have allowed arms to obscure. We seem constantly to learn too late that our problem is not arms; it is political viability.<sup>1</sup>

The analogy has exercised a great influence over American policies. The anti-Vietnam War movement focused considerable attention on disengaging the U.S. from what was perceived to be a similar situation in Korea. Congress cut appropriations for South Korea's military Force Improvement Plan below what the U.S. had promised as a result of such pressures. The decision to remove the Seventh Division from South Korea in 1971 was heavily influenced by such pressures. During the 1976 Carter campaign for the Presidency, the danger of becoming engaged in another Vietnam War was prominent in briefings by Carter advisors urging that the remaining U.S. ground troops in South Korea be removed. Key U.S. Congressmen indicated in interviews that, if Seoul were to fall early in a new North Korean attack, as would be quite likely in the event of such an attack,<sup>2</sup> the image of the 55 days leading to fall of Saigon would make them hesitate to honor U.S. commitments to reintroduce ground forces into Korea. During the early Carter years, the analogy between South Korea and South Vietnam was the overriding political reality in U.S. relations with South Korea.

Analogies between South Korea and South Vietnam are not confined to Americans. South Korea involved itself in Vietnam primarily because it feared such analogies. "The foremost reason for South Korea's decision to send combat troops to Vietnam was to be found in her desire to prevent the weakening of the U.S. security commitment in Korea and, if possible, to further strengthen it. With the deepening involvement in Indochina, doubts grew about the United State's security commitment and deterrence role. U.S. military assistance to Korea was getting progressively smaller..."<sup>3</sup>

The South Korean opposition also jumped on this analogy. Several opposition figures said in interviews that they knew U.S. defeat in Vietnam would lead to U.S. withdrawals from South Korea. Imprisoned opposition leader Kim Dae Jung has claimed that unless genuine democracy was quickly restored, South Korea will go the way of Vietnam or Iran. It was a warning apparently aimed at the United States, which he believes is supporting a "minority dictatorial government at the expense of the majority."<sup>4</sup> A dissident Christian economist interviewed by this writer maintained that "The current political environment at South Korea favors economic growth. But later the economy may encounter political instability because of excessively tight government control of economic and social life. It could become like Iran or like Pakistan's previous regime. The government will become inefficient, lose communication with the people, and lose control."

North Korean policy has taken Vietnam as the key to its political-military strategy. North Korea repeatedly states that its strategy is to strengthen the political system of the North, foment a revolution in the South, assist that southern revolution to implant a communist regime in the south, and then achieve "peaceful reunification" with the communist regime in the south. For most of the period since the Vietnam War, the North Koreans refused to deal with South Korea diplomatically on the grounds that they were unwilling to deal with reactionary Park Chung Hee and will deal only with a more revolutionary leader. Until January 1979, they insisted upon dealing with the United States or on dealing with South Korean groups which are not anti-communist. This tactic results directly from the example of North

Vietnam insistence that South Vietnam's leader step down as a precondition of successful negotiations.

The analogy between South Korea and South Vietnam has become an internationally accepted cliché, frequently employed by analysts of Asian events in the United States, South Korea, North Korea, Japan, other Asian countries, and Western Europe. It will be a central thesis of this volume that, although Korea's authoritarian political structure does indeed pose substantial problems for the future, South Korea's situation is radically different from that of South Vietnam due to a different international position, a different constellation of domestic political forces, a radically different socioeconomic system, and above all a far higher level of institutional effectiveness. Investigation of these differences provides an opportunity to provide the reader with enough description of Korean society to render some of his own judgements.

In late 1978 and early 1979, a further analogy---with Iran---intruded upon the U.S. Korean relationship. Just as events in South Vietnam led to generalization about small, authoritarian states on the mainland of Asia, so the revolution in Iran has led to generalizations about authoritarian states experiencing high rates of economic growth. Both South Korea and Iran are countries which have recently experienced very high rates of economic growth. Therefore, it is argued, both must be subject to the possibility of radical upheaval from politically discontented masses wrenched unwillingly out of their traditional ways and thrown into an alien modern society. The analogy between, on one hand, a Moslem society with an economy growing almost

exclusively due to a single commodity, oil, an institutional base that was thoroughly corrupt, and a policy in which virtually every major social group had become alienated from the ruling Shah, and, on the other hand, a Confucian society whose growth has encompassed nearly every sector, whose governance is based upon modern social institutions, and whose authoritarian leader has substantial support from major social groups, could hardly be more far-fetched. Nevertheless, the analogy has acquired influence. Therefore, it will also be useful to discuss analogies with the Iranian situation.

#### The Importance of Korea as Opposed to Vietnam

Korea differs from Vietnam, first, in that its economy, history, and location make it far more important than Vietnam. Vietnam's history and location do not make it inherently a key to world peace in the way that Korea and the Middle East are. Vietnam is not a critical pivot point of regional economic development in the way that Korea and Taiwan are. Vietnam lacks the critical positive importance to the Japanese-American alliance that Korea possesses. Such differences imply that professional attitudes in the U.S., and the diplomatic positions of Japan and numerous other Asian countries, would regard a Korean conflict very differently from a conflict in Vietnam. Such differences in foreign attitudes are not as important as the differences between the internal structures of the two countries, but they are critical in determining the quality of U.S. public response to a crisis. Although U.S. public opinion of the Korean and Vietnam wars declined at an almost identical pace, the outcome in Korea was favorably influenced by a much higher rate of

approval from elite, knowledgeable, influential opinion in the U.S. and abroad.

#### Nationalism in Korea and Vietnam

Critical differences also appear between the Vietnamese and Korean attitudes toward Western powers. There was considerable Vietnamese confusion between the anti-communist struggle and the anti-colonialist struggle. The French had been both the principal anti-communist power and the colonial power, and it was therefore not surprising that to some extent Western intervention against the communists became equated with efforts to reimpose colonialism. This was more true in Vietnam than in most other former colonial areas, because the French were more tenacious in holding onto a colonial position than were the British and Americans. (There was little such confusion in the Philippines and Malaya.) To many Vietnamese, it appeared that American forces in the 1960s were simply taking over the colonial role of the French as well as the anti-communist role.

In contrast, Korea and Taiwan were the only colonies not colonized by a Western power. On one hand, this meant that Korea did not receive the exposure to democratic values that most colonies experienced. On the other hand, it meant that Korea had a much more favorable view of the West and its culture than countries which had to fight the West for their independence. To Koreans, the West, and particularly the United States, was not perceived as the colonizer, but instead as the liberator from Japanese colonialism. Koreans had looked to the U.S. since the late nineteenth century, when U.S. recognition offered a fleeting (but ill-founded) hope for freedom from

colonialism, as a potential liberator. Therefore, the South Korean association with the U.S., as ally and institutional model, has lacked the colonial burden carried by the association with Vietnam.

A parallel difference affects the ways in which South Koreans and South Vietnamese view their own governments. The Vietnamese governing elite was largely pro-French, and both civilian and military leaders were fatally tainted by their relationship to colonialism. In contrast, Syngman Rhee was anti-Japanese from his earliest days and in fact had been elected President of an anti-Japanese provisional government founded in 1919. His nationalist standing was sufficiently high that in 1945 he was appointed President of the People's Republic of Korea by a leftist political movement whose leadership Rhee would not have approved.<sup>5</sup> While lesser officials necessarily were often ones who had gained some standing in Japanese times, as was true in all former colonies because of the lack of other trained leadership, the South Korean government was founded without being fatally tainted with colonialism. Since its later association with the United States carried with it no taint of colonialism, the result was a government of far greater nationalist legitimacy than was possible for the South Vietnamese government. Similarly, while the North Korean government eventually established nationalist credentials, it began with dubious nationalist credentials because of the extent to which its senior leadership was Soviet-trained and Soviet-sponsored. The North Vietnamese, despite their Chinese and Soviet support, always possessed far better nationalist credentials because their senior personnel had decades of experience as the primary opponents of the French and had at no time been



pawns of any foreign power. The result was that, whereas South Vietnam lacked nationalist credentials and faced an opponent with impeccable credentials, South Korea possessed excellent nationalist credentials and faced a northern government whose nationalist background was at best tarnished.

The South Korean government also gained early legitimacy from its recognition by the United Nations. Notwithstanding later Third World denunciations of the early United Nations as providing an automatic majority for the United States, and notwithstanding the degree to which United Nations involvement in Korea was U.S.-sponsored, the United Nations symbolized in the late 1940s and early 1950s, to an extent that it does not today, the idealism and shared hopes of much of the world for peace and for universal recognition of each nations' rights. The United Nations's pre-Korean War demand for general elections in Korea inspired considerable respect, and the willingness of the United States to support Korean independence contrasted sharply with Soviet and Korean Communist insistence on the imposition of a long trusteeship in accordance with the Yalta agreement. All of this strengthened the nationalist credentials of the South Korean government and eroded the nationalist credentials of the North Korean government.

#### Cultural Strain in Korea and Iran

Rapid economic growth, combined with Western cultural penetration, created desperate cultural strains in Iran and may yet precipitate violent changes in other countries of the Middle East. Many observers have generalized from this that very rapid growth is likely to create political

instability almost anywhere in the Third World. By implication, Korea should be particularly vulnerable to upheaval. While rapid socio-economic change does of course create strains anywhere, including in the West (see the literatures on future shock and on the consequences of great social mobility in the United States), the degree of cultural tension caused by modernization and Westernization depends on the culture being influenced by these processes. Islam is a morally absolutist religion which attempts to prescribe much of the detailed behavior of individuals, based on the requirements of desert life a millennium ago. Because of the detailed and rigid requirements imposed by Islam, and the rigor of traditional punishments, drastic social change would naturally cause maximum cultural strain. Because Iran's Shi'a version of Islam emphasizes a revolutionary anti-secular government tradition, the expressions of cultural strain in Iran were naturally very political. In contrast, Korea's Confucianism is a generalized ethnic rather than a totalist religion. Confucianism emphasizes proper fulfillment on one's social role, but does not spell out rigidly the detailed requirements of each role, for instance, there are no counterparts of Islam's requirements for prayer at certain times of the day, for women to dress in certain ways, or for lenders to eschew charging interest. And, just as the Korean view of Western civilization differs from the views of countries colonized by the West, so the Korean view of Christian civilization differs from the Islamic view of it. For Islam, Christianity and Western Europe constituted the great historical enemy, whereas Korea has relatively easily absorbed a large proportion of Christian citizens. Thus, Confucian cultures generally adapt more easily to

the processes of modernization, Westernization, and contact with the Christian world than most Islamic cultures. This is not to say that Confucian cultures avoid cultural strain completely. No society can do so. But the industrialization of Korea, Taiwan, Singapore, and even Japan has avoided the terrible rending of the cultural fabric that occurred in Iran. Those advantages of history, culture, nationalism and international position greatly strengthen South Korea. But South Korea's future will depend primarily on the effectiveness of its social and political institutions. The story of the creation of those institutions, and the analysis of their strengths and weaknesses, is one of the most fascinating stories in Third World development. Understanding the Korean story will facilitate comprehension of the choices many other Third World states face. And it will illuminate issues of great importance to U.S. foreign policy and to international business.

## II

## SOUTH KOREAN INSTITUTIONS

The international relationships are important, and the difference in legitimacy deriving from historical relationships is still more important, but the greatest precondition for survival of any country locked in a battle for existence is effective domestic institutions. South Vietnam was noteworthy for the ineffectiveness of its basic institutions. Although they managed some economic achievements, South Vietnamese institutions were marked by nearly universal ineffectiveness, inefficiency, and corruption. The South Vietnamese army contained only two divisions of high caliber, and progress in training other divisions was slow. More typical of the quality of South Vietnamese institutions was a division nicknamed "the Olympic division" because of its talent for running away from battle. Vital military equipment and economic supplies frequently did not reach their destination due to corruption. Senior military and political officials consistently employed their positions primarily to enrich themselves rather than to benefit their country; a substantial number of senior officials even enriched themselves through trade in illicit drugs. Above all, as in Chiang Kai-shek's China (after the progressive leadership of the Kuomintang had been destroyed by the Japanese invasion), each of South Vietnam's rapid succession of top leaders faced a constant political dilemma: if he did not appoint the best people to high

positions, he would lose his country, but, if he did appoint the best people to high political, economic, and military positions, he risked endangering his own rule. With few exceptions, South Vietnam's leaders chose to protect their own rule by patronage appointments rather than to protect their country at some personal risk.

South Vietnamese society was driven by intense conflicts among competing ethnic and religious groups, and South Vietnam's political leadership largely exacerbated those conflicts rather than ameliorating them. Major social reforms to counter corruption, to improve the distribution of land, to train truly effective military units, or to diminish the multifarious social tensions usually failed; where they did not fail completely, the exceptions generally proved the rule, as in the case of land reforms which often just ratified what the enemy was in the process of imposing anyway.

Throughout the 1950s and early 1960s, South Korea appeared to follow this Vietnamese pattern. It was one of the world's poorest countries, and virtually all observers expected it to remain among the world's poorest countries. Some observers traced Korea's haplessness to the enfeeblement of a society which had grown lazy and inept behind the double protection of "the Chinese empire and a hermit policy,"<sup>6</sup> while others sought the roots of Korea's enfeeblement in the rapaciousness of Japanese policy or in the subsequent incapacities of modern Korean government. Whatever its sources, all observers agreed on the fact of enfeeblement. According to one major scholar, writing in 1965, "...South Korea has made little progress. It has remained politically unstable and economically prostrate. Its army has grown

strong, but its discipline has become questionable. Only a few of the states of the world have recognized it. The day when it can be more than a ward of the United States not only has not dawned but cannot be foreseen."<sup>7</sup>

What an acute observer could not even foresee in 1965, is today a fact. South Korea is today largely guarded by South Koreans. The South Korean army's discipline is today unquestioned. The South Korean economy has long since come to be regarded as one of the wealthiest in the Third World and one of the few not requiring economic assistance from the industrialized nations. The results of that growth are, as will be discussed below, distributed with remarkable equity. South Korea's success at rural development has attracted delegations of experts from most of Asia, and increasingly from Africa and Latin America as well, to study the South Korean model.

These basic facts are well-known, but by themselves do not constitute persuasive evidence that South Korea has matured from a dependent, hapless, corrupt society into a viable modern nation. Perhaps the economic successes are a hothouse plant subject to reversal under adverse conditions. Perhaps the successes have been engendered at the price of an intolerable foreign dependence. Perhaps the pace of change will destabilize the society. Perhaps the widely acknowledged difficulties in South Korea's political system will make the economic achievement of little avail. To address these possibilities and to illuminate the way in which South Korean society operates, it will be useful to survey South Korea's principal social institutions, judging them not only by performance (e.g., GNP growth), but also by their ability to adapt to crises, by their ability to achieve competing goals, and by their ability to

innovate and to succeed against the canons of conventional wisdom. In addition to examining individual institutions, it will be useful to observe the overall pattern of institutional development and the kinds of people that are used to staff the institutions. Institutional quality, in short, is demonstrated by performance, personnel, adaptability, and coherence.

### The Military

Traditionally, Korean society held the military in low esteem, and the Korean government imposed such rigid controls on the military that it failed to develop as an effective institution. The Yi dynasty hid behind the Chinese and behind a hermit policy, rather than facing the world with an effective military defense. (This was of course in sharp contrast to much of Korea's earlier history.) No effective military institution, or even cadre of effective officers, developed out of the Japanese period. The U.S. provided some minor training programs, but did not emphasize them and did not fund them well, and in fact, employed them primarily as a public relations screen to justify disengagement from Korea in the late 1940s.<sup>8</sup>

In a development that foreshadowed later events in other spheres of Korean society, the germs of modern military organization developed primarily from contact with Americans during the Korean War and later from the nutrients provided by key peripheral institutions. The key institutions were the Command and General Staff School, the National Defense College, and above all the Korea Military Academy. The Military Academy, modeled on West Point,

became an island of professionalism in a sea of military incompetence and corruption. The Korean Military academy became the basis of reform of the military, and the military then became the basis for reform of other social institutions. As Henderson, perhaps the foremost detractor of military government in Korea, says,

The finest senior officers were selected as superintendents. Even more striking were the cadets themselves. Without factional ties when they entered, intensely conscious of the vortex of corruption around them, they used the institution and its rules in the four years of close companionship it gave them to form a solid phalanx of resistance to corruption, favoritism, factionalism, and politics. Each day they swore an oath against these evils." The extent to which the evils were ingrained outside endowed the internal bond with fanaticism.<sup>9</sup>

Eventually officers trained at the Military Academy demanded that corrupt senior officers resign. Defeated in this endeavor, a small group of officers went on to overthrow the government in May of 1961 and to purge the army of corrupt senior officers.

While the eradication of corruption was important, other tasks were equally important. As late as 1965 Morley could write,<sup>10</sup>

While, therefore, civilian leaders have largely failed to develop, a modern military leadership has come into being, largely because of the Korean War and the extensive assistance of the United States.....  
Regrettably, however, the military life did not train these men in the



political arts, nor did it give them broad knowledge and skill in economic affairs. They had not themselves known how to get the country on its feet, and by their authoritarianism they had temporarily, at least, frustrated the development of an alternative young civilian leadership...This then may be the most fundamental problem of all: how to provide the social environment in which new, more capable leaders can be trained and eventually brought to power.

By the 1970s, the military had learned how to employ outstanding civilians to energize the nation's economy, and had in the meantime created a professional military. The loyalty and discipline of the South Korean military were by the late 1960s unchallenged by any observer. In some ways, their discipline became superior to their American counterparts: the Korean Army has no drug problem, but the American Army in Korea has been unable to eradicate drug abuse. By the late 1960s, it had become the practice of North Korean infiltrators across the Demilitarized Zone to infiltrate only through the American division, which was then stationed adjacent to the Demilitarized Zone, because the South Korean forces were so much more effective in stopping infiltration. By 1971, the South Koreans were manning the whole demilitarized zone, without any serious allegation that military risks resulted from such responsibilities. South Korean troops proved far more effective in Vietnam than American troops because they did not rely so heavily on mobility and firepower. (The South Korean troops also achieved a reputation for brutality.)

The initial South Korean military operations were marked by remarkable successes and accomplishments, and military and political leaders were buoyed by the praise accorded Korean troops by U.S. military leaders. In addition, the South Koreans remained tactically independent and administratively autonomous, with only the most general operational direction given them by the U.S. commander.<sup>11</sup>

The superior performance on the Demilitarized Zone, and, more important, the superior performance in Vietnam at a time when American troops were failing, terminated much of the psychology of dependence which in Vietnam, Thailand, and the Philippines has often proved a more dangerous flaw in American allies than lack of tactical skill.

The pattern of institutional reform beginning from a germ in some small component of a larger institution, in this case the Korea Military Academy, has since been replicated elsewhere throughout the military and throughout Korean society. Initially, the institutional developments have been heavily dependent upon Americans, as was the case with the development of the military training institutions. Typically, those key institutional units have been taken over by dynamic Koreans of an older generation and used as a basis for reform of the larger institutions. Even prior to taking control of the government, Park Chung Hee had reformed a single division and thus broadened his base for institutional reform. The subsequent pattern is the acquisition of large numbers of young, American-trained Koreans to create or energize a planning and development process critical to the future of the institution concerned. For instance, to develop an independent technological capability,

the Korean military founded the Agency for Defense Development. Its director, an American-trained officer and engineer, set himself the initial task of hardening the material used in making screwdrivers to the point where the screwdrivers would not break when used to repair military vehicles. Today the Agency for Defense Development is a large, supersecret organization that has developed modern artillery pieces, modern military vehicles, and even a multiple-firing rocket launcher.

As a result of this overall process of development, South Korea no longer worries about the discipline, competence, or loyalty of its military forces. Moreover, although the military is a mainstay of the regime, and although Presidents Park Chung Hee and Chun Doo Hwan are former generals, the South Korean military is not in the business of governing the country directly or of managing its politics. As a result it does not ordinarily suffer from the factionalism and politicization of military organizations in many Third World countries, such as Argentina and Thailand, where military professional takes second place to political ambition. (Factionalism does emerge in times of political transition; unlike some institutionalized military regimes such as Brazil after 1964, problems arose after Park's death, and could recur if political or economic events undermined Chun's rule. This weakness could be eliminated if President Chun honors his constitution's one-term restriction.)

The remaining problems of the Korean military consist largely of the necessity to move farther away from dependence on American models and tactics, the need to acquire experience in combined operations and large-scale strategy, and the need to master the art of making decisions on large-scale

weapon systems. Experience in all these areas has been denied to the South Koreans because of American monopolization of all such functions. In addition, the South Koreans worry about their relationships with their chief ally, the United States, and, to the extent they feel they cannot depend on the United States, they must develop independent capability to build many of the complex military technologies that North Korea now constructs for itself. Because South Korea has focused on civilian development, it lacks the independent capability to build many of the complex military technologies that North Korea now constructs for itself. Because South Korea has focused on civilian development, it lacks the military mobilization base of North Korea. South Korea is well on the way to achieving such goals in the long run, and in the meantime, South Korea society has probably benefited more from an emphasis on civilian needs than it would have from an emphasis on North Korean-style military industry.

#### Education

Korean society traditionally placed an extremely high value on education. The primary path to power and prestige in Korea, as in its mentor, China, rose through the bureaucracy. The key to entering the bureaucracy was a passing grade on the Confucian examinations. Even today, major Korean museums display in prominent places copies of the centuries-old examination papers of particularly important aspirants. A yearning for education was universal in Korean society, but was frustrated by education's limited availability in traditional Korea and even more by its very strict limits under Japanese rule

from 1905 to 1945. A pent-up desire for education was increased by the rising knowledge of modern society obtained under Japanese rule in the twentieth century. The value of education as opposed to other social goals was greatly increased by the experience of the Korean War, which convinced most ordinary Koreans that shops and farms and other forms of wealth constituted mere transitory possessions, whereas then only permanent assets consisted of those which a person could run away with, notably education. Hence, Korea emerged from World War II and, even more, from the Korean War as a society with a great hunger for education.

The concept of education was, however, that of a traditional Confucian education in history, philosophy and the arts. A traditional education might provide the society with cultural continuity and with a form of wise leadership, but not with the engineers and technicians necessary to build a modern technological society. As the experience of other Third World countries indicates, such a concept is most difficult to eradicate. For instance, thirty-five years after World War II, the Philippines, with perhaps the broadest educational base of any country in the Third World, continues to expand a system primarily oriented to the production of lawyers and other groups with little relevance to industrialization. On the other hand, Confucian educational traditions and Confucian ethics do not place the obstacles to modernization that appear in Islamic societies, where detailed traditional rules (such as prohibition against charging interest on loans) are matters of deeply-held religious conviction.

Korea also lacked virtually all the basics of modern education: schools, teachers, and widespread literacy. At the end of World War II, Korea possessed almost no non-Japanese teachers and virtually no textbooks in any language other than Japanese. The literacy rate was only 22 per cent, in contrast with countries like the Philippines where the population was largely literate.<sup>12</sup> By 1976, however, Korea had over five million students enrolled in primary schools,<sup>13</sup> and a literacy rate of 70 to 90 per cent,<sup>14</sup> despite the fact that 63 per cent of South Korea's classrooms were destroyed or damaged in the Korean War.<sup>15</sup> By the late 1970s, literacy exceeded 90 per cent, total registration in schools of all levels had risen from 1.4 million in 1945 to 8.7 million in 1977, and the number of teachers had risen from 20,000 to 200,000.<sup>16</sup> Universal primary education was the goal toward which resources were directed--unlike many other countries, which focused educational expenditures heavily on higher education for an elite. By the late 1970s, compulsory education was being expanded to the 9th grade, higher education admissions were in the process of being quadrupled, and higher education was shifting from an emphasis on pure teaching to a mixture of teaching and research similar to that employed in the West.

The great numerical expansion of education did little for the country through the mid-1960s, however. Much of the education provided was directed into traditional fields, and even the education which as appropriate was largely wasted. Half of all college graduates remained completely unemployed, and only 5 to 10 per cent of the employed graduates received work appropriate to their training.<sup>17</sup> "Despite a tradition against manual labor, in the

1970s college graduates were competing for jobs as municipal street sweepers in Seoul, and some even signed up to mine coal in the Ruhr."<sup>18</sup> Henderson writing in 1968, spoke of "the tumorous spread of education and its clustering in the capital, which has been turned into probably the world's greatest producer of unemployed graduates."<sup>19</sup> The quantitative achievement was impressive, and it was achieved at enormous cost: "Between 1954 and 1964, the value-added in education averaged 3.7 per cent of GNP, 33 per cent of fixed capital formation, and 86 per cent of non-defense government expenditures. As a result, by 1965 Korea's human-resource development had exceeded the norm for a country with three times its median per capita GNP."<sup>20</sup> The enormous effort appeared to most observers to have been largely wasted.

A decade after Henderson wrote of the disaster caused by the "tumorous spread" of education in 1968, the system had been transformed both by a change in content and by a transformation of the markets education served. By 1977 the World Bank reported that, "The breadth and intensity of the improvement in educational attainment has been one of the major elements in Korea's development strategy. The availability of a well-trained and highly productive labor force made possible the rapid expansion of manufacturing activities that intensively used labor, particularly skilled labor. This resulted in a rapid growth of labor productivity and incomes which was one of the principal means of achieving a wider distribution of the benefits of both industrial and agricultural growth."<sup>21</sup> The entire system had been reoriented to serve the needs of the economy rather than to service the high prestige but low productivity professions of traditional society.

The military government provided a system of strong incentives and direct guidance to transform the mix of education offerings. It introduced a quota of university entrants from vocational programs, so that vocational students would not be in direct competition with liberal arts students. A great expansion of technical high schools began in 1970 and became massive after 1972.<sup>22</sup> Enrollment in vocational high schools rose from 162,666 in 1964 to 507,430 in 1976.<sup>23</sup> By 1974, vocational training institutes enrolled 46,000 students.<sup>24</sup> The government began in January 1975 to require all firms with more than 200 employees to provide vocational training at all times to at least 15 per cent of their total employees.<sup>25</sup> Beginning in 1976, the government began funding technical colleges.

Not only did schools reorient themselves to provide skills needed for economic development of the country, but the problem of excess production of graduates evaporated in the face of an expanding economy. By 1978, students from the same schools which a decade earlier had mainly been adding to the unemployment rolls were in such demand that the best college students could expect a firm job offer by the end of their sophomore year.<sup>26</sup> The government agencies which had held down university enrollments on the basis of income distribution considerations, past problems of unemployability, and studies of returns to education in other Third World countries, dramatically reversed their policies. Income distribution considerations now required that a shortage of skilled workers be eliminated so that wages for advanced skills were not bid up too high. Lack of advanced skills threatened to become a bottleneck in the country's economic development. Government statistics



showed that economic returns to education in South Korea were twice the world average for developing nations.<sup>27</sup>

Korean education still has hurdles to overcome. The economy's expanding need for new technologies and social skills always threatens to outstrip the education system's ability to provide them. The universities are struggling to shift from pure teaching to teaching and research. At all levels there remains an excessive emphasis on rote learning. The system is struggling with second political transition, which is tied to the larger difficulties of Korean politics. Korean education shifted in the 1950s from the inculcation of autocratic Confucian ideals to the teaching of democratic ideals along the lines of a Western model strictly interpreted. Now there is an effort to retain the teaching of democratic ideals, but to adapt the teaching to specifically Korean conditions. This latter is a problem that may be unsolvable so long as the Korean polity is simultaneously dedicated to basing its legitimacy on free world ideals but governing itself largely on the basis of autocracy.

Changes in the management system for Korean education may go far to explain its successes. The original South Korean management system pivoted around more than 150 self-governing local boards on education, on the American model. Local people did not know how to work them. Meetings and policies broke down over ideological divisions. Election of school board members consistently led to the choice of people of low ability. The whole process proved very expensive. As a result, the decentralized system was abolished in favor of a highly centralized system, with one school board from each of

eleven provinces reporting to the Ministry of Education. Research and long-term policy studies were centralized under a major research institute, the Korea Educational Development Institute (KEDI), in 1972. As with the research institutes founded by other ministries, the KEDI has direct access to the top officials of the ministry and direct access to President Park Chung Hee. Dr. Lee Young Duck, the director of the Institute, confirms that President Park personally listened to the advice of the Institute's intellectuals and that the government's response to KEDI recommendations is swift and effective.<sup>28</sup> Such a highly centralized system would not work in the United States or in many of the ethnically diverse societies of the Third World, but in highly homogeneous South Korea it appears to be far more effective than the original American-style system. The key role of the research institute and its intellectuals is an unusual feature of the Korean system, because in most countries, developed and developing alike, such research institutes tend to become isolated from policy and ignored by top administrative and political leaders.

Despite the problems, South Korea's system appears to have achieved unusual adaptability as well as straightforward performance. It has adapted to the technological needs of the country. It has rapidly adapted to changing social and economic conditions. It has rapidly changed its management system when earlier management became inappropriate.

#### Economic Growth, Trade, and Industrialization

South Korea addresses the problem of economic growth from a base of extraordinarily limited resources:

Since most of the country is mountainous, only about 23 per cent of the land is cultivated; about 67 per cent is forest and mountain slopes, cities, industry, roads, etc., occupy the remainder. The topography and the harsh winters limit the production potential of agriculture. Korea's mineral resources are also limited... The population density of 358 per square kilometer of land and 14.3 per hectare of farmland is among the world's highest.<sup>29</sup>

Most of Korea's energy must be imported in the form of oil. History has exacerbated these inherent difficulties. The occupation for four decades by the Japanese was an unusually oppressive and exploitative one. When the nation of Korea was divided, most of the industry and power went to the North. During the Korean War, most of the South Korean economy was devastated.

The economic misery of Korea in the first two-thirds of the twentieth century is difficult to overstate. "In 1934, the Japanese governor estimated that every spring saw about half the Korean farmers scouring the countryside for bark and grass to eat."<sup>30</sup> Three decades later James Morley wrote in 1965 that, "The majority of the people, for example, still live in rural villages much as they did a hundred or a thousand years ago, their homes built primarily of clay or straw, the drudgery of farm work or the darkness of the night unrelieved by electricity, their diet made up primarily of vegetables, made tasty by aromatic kimchi pickle, their lives a local round of toil."<sup>31</sup> The institutional base for future growth appeared totally inadequate. "Private capital is small and prefers commercial speculation to industrial entrepreneurship. Trade deficits are endemic. Economic planning by the government has been faulty, and American economic aid has not been used as

Table 2-1. South Korea's Economic Growth Rate

1954	5.5	1966	12.7
1955	5.4	1967	6.6
		1968	11.3
1956	0.4	1969	13.8
1957	7.7	1970	7.6
1958	5.2		
1959	3.9	1971	9.4
1960	1.9	1972	5.8
Syngman Rhee falls		1973	14.9
		1974	8.0
1961	4.8	1975	7.1
Military/Park regime			
takes over		1976	15.1
1962	3.1	1977	10.3
1963	9.1	1978	11.6
1964	9.6	1979	6.4
1965	5.8	Park assassinated	
		1980	-5.7

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Source: Bank of Korea. Economic Statistics Yearbook 1978, p. 3, for 1954-1962. 1963-1980 figures are from Bank of Korea, Monthly Economic Statistics XXXV, 5 (May 1981), p. 11. Note that sources cited in the text may have used different bases.

wisely as it might have been."<sup>32</sup> Both governmental and private organizations remained small and fragmented, and age-old cultural patterns appeared to inhibit the development of large modern organizations.<sup>33</sup> South Koreans envied North Korea's superior discipline, superior planning, superior employment, and superior growth.<sup>34</sup>

Between the mid-1960s and the late 1970s, an economic revolution transformed the Korean scene. From 1962 to 1977, Korea's average growth rate was 10.3 per cent, and from 1970 to 1977 it was 10.8 per cent.<sup>35</sup> During the period 1962 to 1977, per capita income tripled in real terms. Despite a more difficult economic environment as the booming 1960s gave way to the world stagflation of the 1970s, Korea's economy "accelerated from 9 per cent in 1963-66 to 10.5 per cent in 1967-71, and 11 per cent in 1972-76."<sup>36</sup> Due to the rapid economic growth, and to the government's successful promotion of labor intensive industries, the terrible unemployment of previous decades was largely erased. The World Bank notes that the labor force grew 3.4 per cent per annum from 1963-1975 but "nevertheless, the rate of unemployment has declined from 8.2 per cent to 4.1 per cent of the labor force because employment has grown even faster at the extra ordinarily high rate of 3.7 per cent per annum during this period."<sup>37</sup>

The rapid GNP growth was driven by trade. Korean exports rose from \$54.8 million in 1962 to \$5 billion in 1975 to \$12.7 billion in 1977. Trade increased from \$390.1 million of imports in 1962 and \$54.8 million exports to \$22.292 billion imports and \$17.505 billion of exports in 1980.<sup>38</sup> Unlike

most developing nations, whose exports consist primarily of primary goods, South Korea's exports consisted of more than 90 per cent of manufactures from 1976 on.<sup>39</sup> Exports have been diversified to include textiles, clothing, footwear, numerous varieties of consumer electronics, ships, steel, and metal products. While Korea's trade remains predominantly with the United States, "Europe's share of Korean exports expanded from 9 per cent in 1970 to 18 per cent in 1975."<sup>40</sup> Korea became one of the great suppliers of construction and other services in the Middle East, and began to penetrate major Asian, African, and Latin American markets.

Unlike most countries which displayed such rapid growth, Korean infrastructure has kept pace with development. The education system has produced the necessary skills. All villages in the country have been electrified, and "electricity consumption per capita increased from 87 kwh in 1965 to 471 in 1975."<sup>41</sup> "...Both freight and passenger traffic have grown at about 12-13 per cent per year in the last decade. Paved roads increased more than 5 fold.... the gross tonnage of Korea's ocean-going fleet has risen from 163,000 in 1965 to 2.2 million in 1975."<sup>42</sup> Aside from a housing shortage, social services have more than kept pace with economic and demographic change. The World Bank concluded that, "Both in terms of the pace of industrialization and the diversity of manufacturing activity, Korea is ahead of other countries of comparable size, incomes and other structural characteristics."<sup>43</sup>

During this period, Korean institutions became large, modern and efficient. By 1977 Korea had 13 companies exporting more than \$100 million

per year, ranging from Hanil Synthetic Fiber Company with \$258,262,894 in exports to Samsung Company with more than half a billion dollars of exports. More than 100 companies had exports in excess of \$10 million dollars. By 1980, three firms (Daewoo, Samsung, Hyundai) exported over one billion dollars of goods.<sup>44</sup> Several huge government firms operated heavy industries. Through direct and indirect means, the Bank of Korea successfully managed about two-thirds of the credit in Korea's now large and dynamic economy.

All of this occurred within 10 years from the time Henderson wrote in 1968 about the difficulties of forming effective organizations in Korea and 15 years from the time Morley wrote about the people of Korea living the way people had lived centuries and millennia earlier.

As in most Third World countries, two of the symptoms of economic trouble and government inefficiency in South Korea during the 1960's were an extremely low national savings rate and a low government ability to collect taxes. National savings rose from 2 per cent in the early 1960s to over 20 per cent in the mid-1970s, and government revenues rose from 10.5 per cent of GNP to 18.3 per cent over the same period.<sup>45</sup> These revenue numbers indicate the rising institutional effectiveness of the government.

These Korean successes have been built in part upon an ability to innovate, to act decisively in order to seize opportunities, and to act contrary to conventional wisdom. The most important single decision the Korean government made was to switch from the import substitution strategy popular in most Third World countries during the 1950s and 1960s to an export-oriented strategy. In accordance with this policy change, attempted

unsuccessfully in 1961 and successfully in 1964-65, the government devalued the won, reduced inflation, ensured a positive real interest rate, liberalized import restrictions, provided export incentives, and established institutions like the Korean Trade Promotion Association (KOTRA)<sup>46</sup> The result was not only an extraordinary economic takeoff, but also a reduction in unemployment, an improvement in income distribution, and a rise in the efficiency with which labor was used.<sup>47</sup> Today the value of an export-oriented strategy for growth and income distribution is becoming widely recognized, largely due to the successes of South Korea, Taiwan, Singapore, and to some extent Brazil, but at the time the Korean strategy was a relatively controversial and innovative one. South Korea's outward-looking strategy was a primary reason why Korea fared relatively well after the 1973 and 1978 oil price rises, whereas Brazil, which switched to an import-substitution strategy, acquired nearly \$70 billion of foreign debt by 1981.

Other aspects of the Korean strategy also appear innovative and wise in historical perspective. Fifteen years before the 1970s' vogue for labor-intensive technologies, South Korea placed an overwhelming emphasis on labor-intensive technologies, with favorable results for the evenness with which the economy took off and with very favorable results for employment and income distribution. (See the discussion of income distribution below.) This aspect of the South Korean strategy was undergirded by a willingness to exploit low technology and marginal equipment, rather than insisting on the newest and best. Brazil, which began its economic takeoff at about the same time, and also with an export-oriented strategy, put an excessive emphasis on



obtaining only the newest and best technologies, and neglected to emphasize labor-intensive technologies, with extremely unfavorable results for the income distribution. A common article of faith today among many Third World economists and among many American students of economic development, was that a high growth, Western-oriented, export-driven growth strategy will invariably produce a dualistic, maldistributed, dependent, low technology economy. It has been the Korean achievement to obtain precisely the opposite results through such a strategy.

Critical to the success of the South Korean economy have been innovations in the relationship between government and economy. The South Korean economy resembles neither the classical free-market model of Adam Smith, nor the regulated welfare-state model of the West, nor the socialist models of either the Third World or the communist world. The Korean model employs the domestic and international markets to assure competitiveness, efficiency, and discipline. On the other hand, the government intervenes massively to ensure rapid growth, technological progress, and even distribution of income. It is generally believed by government and business executives alike that the Bank of Korea channels about two-thirds of the total credit available in the economy in such a way as to provide incentives for cooperation with development plans. The government encouraged the establishment of the massive trading firms that now dominate the commanding heights of the Korean economy.

sketch  
 The government intervenes massively, as will be outlined below, to assure an even distribution of income, but does so through adjusting market mechanisms and overall strategy rather than by the Western method of providing direct

welfare payments. The government promotes exports through low machinery import tariffs, through a complex system of incentives, through moral persuasion and the setting of export targets, and by close consultation with manufacturers' groups.<sup>48</sup> The government initiates projects, especially in heavy industry, which are too large for private capital to initiate, but often sells them to private industry once they are established. Conversely, once large industries such as the major trading companies become firmly established, the government forces them to sell their stock to the public in order to promote broad distribution of ownership. When an otherwise efficient firm gets into trouble, the government frequently will step in with temporary assistance.

All of this, however, is accomplished without the characteristic decline of efficiency and spread of bureaucracy, with attendant slowing of growth, that seems to be concomitant with similar policies in most other countries. In the view of most observers, the reason why the Korean government can pursue such strategies successfully, while they frequently fail elsewhere, is a combination of competent administration, markedly less corruption than most other Third World countries, and absence of the politicization of such decisions typical even of the advanced countries.

Korea's ability to push projects through against the best Western advice and against the conventional wisdom pervades its economic development programs. The U.S. refused aid for the building of the Seoul-Pusan highway on the grounds that the project would be wasteful; the highway later became the backbone of South Korea's economic development. Both the U.S. and Japan believed the building of the 1 million ton per year Pohang Steel Mill to be inappropriate because the world steel market was becoming glutted and Korea

would be unable to compete with more efficient producers elsewhere. Pohang was profitable at 1 million tons per year and is being expanded to 5 million tons per year--at a time when the steel industries in Japan, the United States, and Western Europe are all in serious trouble. Japanese shipbuilders believed that the expansion of a Korean shipping industry in the early 1970s was proceeding faster than was technically possible, in particular a jump in a single year from 254,000-ton ships to 260,000-ton ships was believed organizationally impossible. Nonetheless, Korea successfully made that jump.<sup>49</sup> When the worldwide shipbuilding industry ran into difficulties in the late 1970s, Korea moved from large tankers to medium-size specialty ships much more easily than its competitors and, notwithstanding a difficult transition, maintained an expanding profitable industry at a time when Japanese, U.S. and Western European competitors were in serious trouble.

A combination of lower wages, tight organization, and high productivity has enabled South Korea to defeat Japan in "the fields of plywood, textiles, black-and-white television sets, shipbuilding and overseas construction," and prepare them for a challenge to the Japanese in such industries as "non-ferrous metals, transport machinery, electric equipment, precision instruments, paper, lumbers, textiles, food processing, leather, cosmetics, sundries, and ceramic ware." A study by the Long-Term Credit Bank of Japan indicates that, as a result, to a substantial extent Japan will have to move into a horizontal division of labor with South Korea, sharing high-technology industries as well as low-technology manufacturing, rather than a vertical division between simpler textiles and consumer electronics on the one hand and

high technology and heavy industry on the other.<sup>50</sup> Another indicator of Korea's competitiveness and efficiency is its policy of liberalizing import restrictions considerably faster than Japan has historically been willing to do and far more quickly than virtually any of its Third World competitors.<sup>51</sup>

This competitiveness, and its sharp contrast with the situation of 15 to 20 years earlier, is attributed by all major studies to a combination of effective administration and political commitment. The economic analogues of the Korean Military Academy in transforming a major set of institutions have been the Economic Planning Board under a strong Deputy Prime Minister,<sup>52</sup> the Korea Trade Promotion Association, and a key triad of think-tanks, the Korean Institute of Science and Technology, the Korea Development Institute (which focuses on the domestic economy), and the Korea International Economics Institute. Behind them has been a total political commitment to economic modernization--without regard for the political considerations that play such a critical role in most countries. "Political stability, strong leadership and a firm commitment to development," says the World Bank, "have provided the prerequisites for economic advance. The social environment has probably also been conducive to rapid economic progress."<sup>53</sup> "First and foremost," conclude Adelman and Robinson, "from the start, President Chung Hee Park has been strongly committed to 'a political strategy emphasizing economic performance.'"<sup>54</sup> In a volume prepared for the U.S. National Bureau of Economic Research, a group of economists concluded that, "Probably such a performance is only possible in countries where political leaders are powerful and secure."<sup>55</sup> Behind the Korean economic strategy, lies a political-

administrative strategy and of a reliance on a core of outstanding civilian professionals and core planning institutions to guide the development of the economy.

South Korean economic performance and efficiency are thus beyond question. It remains to be considered whether performance and efficiency have been achieved in ways that make South Korean economy a hothouse flower liable to disaster in bad times.

The South Korean economic takeoff has actually served to emancipate the South Korean economy, rather than selling itself to foreigners, despite prevalent myths that U.S. aid accounts for most of Korea's growth and that the country is primarily an export platform for American multinational corporations. The Korean Stock Exchange was until recently off limits to foreigners, and the percentage of Korean ownership of major industries keeps rising quickly. While U.S. aid "contributed about 74.5 per cent of the total investment of 8.7 per cent of Korea's GNP from 1955 to 1961,...after 1962, grant-type aid was reduced drastically and may be omitted as far as contribution to investment is concerned."<sup>56</sup> There has been no U.S. economic aid in the 1970s. As the World Bank notes, "Since the late 1960s, official grants to Korea have been quite limited (averaging less than \$100 million per annum) and inflows of direct foreign investment have been small."<sup>57</sup> Moreover, "Except in the initial stages of electronics goods export, multinational firms also appear to have played a small roll in promoting exports."<sup>58</sup> A majority of foreign investment has been Japanese and that has been on a relatively small scale and for the most part by medium-sized firms

than by giant corporations. The government has used Western export quotas to enhance Korean economic nationalism: foreign countries give to the Korean government, which in turn allocates them preferentially to Korean-owned firms. This has raised Korean income, enhanced Korean ownership, and guaranteed key Korean firms sufficient export volume to amortize the costs of rapid technological modernization. The new technologies often raise the value of a volume quota so rapidly that Korean revenues continue to rise quickly despite the quotas.

To make up its short-fall in domestic savings and investment, Korea has turned to international loans rather than to aid and multinational corporation investments. However unlike Brazil, whose debt service ratio hovers around 60 per cent, South Korea emerged from a few bad years immediately after the Arab oil embargo of 1973 with a debt service ratio in 1977 of only 10 per cent. In that year, South Korea was borrowing at seven-eighths of one per cent above the London Interbank Offering Rate for 10 year loans with three years grace, whereas Brazil, with a debt service ratio of 50 per cent had to pay 2.1 per cent premium over the London Interbank rate for seven year loans with two and one-half years grace.<sup>59</sup> South Korea even managed by the late 1970s to become nearly self-sufficient in its principal food staple, rice, in normal years. In short, South Korea, a small, resourceless country with a third of Brazil's population, has managed to preserve its economic independence better than Brazil, although Brazil has vast resources, three times the population, and none of the recent colonial and military difficulties that Korea has experienced. In 1978, South Korea's exports surpassed Brazil's.

The best test of whether South Korea's economy is a hothouse plant is an inspection of its economic performance during the 1970s, when the world economy entered a period of stagflation substantially worse than the boom era of the 1960s and far worse than the world economic environment anticipated by planners of Korea's Third Five Year Plan, which ran from 1972 to 1976. The worst years were, of course, the recession years of 1974 and 1975, which immediately followed the 1973 OPEC oil embargo. As an economy largely driven by exports, South Korea is heavily dependent upon the growth of the world economy, the growth of world trade, and the availability of raw materials and energy on reasonable terms. Moreover, the South Korean economy suffered more difficulties than are suggested above, because in these same years it was cut off from the enormous demand previously created by U.S. operations in Vietnam. It should, therefore, have reasonably expected to be more severely buffeted by shocks to the world economy of 1973 to 1975 than most other countries of the world.

In fact, as indicated by Table 2-1 above, South Korea's rate of growth was higher in the 1970s than in previous decades. As a result, "Korea has achieved most of the objectives set for the Third Five Year Plan (1972-76), despite the balance of payments difficulties in 1974 and 1975 and, on the whole, a less favorable international environment than expected."<sup>60</sup> The World Bank further notes that during the difficult 1974-'75 period the ratio of fixed investment to GNP continued to grow, trade grew in volume by 20 per cent even in the particularly difficult year of 1975,<sup>61</sup> and the economy recouped in 1976 for any earlier slowing of its growth rate. GNP grew 10.8

per cent per year compounded between 1973 and 1976 Exports grew 35.2 per cent compounded from the fourth quarter of 1973 to the fourth quarter of 1976, and industrial production grew 23.2 per cent compounded from the fourth quarter to the fourth quarter of 1976.<sup>62</sup>

A particularly vivid illustration of the South Korean ability to adapt to new conditions is displayed in Tables 2-2, 2-3, and 2-4. First, South Korea's exports to the Middle East grew ten-fold (see Table 2-2) during this difficult period, while imports only slightly more than doubled despite the quadrupling of oil prices. Second, Korea managed to adjust so quickly that it achieved a balance of payments surplus with the Middle East (Table 2-3, broken down further in Table 2-4). During this period, Korean industries competed against Japanese, American and Western European firms for major projects in the Middle East, a region where South Koreans had little previous experience, and succeeded in octupling their receipts over a period of three years. As a result, it appears that South Korea was probably the only country in the world so dependent upon imported oil which managed in three years to balance its accounts with Middle Eastern nations.

As with most other South Korean achievements, this performance was undergirded by major institutional innovations. Beginning in 1974, South Korea decided to create general trading corporations, modeled on the Japanese zaibatsu and called in Korea jaibul, to provide the country with world class competitors. Two years later, in 1976, eleven such corporations accounted for nearly one-quarter of South Korea's total exports. Their growth rates are suggested by the fact that between 1975 and 1976 Hyundai Shipbuilding exports



Table 2-2. South Korea's Imports and Exports to Middle East Countries  
1974, 1976 and 1977 (U.S.\$000)

	Imports (cif)			Exports (fob)		
Saudi Arabia	670,488	714,559	1,123,078	24,956	234,796	671,412
Iran	30,358	172,357	216,031	42,107	148,752	120,735
Kuwait	257,229	692,260	573,828	34,012	192,515	248,463
Totals	958,075	1,579,176	1,912,937	101,075	576,063	1,040,610

Source: Bank of Korea, Economic Statistics Yearbook 1978 (Seoul, Korea, June 1978), pp. 194, 197. These data are consistent with IMF, Direction of Trade, Annual 1970-76 (December 1977).

Table 2-3. Summary of South Korean Exports of Goods and Services to the Middle East  
Millions of U.S. dollars

	Construction		Services <sup>1</sup>		Workers		Total contract (a+c)	Exports of Merchandise (f)	Inflow of Foreign Exchanges (b+d+e+f) (Total net earnings)
	Contract (a)	Cash re-mitted (Net earnings) (b)	Contract (c)	Cash re-mitted (Net earnings) (d)	Workers dispatched (persons) <sup>2</sup>	Wage earnings <sup>3, 4</sup> (e)			
1973 - 1975	864.1	32.1 (10.7)	18.5	2.4 (2.4)	6,466	1.5 (11.1)	882.6 (175) 446,0	(14.6)	
1976	2,429.1	460.6 (300.4)	56.5	6.2 (4.4)	21,269	9.7 (66.9)	2,435.7	1,379.3 (314.5)	
1977	3,387.0	1,197.8 (600.5)	244.5	29.0 (27.8)	52,247	32.6 (277.9)	3,631.5	2,587.8 (660.9)	
1978	7,982.4	2,123.1 (999.0)	46.9	35.4 (35.2)	81,987	36.9 (584.7)	8,029.3	3,696.2 (1,071.1)	
Total	14,662.6	3,813.6 (1,910.6)	366.5	72.9 (69.7)	161,969 (94,580)	80.7 (940.5)	15,029.1	(2,061.0)	

Source: Dr. Key Whan Kim, Director, Korea International Economic Institute.

1. Engineering and other services consist of engineering services and unloading works.

2. Figures in parentheses of workers dispatched represent number of workers being employed at the end of the period.

3. Figures of wage earnings represent wage earnings of workers employed by foreign firms only.

4. Figures in parentheses of wage earnings column represent wage earnings of workers employed by both domestic and foreign firms.

Table 2-4. South Korean Exports of Goods and Services to the Middle Eastern Countries

Millions of U.S. Dollars

	Saudi Arabia	Iran	Kuwait	Bahrain	Qatar	U.A.E.	Jordan	Iraq	Libya	Şudan	Others
1973-1975	605.8	61.4	0.8	160.0	--	15.9	20.2	--	--	--	--
1976	2,147.0	7.6	205.0	13.3	8.4	--	37.8	--	--	--	10.0
1977	2,410.6	326.5	257.5	99.0	48.5	141.6	2.1	30.4	46.4	20.0	4.5
1978	6,404.1	281.9	528.1	68.5	88.9	112.9	79.2	43.7	169.7	88.3	117.1
Total	11,567.5	677.5	991.4	340.8	145.8	270.3	139.3	74.1	216.0	108.3	131.6
1973-1975	--	18.5	--	--	--	--	--	--	--	--	--
1976	46.3	-0.8	--	10.0	--	1.1	--	--	--	--	--
1977	121.2	43.6	24.6	36.9	1.3	16.9	--	--	--	--	--
1978	22.2	15.7	9.0	--	--	--	--	--	--	--	--
Total	185.5	76.9	33.6	46.9	1.3	17.9	--	--	--	--	--
1973-1975	3,593	2,402	48	285	--	39	90	9	--	--	--
1976	15,855	1,630	462	1,932	636	155	486	84	--	--	29
1977	32,748	6,264	4,657	3,478	1,491	804	1,651	213	677	25	239
1978	56,161	7,418	8,646	2,073	1,915	2,689	1,418	478	1,018	128	43
Total	108,357	17,714	13,813	7,768	4,042	3,687	3,645	784	1,695	153	311
1976	326.5	157.1	239.2	37.3	1.7	37.3	11.1	4.0	22.0	3.3	63.3
1977	671.4	120.7	248.4	42.6	10.1	52.5	21.0	2.7	17.3	25.1	16.3
1978	717.1	164.5	240.7	63.8	4.8	56.4	16.0	6.3	25.9	32.5	172.8

Source: Dr. Key Whan Kim, Director, Korea International Economic Institute.

a. Exports of Merchandise include exports of Merchandise to Israel.

Table 2-5. Large Exporters in 197<sup>80</sup>

Samsung Company	\$506,384
Daewoo Ind. Company	501,238,142
Hyundai Shipbuilding & Heavy Ind. Company	410,238,142
ICC Corporation	328,205,399
Hyundai Corporation	319,801,712
Sunkyong Ltd.	246,733,510
Samwha Ltd.	212,896,514
Bando Sangsa Company	211,737,403
Kumho & Company, Incorporated	204,140,135
Hyosung Corporation	199,433,161
Ssangyong Trading Company	175,519,139
Yulsan Ind. Company	166,791,258
Hanil Synthetic Fiber Company	158,262,894

Source: Korea Annual 1978.

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attached.

Source: Korea Herald, 7 January 1981, p.3

per cent per year compounded between 1973 and 1976 Exports grew 35.2 per cent compounded from the fourth quarter of 1973 to the fourth quarter of 1976, and industrial production grew 23.2 per cent compounded from the fourth quarter to the fourth quarter of 1976.<sup>62</sup>

A particularly vivid illustration of the South Korean ability to adapt to new conditions is displayed in Tables 2-2, 2-3, and 2-4. First, South Korea's exports to the Middle East grew ten-fold (see Table 2-2) during this difficult period, while imports only slightly more than doubled despite the quadrupling of oil prices. Second, Korea managed to adjust so quickly that it achieved a balance of payments surplus with the Middle East (Table 2-3, broken down further in Table 2-4). During this period, Korean industries competed against Japanese, American and Western European firms for major projects in the Middle East, a region where South Koreans had little previous experience, and succeeded in octupling their receipts over a period of three years. As a result, it appears that South Korea was probably the only country in the world so dependent upon imported oil which managed in three years to balance its accounts with Middle Eastern nations.

As with most other South Korean achievements, this performance was undergirded by major institutional innovations. Beginning in 1974, South Korea decided to create general trading corporations, modeled on the Japanese zaibatsu and called in Korea jaibul, to provide the country with world class competitors. Two years later, in 1976, eleven such corporations accounted for nearly one-quarter of South Korea's total exports. Their growth rates are suggested by the fact that between 1975 and 1976 Hyundai Shipbuilding exports

grew from \$108 million to \$376 million, Hyundai construction from \$8 million to \$342 million, Daewoo Industrial from \$179 million to \$318 million, Hanil Synthetic Fiber from \$137 million to \$218 million, and ICC Corporation from \$63 million to \$197 million. All of this was accomplished in a period when world trade was growing very slowly, and when protectionism was increasing in Korea's traditional trade partners; it was achieved in industries which competed directly with major Japanese and Western firms.<sup>63</sup> South Korea's achievement in this period was to turn the Middle East oil imports crisis into an export opportunity by redirecting an industrial base previously oriented toward South Vietnam and Southeast Asia and also by creating, nearly overnight, massive institutions to achieve these goals. The continued growth of these giant companies is indicated by the 1980 export figures in Table 2-5.

South Korea has done equally well in meeting other challenges. Its 1977 debt service ratio of 10 per cent followed upon a balance of payments crisis created by the OPEC oil price rise; after several years of expert prediction of South Korean default in its debts, South Korea irritated the major Western banks by repaying many of its high-interest loans early. It has met the challenge of protectionism by upgrading the quality of traditional exports (such as textiles and shoes) placed under export volume quotas, by making extraordinarily rapid penetrations of Third World markets in the Middle East, Africa, and Southeast Asia, and by rapidly moving into technological areas such as machinery where protectionism is more difficult to impose. It has responded to the major population changes consequent upon rapid growth by providing social services effectively even in Seoul, which rose rapidly to a

population of 8 million, and Pusan; its only major social infrastructure lag has been housing. In all these respects, its performance is similar to that of Taiwan and Singapore, and greatly superior to the performance under similar circumstances of the few other rapidly growing countries in the world, notably Brazil and certain oil countries.

The future prospects of Korea's industrialization depends upon the government's ability to surmount rising protectionist pressures and decreasing rates of growth in world trade, as well as rising energy costs. They require overcoming inflation, which became severe (up to 40 per cent) in the late 1970s, continuing to provide adequate employment, and generating or attracting the investment necessary to sustain high growth rates. But these challenges of a smaller magnitude than those South Korea has faced in the past. South Korea's long-term economic development plans project GNP growth in excess of 10 per cent per year, with per capita GNP surpassing U.S. \$4,000 by 1991 (in 1975 dollars). Automobile production is forecast to reach 2.1 million per year by 1991 and machinery exports to constitute half of total exports.<sup>64</sup>

In facing these challenges and seeking these goals, South Korea will come into direct competition with a Japan that is now highly aware of the South Korean challenge in key industries. However, South Korea's major corporations, unlike Taiwan's and Singapore's, appear to possess the scale as well as the efficiency necessary to challenge Japan. Indeed, behind Korea's projections of success in such industries as automobiles is the assumption that Japan is vulnerable in these areas. South Korea possesses major assets in comparison with the Japanese, particularly the flexibility of Korean

Table 2-5. Large Exporters in 1980 (Estimates)

(Unit: \$1 million)

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Daewoo	\$1,460
Samsung	1,220
Hyundai Corporation	1,000
Hyosung Corporation	770
Kukje Corporation	750
Ssangyong	650
Bando Sangsa	500
Sunkyong Ltd.	430
Kumho & Company	360
Korea Trading International	66
<hr/>	
Total	\$7,206
<hr/>	

Source: Korea Herald, 7 January 1981, p. 3.



Korea Herald 1/7/81

File: Korea - K

Daewoo Takes Lion's Share

Ten Leading ROK GTCs Plan \$9.4 Bil. in '81 Export Volume

Daewoo Industrial Co. and nine other general trading companies (GTCs) plan to export some \$9,400 million worth of merchandise this year, up 30.7 per cent from last year's \$7,206 million.

Daewoo, which exported \$1,460 million worth of commodities last year to become the nation's top exporter in terms of export volume, has tentatively set this year's export target at \$1,850 million, an increase of 26.7 per cent over that of last year.

Kim Woo-choong, president of Daewoo Industrial Co., said that some 300 engineers will be dispatched overseas this year for the advanced training in line with the company's medium-term plan of expanding exports of technology-intensive industrial products. Kim returned home Jan. 2 after a two-week-long overseas trip.

As the exports of heavy and chemical industrial products which a growing importance is being attached by Daewoo management are directly concerned with the quality control, Daewoo plans to emphasize the improvement of quality through the strengthened quality control system to be participated in by all the company staffers.

Export strategies being considered by other general trading houses are as follows:

10 GTCs' Export Goal for 1981

(Unit: \$1 million)

Table with 4 columns: Companies, 1980 Performance (Estimated), 1981 Target, Increase (per cent). Rows include Daewoo, Samsung, Hyundai Corp., Hyosung Corp., Kukje Corp., Ssangyong, Bando Sangsa, Sunkyong Ltd., Kumho & Co., Korea Trading International, and Total.

hopes to sell in the overseas markets this year. It is determined to participate in major international biddings to sell more heavy and chemical industrial products.

Sunkyong Ltd. — Textile products will continue to be mainstay of the export items. A growing importance will be attached to the improvement of their quality, however. Its annual export target for this year is set at \$550 million. Imports of crude oil will be a more important business line for Sunkyong this year since

It has recently taken a controlling interest in the Korea Oil Corp. (KOCO), the nation's largest oil refinery, which was previously tied up with Gulf Oil of the United States.

Bando Sangsa Co. — It hopes to export \$600 million worth of commodities by playing as the trading arm of Lucky Business Group. New branch offices will be opened in Nigeria, Iran and Latin American countries this year as part of the company's plan to expand its worldwide sales network.

MANILA (AFP) — The world's erstwhile economic giant and political dwarf seeks an enlarged political role Jan. 8 when Japanese Prime Minister Zenko Suzuki undertakes a trail-blazing 13-day visit of the ASEAN countries. First stop, Jan. 8-10, is the Philippines whose military bases agreement and historic ties with the United States make it the most strategic member of the five-nation Association of Southeast Asian Nations in terms of the international balance of power in the Asia-Pacific region. Prime Minister Suzuki afterwards proceeds to

But as the changing world scene has shown in the recent past, the group of nonaligned countries is a rapidly growing entity to reckon with in the international community of nations. The nonaligned have an increasing bearing on our foreign policy not only because many of them supply a number of resource materials but because — and perhaps more important — north Korea is trying to sell them on a distorted picture of the Korean situation. To begin with, the importance of nonaligned nations in our diplomacy may be well evinced by their number which exceeds 100. In the case of Libya, this Republic opened consular relations two years ago whereas north Korea set up an embassy in 1974. It is an open secret that Pyongyang has been abusing its diplomatic mission there as a

organizations and the international orientation of Korean managers. Most of the next generation coming to dominate Korea's major firms today is young, speaks English, and possesses advanced international training. Within the corporations, Korea's training systems provide unusual adaptability. Korea has no lifetime employment system, a possible disadvantage in a weak economy, but a major advantage in favor of flexibility for a strong economy such as the present South Korean one.

Both South Korea's industrialization and export development programs exhibit all the characteristics of strong institutionalization. These successes have been based upon innovative policies, driven by new institutions which have attracted the finest talent. The institutions and policies exhibit a remarkable capacity for continuous innovation, for adaptation to changing conditions, for coping with crises, and even for profiting from crises.

#### Rural Development

In many developing countries, industrial development proceeds, and even produces respectable overall rates of GNP growth, without greatly affecting farmers and others outside the industrial sectors of the major cities. The result is an enclave of modernity which makes the poverty of the peripheral regions even less bearable than it would otherwise have been. The visibility of a more modern, more healthy, more fulfilling existence worsens rural discontent and can even lead to revolution. For instance, the Chinese revolution was accelerated and made more powerful by the contrast between the development along the coast and the lack of development in the interior. India, one of the world's great producers of heavy industrial products,

provides a striking contrast between modern steel industries and railroads on the one hand, and shocking hunger and malnutrition in the rural areas on the other. Brazil's extraordinary rate of growth from the mid-1960s to the mid-1970s concealed a striking differential between the modern industrial sector, concentrated along the coast from Rio de Janeiro to Sao Paulo, and a rural society in which two-thirds of Brazil's total population had virtually no contact with the modern economy. Bangkok and Manila are enclaves of modernity embedded in primitive agricultural economies. Modernizing agriculture along with industry is one of the most difficult economic development tasks. South Korea's industrial and export development could be self-destructing unless accompanied by agricultural development.

South Korea approached the problem of agricultural development with substantial assets. In 1947, American occupying forces sold extensive confiscated Japanese land holdings to tenant farmers, reducing the tenancy rate from 70 per cent to 33 per cent.<sup>65</sup> This American land reform, which benefited 700,000 tenant farmers, was followed in 1950 by a domestic land reform, which benefited 900,000 farm households and virtually eliminated tenancy.<sup>66</sup> Thus, the rural areas started from a relatively egalitarian base. Furthermore, the relatively small size of South Korea and the homogeneity of its culture eliminated some of the administrative and political problems of rural development in large countries such as China and Brazil, and even in many smaller countries such as the Philippines and Thailand. Large or ethnically diverse societies are inherently more difficult to develop at a uniform rate.

Nonetheless, the situation South Korea faced was difficult. Land reform and overpopulation fragmented rural holdings to a point where 79 per cent of all farm household possessed submarginal land holdings in 1970.<sup>67</sup> At the end of the Korean War, nearly a quarter of the population roamed as refugees. Productivity was among the lowest in the world. Costs were among the highest in the world. South Korea was an enormous net importer of its basic staples, including particularly rice. As noted earlier, James Morley wrote in 1968 that much of the population was living as it had centuries earlier, and the pre-World War II Japanese governor estimated that half of the farmers found themselves looking for grass and bark to eat. As this writer traveled around Korea in the early 1970s, there were scenes of rural poverty reminiscent of Pakistan and Bangladesh--with the attendant problems greatly exacerbated by harsh Korean winters that have no counterpart in Pakistan and Bangladesh.

The persistence of pockets of extreme poverty into the early 1970s masked a development process which produced dramatic results by the late 1970s. The principal theme of the period prior to the Korean War was distribution: an American land reform, followed by a Korean land reform and then a war which further leveled the income distribution by destroying the value of the bonds which had been issued to landlords to compensate for the loss of their land. The war brought terrible devastation, even for farmers, and the rest of the 1950s may fairly be described as primarily a period of recovery. The starvation of pre-World War II days was avoided, despite scattered false press reports of starvation, but rural life was a desperate struggle of too many people living on too little land with too little productivity. In retrospect,

the 1960s were a period of infrastructure development. The principal roads were built. Effective administration systems were constructed. Education increased rapidly, largely through the efforts of the people themselves. But the main theme of the 1960s was urban industrial development and export promotion, and agriculture was squeezed, via low grain prices and the dumping of U.S. food aid on the market, to subsidize urban industrial development.

These urban and export emphases proved, however, to be also part of the infrastructure development for rural agricultural takeoff. Without them, expansion of rural productivity and of agricultural outputs could have been a disaster for the farmers because rising food supplies would have reduced already inadequate prices below what could be offset by increased volume. Similarly, an industrial takeoff without rural development would have increased urban demand for food, causing inflation, increased dependence on foreign food supplies, and caused a serious gap between rural and urban standards of living. What actually happened was that agricultural development took off just a few years after industrial development, with the result that increased urban demand raised food prices and farmers' incomes sharply even as farmers' productivity rose.

South Korea's emphasis on rural development dates from the early 1970s, and particularly from the the Saemaul movement which began in 1970. Rural development programs are actually much broader than the Saemaul movement, but Saemaul has become the leading edge of the rural development programs and the symbol of what South Korea has accomplished. An initial drive for rural development in 1970 probably resulted from several coincident trends.

Industrial development was well on its way to success, and planners had enough breathing space to turn to other issues. Following the model of Vietnam, North Korea had moved to a strategy of seeking to kindle rural insurgency, and American and other foreign commentators began to speak with concern about analogies between rural Korea and rural Vietnam. A massive nationwide grain shortage coincided with a foreseeable decline in American grain surpluses and American aid. The apparent disparity between opportunities in the urban and the rural areas was leading to a massive overurbanization of South Korea and in particular to an apparently uncontrollable expansion of the cities of Seoul and Pusan. President Park Chung Hee, who had been born into a poor farm village in 1917 and had always counted upon the political support of rural people, did far worse than he expected to do in rural areas during the 1970 presidential election. The 1960s thus had provided not only the economic and administrative infrastructure to make a rural development program feasible in the 1970s, but also social and political motivation for the government to make a massive effort.

The Saemaul program built upon earlier efforts to provide cheap credit, access to fertilizer, cooperatives, and, beginning in the 1970s, adequate grain prices. The first Saemaul priority was constructing basic infrastructure of feeder roads and bridges. Virtually all of Korea's thirty five thousand villages were made accessible by car and were helped to build an average of 1.3 kilometers of village feeder road and one kilometer of roadway within each village. These roads tied Korea's villages into the national market. They made possible the replacement of traditional methods of carrying

goods (on people's heads, or on A-frames tied to people's backs), first by pushcarts and, later, for an increasing number of people, by power tillers pulling trailers. (The power tillers were distributed mainly for tilling, but proved considerably less useful to the farmers as tillers than as pullers of loads.) Irrigation networks were developed or improved, reservoirs and piping systems for drinking water were constructed, and drainage and sewerage programs were developed to improve public health. Land conservation and reforestation programs were supplemented by programs to convert fragmented plots of land into rational units and to optimize the productivity of rural land and labor.

A network of agricultural extension agents introduced new varieties of miracle rice, specifically created for Korean conditions. Rural electrification, which had scarcely begun in 1970, was completed, except for a few islands, by 1978. The thatched roof huts of traditional Korean villages were replaced for a majority of Korea's farmers by larger, tile-roofed houses strengthened by concrete. (The new housing is somewhat controversial, since the new roofs make them colder in winter and hotter in summer, and since intellectuals tend not to like the brightly colored tiles, but the new housing is sturdier, less susceptible to fire, and does not require the tedious, skilled, time-consuming replacement of thatch every year or two.)

A typical Saemaul project would follow the model of a village near Taegu.<sup>68</sup> The village was presented with a list of potential projects and decided to build a road. It had a village fund, accumulated over decades, from which money was loaned for interest. It had facilities for ceremonial

events which it rented out, and it owned equipment, which earned money through service charges. Using its village fund, the village bought land for the road. The government provided cement and other materials while the villagers contributed labor and supervised construction work by a small company. Wages were paid with American PL480 flour. The road was five to six meters wide, and three kilometers long, and it played a critical role in economic prospects of the village. (This village began as a relatively prosperous village, as indicated by its prior possession of such things as ceremonial hall, which were more typically outcomes of Saemaul projects. However, the possession of a village fund is not uncommon, and indicates some of the organization which provides Korean villages with advantages over the villages of many other countries, regardless of specific government programs.)

A typical Saemaul program would involve a series of projects. In one village, visited by this writer, the first project was to remove a series of large rocks washed into the village by a flood. Subsidies were provided by the local government, but the main resource was donated local labor. The second project was improvement of the water supply through creation of a large reservoir 1000 yards from the center of the village. This project was led by village leaders and implemented primarily by donated local labor. The third project was to improve the individual houses of the village, increasing the number of houses with tile roofs from three to more than forty; all houses which could bear the weight of new roofs received them. The next project was to widen the road between the rice paddies and the village, using methods described in the previous paragraph. Future projects listed by the village



leaders included the mechanization of agriculture, which currently includes only a partial mechanization of the harvesting process. They then wanted to improve the roads further, so that no villagers will have to use A-frames and so that the village will be able to accommodate small pickup trucks. Finally, they hope to build western-style houses in order to accommodate electrical appliances.

Thus, South Korea's general goals and programs for rural development are similar to those espoused by rural development officials in nearly every part of the world. However, in Korea they were unusually successful, due in part to ancient organizational traditions, in part to existing infrastructure, in part to widespread education, and in large part to the use of effective institutional and political means for administering the programs and cutting through the organizational and political complexities that frequently defeat development programs elsewhere.

Because of the importance of this organizational and political aspect of the program, and because institutions are the central focus of this chapter, it is worth examining the institutional and political framework behind the Saemaul program. Saemaul is administered from Seoul by the Home Ministry. The officials in charge of Saemaul coordinate 19 different government bodies at the national level, a structure that is reproduced at the provincial level. Each local district has a rural guidance center, supported by, but organizationally distinct from, the traditional local government officials. (Village people invariably said that the separation was critical to the success of the program, while local officials denied this.) Each village has a

development committee and a locally elected Saemaul leader. Decisions designating projects and allocating funds are made at meetings attended by all heads of household as well as formal and informal village leaders.

In most Third World development programs, funding and leadership come largely from the national government, and benefits tend to be captured by the implementing bureaucracies and by local middle and rich peasants. (The U.S. has a similar problem, as an examination of New York City's welfare programs will indicate.) In South Korea, however, statistics, interviews, and direct observation of villages all provide dramatic evidence that the benefits have filtered down to everyone. Funds intended for the poor actually reach them. This is surprising to any experienced observer of welfare and development programs elsewhere. Several aspects of the South Korean program and administrative system have ensured honesty and wide distribution of benefits. Participation in decision making is open to all heads of households. Since the programs affect everyone--increasing this person's income, taking that person's land, and requiring donations of labor by other people--there are substantial incentives for everyone to participate. Central government subsidies are in kind, usually in the form of such commodities as cement, reinforcing wire, subsidized roof tiles, or food, rather than in cash; hence, there is little opportunity for invisible diversion of subsidies. The majority of economic resources for Saemaul projects, an average of 65 per cent of total expenditures, comes from the village itself rather than from government funds, and therefore public scrutiny is particularly intense. At the town and country level, a rigorous central government audit system deters

most corruption and inexorably exposes corruption that occurs between audits. The combination of locally elected officials, broad public scrutiny, rigorous and regular audits, and the context of relatively honest and efficient administration throughout the country have eliminated the worst diversion problems that plague analogous programs from Manila to Boston.

Within the villages, the government has resorted to effective organization-building techniques. Whereas programs in many countries emphasize a welfare-type approach, centralized in the capital city and targeted on the least successful villages, South Korea has emphasized local organization-building. The initial Saemaul program was focused on providing 300 bags of cement per village (villages contain an average of 70 farmers), for projects which had to be designed to benefit the whole village and chosen by joint decision of the villagers. Division of the cement among individuals was rigidly prohibited. Aside from this prohibition, the villagers' choice of projects was not limited, although the government usually provided 15 to 18 ideas, such as roads, water systems, bath facilities, washing facilities, and so forth. About 16,000 out of the 30,000 villages responded enthusiastically, for instance adding their own cement or making large labor contributions, and in 1972 the government gave each of these enthusiastic villages 500 bags of cement and 2 tons of steel wire. Villages were classified into (1) self-sustaining villages, with effective leaders, high participation and numerous successful projects; (2) self-help villages, which elected leaders and hold meetings, but were not yet achieving much; and (3) basic villages, which were "still asleep and traditional." Some self-standing villages get a

pole certifying their status, successful leaders receive awards, and villages which are particularly successful receive awards directly from the president; one village visited by this writer had recently purchased ten cows with its award money. Through this process, the program acquired the aroma of success and quickly induced emulation by previously less dynamic villages. According to a Blue House advisor, fierce competition among villages emerged throughout the country by 1974.<sup>69</sup>

The same psychology was employed within villages. Organizers realized that young people typically leave villages, and that the elderly are usually too conservative. They found by experience that the college graduates in the villages would talk enthusiastically but help little with manual labor, and that rich families frequently owned substantial amounts of land adjacent to those desirable areas where roads would need to be widened and projects constructed, and would therefore resist the projects. Programs were therefore targeted on married couples between 35 and 50 years old, with moderate income and moderate education. Usually by the end of the first year their successes would stimulate the emulation of other villagers.

Women's associations provided another key link in the Saemaul organizational structure. As in China under the communists, the women were organized to cook together for the whole village and to watch children, particularly in the planting season, so that maximum use could be made of the available village labor. These associations were funded by asking each woman to put one spoon of rice aside at each meal. The women became the strongest advocate of rural electrification because they had a particular interest in

electric lights for the interiors of their houses, electric irons for their clothing, and, later, electric heaters to keep the morning rice warm the rest of the day. The women's associations were encouraged to form informal credit groups, whose funds eventually found their way to banks for security. As a result, most Korean farmers now have accounts with the agricultural banks, and agricultural credit now is derived largely from farmers' savings, whereas previously it came largely from the government.<sup>70</sup>

By keeping primary responsibility for the Saemaul programs at the village level, the government avoids having to resolve much of the political and technical complexity of individual programs. Insisting that the villagers contribute most of the value of the projects ensures sufficient local scrutiny that the government is relieved of much of the necessity for detailed monitoring of individual villages. Senior administrators of the program maintained, credibly, that if village programs had been primarily implemented or paid for by central or provincial governments, then failures would simply have been reported and recorded. When the villages themselves are in charge of the project, they respond to failure by rebuilding later with their own resources in order to save face. By forcing villagers to make decisions about rationalizing plots of land, about whose land is to be taken for wider roads, and so forth, they ensure that the village leaders will occasionally be pummeled by angry constituents, but also that the program will get implemented, whereas governmental resolution of such conflicts through administrative or judicial processes would create an intolerable administrative burden.<sup>71</sup>

Villagers confirmed that conflicts were frequently intense, but that usually the work got done. In one village visited by the author, there had been a great conflict between the younger people, who favored Saemaul development, and the older people, who feared that new roads would bring in more tax collectors and more agents who would locate their illegal stills for rice wine. Unlike some villages in Kentucky which have faced the same choice, the Korean village eventually chose modernization.

Finally, there is a critical component of South Korea's Saemaul programs which is difficult for a foreigner or social scientist to describe, to convey, or even to empathize with. The Korean government has always treated Saemaul not only as a materialistic exercise in self-advancement, but also a program of spiritual regeneration for individuals, villages, and the nation. That is, Saemaul was conceived not primarily as a set of administrative institutions, but as an ideological campaign. As with similar campaigns in China, the South Korean campaign was replete with heroes, purges, awards, assertions of dignity, and broad demands for moral purity that have only the most indirect connection with the immediate practical goals of the program.<sup>72</sup>

Although such campaigns, whether in Korea or in the People's Republic of China or in Black churches in the American South, appear somewhat corny to most intellectuals, the success or failure of such ambitious social transformation programs probably depends in large part on such psychological (the Koreans, Chinese, and Southern Baptists would say "spiritual") underpinnings. So long as the psychology of the villager is that of dominator

and dominated, or of impotent acquiescence in historical cycles, or of resignation in the face of war and poverty, then no administrative procedures will galvanize a community. Once again, the Philippine experience provides a useful analogue and contrast. Both Louis Taruc, the former leader of the rural communist guerillas in the Philippines, and Jesus Montemayor, a sociologist who has been leader of the anti-communist Free Farmers Federation, argued fervently that the central issues of the transformation of the rural Philippines were peasant sense of citizenship, dignity, nationalism, freedom and emancipation rather than any traditional attachment to the land or overwhelming desire for economic improvement.<sup>73</sup> Lack of Korean-style enthusiasm, villagers' perception of rural development officials as bureaucratic intruders, and a sense that the Marcos government was seeking to buy off the revolution rather than to provide the peasant with dignity, combined with administrative errors to defeat most of the Philippine rural development program. The psychological or spiritual aspect of rural transformation is therefore critical to success.

South Korea appears to have avoided the Philippine error of corrupt cynicism, and also to have avoided the Chinese error of taking a purely ideological approach without adequate regard for material incentives. South Korea's rural leaders speak with enthusiasm about the programs and invariably mention the example of leadership of Park Chung Hee as being of critical importance. Some of the enthusiasm is clearly an overlay for foreign visitors, and some of the citations of Park Chung Hee clearly respond to a

sense of what is expected from above, not just to unambivalent individual enthusiasm. (The writer asked one model Saemaul leader, "Are people hurting because of inflation?" referring to the inflation of rural consumption goods in excess of 20 per cent. The model Saemaul leader replied, "The people overcome all such difficulties by rationalizing their consumption and strengthening their spiritual resources.") Beneath the surface enthusiasm there is frequently public relations and ambivalence. But beneath the public relations and ambivalence there is a psychological response to government initiatives from which the sullen, uncommunicative, apparently indifferent responses of Southeast Asian villagers to most government initiatives is totally absent. The program's successes have depended on the regime's ability to rejuvenate administrative workers and peasants alike with an untraditional enthusiasm.

The successes of the rural programs have been as dramatic as the urban ones. A country whose imports were massive and whose agricultural productivity was known as among the world's poorest achieved self-sufficiency in rice and barley in the mid-1970s. "In 1975, average rice yields exceeded 3.6 tons per hectare and yields up to 6.0 tons were not uncommon. These yields are among the highest in Asia (exceeded only in Japan.)"<sup>74</sup> By the end of the decade, South Korea's yields exceeded Japan's. Use of agricultural chemicals and miracle rice has become widespread.<sup>75</sup> The rural sector has become sufficiently strong that the government has been able to raise fertilizer prices to market levels without damaging farm income.<sup>76</sup> The size of farms has remained small but egalitarian (see Table 2-6). The World Bank notes that:



Korea's villages enjoy an unusually high level of basic services. All villages have easy access to primary schools and most villages to middle schools as well. Family planning material is widely disseminated...Over 90% of all rural households have access to electricity. More than half of the villages have community telephones. Almost all villages are fairly well connected by roads, although there is much room for improvement in the quality of rural access roads. Access to piped water is still relatively low. On the whole, the breadth of distribution of most services is probably better than that in other countries of comparable levels of development.<sup>77</sup>

The last statement is important, because it indicates that the benefits of growth are not merely statistical; they have been spread more widely than in other countries with comparable macroeconomic statistics. It is now taken for granted in the vast majority of Korean villages that access to radios, cement, piped water (which has improved greatly since the World Bank report was written), and increasingly to televisions, refrigerators, and community telephones is available. Throughout the country, farmers eat well, dress well, and send their children to competent schools, and it is becoming less and less unusual for villagers to have access to such urban prerogatives as vacations and to hire buses for sightseeing.<sup>78</sup>

Opponents of the regime sometimes argue that many of the statistics are faked and that development is largely confined to villages along the main highways.<sup>79</sup> There is only one method to deal with the allegation of fake statistics and that is direct observation. For this purpose, the writer

arranged a trip covering by land the length and breadth of Korea, including excursions far from the principal highways, and a series of excursions into rural areas a few hours from Seoul. The longer trip largely duplicated a trip the writer had made exactly six years earlier. As a base of comparison the writer used his knowledge of diverse rural development programs gained on trips since 1963 and the opportunity during 1978 to visit villages in Afganistan, Pakistan, Bangladesh, Sri Lanka, Thailand, Burma, Indonesia, the Philippines, Papua New Guinea, and Fiji, as well as a study of Brazilian development in 1977 and of Brazil, the Philippines, Zimbabwe, and Indonesia in 1980-'81.

It is true that villages along the main Korean highways develop first, and it may well be true that they receive higher proportionate subsidies than more distant villages. It is also true that rural life appears far less mechanized and far less modern than urban life. The World Bank studies indicate persuasively that agricultural productivity is less than urban and that underemployment is a larger problem in rural areas.<sup>80</sup> These things having been said, the transformation of Korea's villages in six years has been extraordinary. In 1978, no one interviewed by this writer could think of a village anywhere in South Korea which fitted Morley's description a decade earlier of people living as they had centuries before. Rural electrification does appear to be total, with the acknowledged exceptions of a few island areas. Piped water is being installed everywhere. Modern housing is now the norm. The scenes of Pakistani-level poverty have simply vanished in six

years. Given Korea's small farms and intensive rice agriculture, there are virtually no farmers who are well-to-do by Western standards, and indeed most are very poor people by American standards. But poverty by Asian standards has simply disappeared, and the prosperity of Korea's villages has Asian peers only in Taiwan and Asian superiors only in Japan.

One of the proudest claims of Korean rural development specialists is that rural income is now equal to urban income, a result that has not been achieved in any other developing country. More precisely, the statistics seek to demonstrate that a typical rural household earns about what a typical urban wage-earning household earns. (The distinction is important, because all rural families are included in the distribution figures, but a small percentage of urban households earning unusually high incomes are excluded.) As most observers have noted, these figures have to be interpreted with the understanding that rural households have more people (5.6 vs. 5.2 according to the World Bank, 5.9 vs. 4.9 according to the data of one Korean economist interviewed by the author,<sup>81</sup> and more members of the rural household work according to the World Bank, 2.9 members vs. 1.3 for the urban family). The government has raised farm prices and subsidized farm inputs, as well as organizing rural development programs like Saemaul Undong. The World Bank judgement is that South Korea's programs have prevented a widening of rural-urban income disparities, despite extreme economic pressures for such a widening, but that higher inflation rates have wiped out the apparent equalization of incomes.<sup>82</sup> This writer's personal observation suggests that farmers generally have more spacious housing and a more healthful environment

than urban workers, but that urban workers own more goods and are attracted by the more diverse social life in the city. Thus, South Korea's achievements in this area are somewhat exaggerated by claims that rural-urban equality has been attained, but the unembellished achievement is almost unique in the Third World.

The roots of this success are at first difficult to discern because they are so numerous. Miracle rice, and the ability of Koreans to employ new forms of miracle rice appropriate to Korean conditions, certainly helped. The government's shift to massive provision of rural credit, temporary subsidies of major farm inputs, and a deliberate shift of rice prices in favor of the farmers during the 1970s have all made a contribution. The successful land reforms of 1947 and 1950 made rural life difficult for a period, because of excessive land fragmentation, but were a key to the organizational success of later rural development programs; wherever land is maldistributed, rural development programs inure largely to the benefits of landlords and richer farmers.<sup>83</sup> A high level of education throughout the country facilitated the spread of new knowledge about rural development organizations, miracle rice, fertilizer, and other key programs. Nearly universal adult male experience in the Korean War yielded widespread familiarity with elementary construction techniques, thus facilitating the spread of knowledge about the building of roads, culverts, bridges and meeting halls. Army experience also contributed to villagers' ability to organize for decision-making and project implementation. (Many villages employ briefing charts of the style favored by U.S. colonels.) The early presence of a vast rural labor surplus was treated

by most observers of South Korea, as well as by virtually all commentators on rural problems in the Third World, as a major problem, but the South Korean programs turned this problem into an asset, utilizing underemployed labor as the primary resource of the Saemaul program. All of the accumulated education, organizational experience, exposure to urban development, and gradual postwar renewal of a sense of confidence and stability, contributed to a spontaneous upsurge of peasant interest in rapid improvement of living conditions. On the government side, a decade of investment in effective and honest administration systems began to pay off, and, responding both to presidential leadership and to village concerns, the administrative machinery was galvanized into greater and more responsive efforts.

Behind all these individual factors contributing to the success of South Korea rural development programs was the basic model of development chosen by the Koreans. A program of self-reliance like that of North Korea would have provided an effective heavy industrial sector, probably concentrated on the military, within the context of a lagging economy and a squeezed countryside. A relatively inward-oriented development, with an emphasis on patronage jobs and on a few high technology industries, would have created massive maldistribution of income and left most of the rural households in terrible poverty, as has happened in Brazil and Mexico, countries with higher per capita incomes than Korea. Instead, South Korea chose to accept the institutional discipline of an export orientation. It chose to smooth the income distribution and to maximize employment through rapid creation of efficient new industries rather than through patronage and welfare. The

result was a base of consumer industries whose economies of scale provided more goods and lower-cost foods, as well as higher income, to urban workers. This urban development in turn stimulated a demand for agricultural goods that greatly benefited farmers. This was how the South Koreans overcame the maxim that "Increases in agricultural output, ceteris paribus, hurt farmers."<sup>84</sup>

South Korean agriculture still faces problems of underemployment, of equity in comparison with an urban industrial sector expanding some seven times as fast as agricultural production, and the consequences of a severe inflation that has had disproportionate impact on rural people. In the meantime, however, it has made South Korea nearly self-sufficient in its principal staples, improved health and educational conditions, founded organizations which will eventually enhance the position of women in Korean society, and provided South Korea with one of the few rural areas in the Third World where there is little anti-regime feeling and no organized opposition at all.<sup>85</sup> South Korea has broken out of the classic vicious circles of underdevelopment, and has so far managed to solve the paradoxes that in other countries bring rural and urban development into conflict with one another.

#### Income Distribution

South Korean successes at industrial development, export development, and rural development would not have ensured success in distributing the resultant income fairly. In fact, conventional economic wisdom would hold that rapid growth during this phase of development should lead to maldistribution of income. Few patterns are better established in the economic literature than

the tendency for the middle phase of development, which South Korea is currently experiencing, to produce widening income inequalities. This generalization is customarily encapsulated in the concept of "U-shaped development," developed by Simon Kuznets to describe the phenomenon of relatively equal distribution at both primitive and advanced levels of development, with unusual inequality in the middle. Beyond this, it is common to believe that there is a tradeoff between high rates of economic growth and high degrees of social equity. For over a decade, many economists have been criticizing the pursuit of rapid economic growth because of its alleged costs in terms of social equity. If this generalization is true, then South Korea has compounded its problem by proceeding through the most inequity-prone phase of development with the world's highest rates of economic growth (outside OPEC).

The situation appears at first glance even worse than that, because the Korean government has few of the programs which are employed in the West to alleviate income maldistribution. Welfare programs are minimal. Government bureaucracies devoted to income transfers are small. A minimum wage was only introduced in 1977. Above all, union activities are discouraged, often quite forcefully, except when the unions are government or business controlled. If it is true that welfare programs and independent unions are necessary to provide workers with a fair share of the national income, then one could reasonably expect to find a particularly radical maldistribution of income in South Korea.

All of these considerations add up to an initial expectation that income distribution in South Korea should follow something like the Brazilian pattern. Brazil, like South Korea, chose in the 1950s an import substitution industrialization program and moved in the early 1960s to an export orientation. In Brazil, those and other government policies produced enclaves of extremely rapid development along the coast from Rio de Janeiro past Sao Paulo and created a period, 1967 to 1974, in which overall GNP growth averaged roughly 10 per cent per year. However, much of the population did not benefit proportionately, and the income distribution became so skewed that relatively senior managers came to earn far more than their American counterparts would earn, while the vast majority of the peasantry remained at subsistence level.

Moreover, patterns of distribution are extraordinarily resistant to change by government intervention. Adelman and Robinson constructed an econometric model of a developing country, based on the Korean economy, with the following results:

Our major conclusion from the policy experiments is that the time path of the size distribution of income is exceedingly stable. Under a great variety of experiments, many of which involve quite sizable interventions, there is a marked tendency to return to the basic-path distribution. Even when the policy or program is sustained over time, it is quite rare that there is more than a 10 per cent change in the Gini coefficient, or that a percentile share is altered by more than 20 per cent after about 10 years. Except for transfers, most single-policy



interventions, even when quite large, do not have lasting effects. Transfer policies, though to some extent effective, are potentially of quite limited scope in most less-developed countries.<sup>86</sup>

Elsewhere they conclude from this that, "The distribution of income is very difficult to change. More specifically, (this) implies that to achieve greater equity there must be either (1) truly enormous efforts, far larger than those reflected in these experiments, that work within the given economic system or (2) structural changes in the system's distribution of assets or in its basic rules of operation, or both."<sup>87</sup> Adelman and Robinson concluded that there was a strong pressure for deterioration of the income distribution under the conditions present in the basic path of the Korean economy.<sup>88</sup> Similarly, the World Bank study concluded that the tendency of the urban economy to grow faster than the rural economy, and the tendency of the urban economic activity to shift from the egalitarian rural economy to the somewhat less egalitarian urban economy, create pressures for deterioration of the income distribution.<sup>89</sup>

On the other hand, South Korea did have advantages deriving from the catastrophes of the late 1940s and 1950s. The disastrous disruptions of the economy occasioned by World War II, by the partition of the country into north and south which deprived South Koreans of access to most of Korea's heavy industry, by the land reforms of 1947 and 1950, and by the leveling of both the industrial and agricultural economies during the Korean War, all disrupted production but smoothed the income distribution. The wealthy lost their

wealth. The landlords lost their land. The merchants lost their markets. The industrialists lost their factories. The value of bonds given to landlords in compensation for their factories was obliterated by the war.<sup>90</sup> In short, the South Koreans became by 1955 a people among whom the contents of an empty bowl had been distributed quite equally. This is very much within the Korean tradition. Korea has for most of history been a very poor country and a country of unusual social mobility.

South Korea also approached the problem of income distribution with a second asset: extraordinary cultural homogeneity. Many of the inequities of other societies derive from cultural or ethnic differences (e.g., the special capacities of Nigeria's Ibos) or from waves of conquest or immigration (e.g., much of Europe and the U.S.) or from caste differences (e.g., India). South Korea possesses no distinct cultural, ethnic, immigrant, or caste groups. This provided South Korea with an advantage--if it was properly exploited. As indicated below, South Korea exploited its advantages to the fullest.

Income distribution policy has had to solve two basic problems: first, reducing the number of people living in extreme poverty and those who are unemployed; second, maintaining an overall egalitarian distribution of income.

The most important form of income inequality is the total lack of income caused by unemployment. Unlike most developing nations, South Korea has not only focused its income distribution policy on eliminating unemployment, but has emphasized creating new jobs through the building of efficient, competitive new industries. As a result, South Korea not only went from the serious unemployment mentioned earlier to the virtual elimination of most

unemployment (i.e., a 4 per cent rate of unemployment in the late 1970s), but also avoided the characteristic Latin American pattern of providing jobs in inefficient government or government-owned sectors. (This latter pattern leads to a sluggish economy, with massive unemployment and a sharp division between the high incomes of the protected government sectors and the unprotected mass of the people.) The World Bank concluded that, "Rising employment has been the most important instrument for achieving an equitable distribution of the benefits of growth in Korea. Real wages for the economy as a whole grew 7 per cent per year between 1963 and 1975, with manufacturing wages growing 8.5 per cent per year.<sup>92</sup> Real wages doubled between 1964 and 1971<sup>93</sup> and more than doubled again during the 1970s. The difference between this high rate of wage growth and the higher overall growth of the economy was employed to create new jobs. Of course, because the unusually rapid growth in wages began from a subsistence base, wages were low by Western standards even in the late 1970s; in December of 1977, average monthly earnings of regular employees in mining and manufacturing industries amounted to 101,561 won, or about U.S. \$200.00 per month.

Korean policies were not oriented toward providing welfare programs, unions, and transfer payments. They were oriented toward providing high returns to capital in order to stimulate growth, incentives for labor-intensive industries, labor mobility, and rapid training through both formal and informal education, and in general assuring employment and prosperity for the long run through discipline and competitiveness. As a result of these

policies, very high levels of investment were attained, averaging 26 per cent of GNP from 1963 to 1975,<sup>94</sup> and thus industrial employment increased rapidly. "Wage disparities did not arise among sectors; labor was efficiently allocated among sectors; and there were not large and growing pools of wasted labor in the form of unemployed workers. On the contrary, unemployment rates declined through much of the 1960s."<sup>95</sup> High interest rates, and the absence until recently of a minimum wage, provided incentives to build labor-intensive rather than capital-intensive industries. After most unemployment was soaked up by the growing economy, wages began to rise considerably faster, and a minimum wage was established. In 1977, the minimum wage was 20,000 won per month and in 1978 it was raised to 30,000 won per month, or about \$60.00. Employment rose so fast that a shortage of skilled workers developed, and by 1978 a fresh college graduate could expect to make US\$340 to \$380 per month, plus a bonus of four to seven months' wages each year.<sup>96</sup> (For comparison, the World Bank definition of absolute poverty--or subsistence--in Thailand is \$90-120 per year and in South Korea is \$138 per year.)<sup>97</sup> Despite the absence of unions, "Real wages have grown in line with the increases in labor productivity."<sup>98</sup> The absence of anti-poverty and welfare policies has not caused inequalities to develop; on the contrary, simulations by Adelman and Robinson of the Korean economy led to the conclusion that:

Most anti-poverty policies eventually help the rich and middle income groups more than they help the poor. This is so even when, as in our experiments, the rich are taxed quite progressively to finance the programs, the programs are designed so that their initial impact is quite

specific in favoring the low income groups, and there is no graft, corruption, diversion, or stupidity in their execution. This trickle-up effect was evident in a great many different policy experiments and is difficult to avoid.<sup>99</sup>

They also found that, "Contrary to popular belief, increasing the share of wages does not necessarily imply either a more equitable distribution of income or a reduced incidence of poverty in the economy."<sup>100</sup>

Education policy has made a major contribution to South Korea's income distribution programs. Until the late 1970s, South Korea placed an overwhelming emphasis on providing a quality primary education to all South Koreans, rather than emphasizing development of advanced technical skills among a small sector of the population. This provision of an equal level of basic education to the entire population was believed by South Korean economic planners to be the single most effective way for any developing country to ensure a relatively smooth income distribution. In South Korea, the provision of equal education is carried to an extreme which many Westerners would regard as nearly Maoist. For instance, in the major cities, students are allocated to schools by computer, in order to prevent the development of elite schools. High schools are prohibited by law from classifying students by ability, with the result that people in the bottom 30 per cent are mixed in classes with those in the top 10 per cent. When it was discovered that five private secondary schools were providing up to half of the successful candidates for the best universities, President Park Chung Hee ordered all five schools permanently closed.<sup>101</sup>

In addition to formal schooling, the military conducts a great deal of training which primarily benefits the poor (since the wealthier soldiers are already trained). Nearly every soldier leaves the military as at least a second-level technician. After a man's compulsory service, he has the right to enter various voluntary training programs. Until recently, this assured a substantial level of training to nearly all male South Koreans, but in recent years the army has become relatively smaller and more selective, usually not drafting men with only six years of primary education. While this was occurring, however, the rise of new schools, and the establishment by all leading industrial enterprises of industrial training programs, have taken up where the military left off. The net results of all these education programs have been, first, that the whole population was provided the skills necessary to move into a semi-modern economy and, second, that the ideal of equality of opportunity has been approximated to an extent unmatched in the West.

Taxes. A second major tool of income distribution policy is the country's tax structure. South Korea's tax structure is highly progressive.<sup>102</sup> Adelman and Robinson computed that the income tax, and transfer payment system increases the lowest decile's income by 15 per cent and reduces the top decile's income by 5 per cent. Only the top quarter of workers are subject to the payroll tax, and farmers pay only a land tax amounting to 2 per cent of GNP on agricultural value added that constitutes 40 per cent of GNP.<sup>103</sup> The maximum income tax in 1978 was 70 per cent, plus an additional 20 per cent of that amount assessed as a defense surcharge,

yielding a maximum tax of 84 per cent. In addition, residents of Seoul, who include a high proportion of the more prosperous residents of South Korea, pay an additional 3 per cent of their income to amortize eventual relocation of the capital city. Thus the maximum tax is 87 per cent of income, a substantially higher figure than in the United States. The progressive effects of the income tax are increased marginally by a progressive inheritance tax.

South Korea's indirect taxes, which provide about two-thirds of all tax returns, are extremely progressive. Basic public services are heavily subsidized. Bus fares in Seoul cost about two cents. Government expenditures on infrastructure, and subsidies of such things as rural housing materials, are weighted more heavily toward the needs of the rural and urban poor than in most countries. An extremely high tax on houses which the owner does not live in discourages real estate speculation and spreads home ownership. The tax system greatly increases the costs of all automobiles (in 1978, a locally-produced four-cylinder Pony cost \$4,000, half of which was tax) and in 1978, made the prices of six cylinder automobiles start at about U.S. \$26,000.<sup>104</sup> Luxury is further taxed by charging \$3.88 per gallon of gasoline (as of April 1981). While there are no systematic studies of the net impact of the indirect tax system, which provides more than two-thirds of South Korea's tax income, the progressive impact is visible throughout Korea, in the absence of large cars, in the kinds of housing people have, in the way people dress, and so forth. Anyone familiar with other Asian societies (except Taiwan, where there is also an egalitarian distribution) cannot help but notice the difference.

The government has also been attempting to distribute ownership of the large corporations which increasingly dominate South Korea's industrial structure. Beginning in the early 1970s, the government informally encouraged the jaibul to sell their stock on the open market. This informal encouragement did not have the desired effect, so the government decreed that any firm about a certain size would be required to sell its stock on the open market. The rule itself has had some favorable distributive impact, but the largest distributive impact so far has probably come from the efforts of the large firms to dodge the rule by donating large proportions of their assets to charitable organizations. (The effect is similar to the results of incentives in the United States for large firms to create non-profit foundations.) The firms have taken advantage of strong incentives for internal research and development investments, which created new jobs. They have created massive foundations to improve social welfare, principally by providing technical education and health services. Hyundai, for instance, gave about 50 per cent of the owners' stock to a foundation for the purpose of building hospitals in the countryside.<sup>105</sup>

The World Bank report notes that, "there is government pressure to improve the earnings levels of the lower wage groups."<sup>106</sup> A ban during the Park era on color televisions, despite domestic production capacity of 1.2 million per year, which is underutilized for exports, is designed partly to avoid creation of social distinctions.<sup>107</sup> The government maintains lists of wealthy individuals, who are pressed to make large donations for social services. When there is a drought, the wealthy are pressured to pay for



irrigation systems. When there is a flood, the wealthy are pressed to pay for pumps. Given the political system of South Korea, and the pervasive role of the government in the economy, these pressures are considerably more effective in South Korea than requests for contributions to the United Way in the United States. Each year, the government provides the newspapers with a list of the 200 richest men and how much tax they paid, in an effort to bring social pressure on the wealthy. When Chun Doo Hwan took power he immediately relieved many senior political and bureaucratic figures of wealth they had acquired through political influence. Conspicuous consumption is conspicuously ridiculed, and government officials who put on fancy weddings, or corporate executives who live in big houses, know that they do so at the risk of being passed over for promotion or for contracts. As a result, while there are millionaires in South Korea, there are few fancy cars and few lavish houses. These strictures against conspicuous consumption do not change the income distribution, but they express a philosophy far more egalitarian than even the views of the liberal left in American politics.

South Korea's rural policies have been as egalitarian as its urban policies. As the table on distribution of farm sizes indicates, the legacy of the land reforms of 1947 and 1950 has been maintained. Massive efforts to improve rural terms of trade with the cities have maintained the relative position of farmers, despite the tendency in most other economies for the position of farmers to deteriorate with development. As mentioned earlier, the structure of the South Korean economy has tended to raise demand for agricultural goods and to improve the relative positions of farmers, whereas

the less open economic policies of most developing countries have the opposite affect. Adelman and Robinson have called attention to the ameliorating influence on poverty of the kind of rural-urban migration that has occurred in South Korea. "In general, the incomes of the urban poor are much higher than the incomes of the rural poor, so that one would expect migration to alleviate overall poverty."<sup>108</sup>

This migration phenomenon is the key to one of the great paradoxes of Korean economic development, namely that rural household incomes have roughly kept pace with urban household incomes (with a slight lag, as noted below), despite the fact that the growth of the rural economy has been a fraction of the growth of the urban industrial economy. Part of the answer to the paradox is that the poorest rural people, who are also the poorest people in the society, have migrated to the cities and have improved their incomes by becoming the poorest people in the cities. This improves the rural distribution of income. However, once in the industrial sector, the worker then becomes a beneficiary of that sector's enormous social mobility.

The net impact of rapid economic growth and of the extraordinary social mobility of South Korean society does not become clear as long as one merely examines abstract numbers. It is therefore useful to translate the phenomenon into American terms. Suppose that an assistant professor at one of the better American universities was making \$15,000 in 1963 and that he received until 1980 the same average increase in wages that an average manufacturing worker in South Korea has received, namely 8.5 per cent per year. In 1980 that assistant professor would be making \$60,000 per year. But that calculation

assumes that the man has remained an assistant professor. In fact, it is extremely unlikely that a man would remain an assistant professor for 17 years in the United States, and it is far less likely in the extraordinarily mobile society of South Korea. If the man had been promoted to full professor with a typical doubling of income, he would be making \$120,000. Such a comparison understates the impact on a manufacturing worker's life in South Korea for two reasons: first, mobility is far greater in South Korea than it is in the United States; second, the transition from a near-subsistence income to a lifestyle that for the first time includes adequate shelter, adequate food, and some amenities such as plumbing, is far greater than the change in standards of living implied by a proportionate improvement in income in the United States. Despite enormous gains, Koreans of course remain, on average, poor by American standards, and, despite the gains, few Koreans are satisfied with their standards of living. Rapid modernization creates more expectations that it can satisfy. But gains on this scale must be weighed against the allegations of sweatshop labor and the deceptive citation of what appear to Americans to be very low wages as evidence of exploitation.

Despite the general egalitarianism of South Korea's rural distribution of income, of its urban distribution of income, and of its relationship between urban and rural areas, there are some extraordinarily rich men in South Korea. South Korea has attempted to maintain simultaneously a policy of egalitarian overall income distribution and of strong incentives. The system has achieved both goals in any statistical sense, but one result is the emergence of a number of particularly spectacular exceptions to the general egalitarian rule.

The most striking exception is that of Chung Ju-yung, chairman of the Hyundai group. In 1977, his income was \$16.5 million, more than the highest paid Japanese and American executives.<sup>109</sup> There are very few such individuals, and while they come under extraordinary pressures to use their income in socially helpful ways and to surpass any instincts they might have for conspicuous consumption, their spectacular incomes go far to explain the sharp differences which exist between the South Korean's pride over its success in smoothing the income distribution and the opposition's fervent denunciations of widening income disparities.

One of the strongest issues the opposition holds against the Park Chung Hee government is a feeling that the income distribution is deteriorating. Some opposition members denied to this writer that the economic growth was real, and claimed it was based upon falsified statistics; that view, however, is largely confined to students and a small number of faculty members who are able to ignore obvious signs of prosperity. A larger number maintains that the gains in prosperity have been overstated somewhat because the government's indicators tend to understate inflation; that view appears to have some validity, but the understatement of inflation is not sufficient to change basic trends described earlier. The most common complaint, which is employed by a majority of strong opposition figures interviewed by this writer, is that the income distribution is deteriorating.

Both the government and opposition are hampered in debating income distribution by the absence of adequate income distribution statistics. The evidence cited by responsible opposition figures virtually always consists of

references to the presence of business tycoons heading the major trading firms and also to the presence in Seoul of unskilled workers earning only \$100 per month. Another concern is simply the absolute low level of standards of living; "(Kim Dae Jung) said that 60 per cent of families in Seoul do not own their own houses, workers are paid a pittance for backbreaking labor, and inflation is cutting down middle class income. If the government is so confident of its economic achievement, he asked, why should people abandon their farms to crowd into Seoul?"<sup>110</sup> The resentment of business tycoons appears to an important political phenomenon, even though its statistical significance in the overall distribution of income is very low. After Park's death, both Kim Dae Jung and Chun Doo Hwan, in different ways, tapped this resentment to gain political support. The resentment of low standards of living is an expected consequence of the raising of high expectations, based upon previous success and based upon opposition leaders' awareness of the standards of Japan and the United States, but no leader has made a serious case that the government's economic performance has been bad or that alternative policies could have made it substantially better.

The more scholarly argument is that income distribution is deteriorating in the urban areas, due to the rise of business tycoons and the obvious presence of substantial numbers of unskilled workers earning about \$100 per month. Moreover, it is argued, the urban sector is doing better than the rural sector, and the movement of people from the more egalitarian rural sector into the less egalitarian urban sector must mean an increase in inequality. While these facts are considered an increase in inequality, the

conclusion does not necessarily follow. As noted above, the movement of the poorest people out of the rural areas improves the distribution of income in the rural areas. The improved income of the same migrant as he becomes part of the urban poor, rather than part of the still poorer rural poor, improves the overall distribution of the country. Rural development programs appear to have kept the growth of the agricultural sector household incomes roughly in tandem with the growth of urban household incomes, even though they have not closed the gap between the two sectors. Reduced unemployment improves the income distribution.

Having addressed the principal issues in the urban sector, in the rural sector, and between the two sectors, it is appropriate to examine the overall statistics collected by various economists. All economists start from the acknowledgement that the previous Korean system for collecting economic statistics, designed by Richard Stone of Cambridge, does not provide detailed income distribution statistics. A new system, designed by the World Bank Development Center, will eventually provide such statistics, but it is not in place. Nonetheless, Adelman and Robinson were able to construct a size distribution of income for 1964-1970, based on available data, and to demonstrate that it was insensitive to alternative assumptions consistent with the same data.<sup>111</sup> They concluded that, "the distribution of income in Korea is among the best in the developing world. The results of the time series analysis suggest, in addition, that there was little change in the overall size distribution of income between 1964 and 1970, despite some changes in composition."<sup>112</sup> The analysis shows that "the money incomes of the poorest

20 per cent of the household rose 333 per cent and their real incomes more than doubled. Between 1964 and 1970 the real wage rates of production workers in manufacturing rose more than 85 per cent and those of wage earners in agriculture doubled. The real incomes of the poorest quintile of farm households increased 150 per cent.<sup>113</sup> Similarly, the World Bank concluded that:

the distribution of income in Korea is among the best in the developing world. A survey in 1970 showed that the bottom 40 per cent of the people in Korea received 18 per cent of the total income, and the top 20 per cent of the people received 45 per cent of the total income. Information on 45 developing countries shows that these shares are more egalitarian than in most other developing countries. Second, it would appear that there was no significant deterioration in the distribution of income at least until 1970, although, on the basis of cross-section evidence, one would have expected an increase in inequality during this period.<sup>114</sup>

These figures are confirmed by various sample surveys of household consumption patterns.

The most widely accepted major income distribution is the Gini index, which compares the distribution of income in a given country with perfect equality. A Gini index of 1.0 would indicate that one individual owned all of the wealth in a country, while a Gini index of 0.0 would indicate that all individuals in a country had identical incomes. Table 2-7 displays the Gini indices for selected non-communist countries, on the basis of the most

authoritative publication on the subject, a World Bank study published in 1975.<sup>115</sup> In every case, the figures shown are the latest nationwide figures available. Where there are alternative figures available for that year, the table displays a range of variation. South Korea's Gini index for 1971 ranges from .2718 to .3601.

In comparison with a group of relatively right wing developing nations, the Republic of Korea is by far the most egalitarian--as indicated by the figures for Brazil, Indonesia, Kenya, Mexico and the Philippines.

The next group of countries is group of relatively left-wing developing nations, whose national policies are known for a greater emphasis on income distribution than the right-wing countries. Once again, South Korea's income distribution is superior to any of the other developing countries, except that there is some overlap between the top figures for south Korean inequality and the bottom figures for Sri Lankan inequality. Sri Lanka achieved this egalitarianism by means which inhibited growth and kept most of the population at a near-subsistence level. Now Sri Lanka is changing its policies in ways that parallel South Korean policies.

The third group of countries in the table consists of typical Western developed economies, with a range of typical Western policies consisting of labor unions, welfare systems, minimum wages, and the like. France is one of the least egalitarian of the western democracies, and the United States falls in the middle. South Korea is substantially more egalitarian than any of these.



Table 2-7. Social Inequality: Gini indices for Selected Non-Communist Countries

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Republic of Korea (1971, HH)	2718-.3601
Brazil (1970, IR, HH, EAP)	.5770-.6409
Indonesia (1971, IR)	.4625
Kenya (1969, IR)	.6368
Mexico (1969, HH)	.5827
Philippines (1971, HH)	.4941
India (1967-68, HH)	.4775
Peru (1971, EAP)	.5941
Sri Lanka (1973, HH, IR)	.3530; .4092
Tanzania (1969, HH)	.5973
France (1962, HH)	.5176
Sweden (1970, IR)	.3872
United States (1972, HH)	.4171
Australia (1967-68, HH)	.3185
Canada (1965, HH)	.3333
Japan (1972, IR; 1971, HH)	.3106; .2873-.4223
Libya (1962, HH)	.2674
Taiwan (1972, HH)	.2843

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Source: Shail Jain, Size Distribution of Income: A Compilation of Data (Washington, D.C.: World Bank, 1975). In all cases, the most recent national sample has been used; some samples are by household (HH), others by income recipient (IR), others by economically active population (EAP).

The final group of countries displayed in Table 2-7 is a list of all non-communist countries which claim income distributions better than the typical findings of South Korea. Of all the non-communist countries in the world for which data are available, only five make this claim. Several of these have peculiar characteristics which make them unusual--Japan's expense account economy which may mask income maldistribution, Libya's oil and exotic political system, and Australia's British-model political economy which ensures an uncompetitive economy and rising class strife.

No reputable western economist has challenged such figures, but the presence of such an extraordinary degree of social equality in a country regarded as right wing appears incongruous to many people. Politically committed scholars have tended to ignore the data. For instance, in response to General Stillwell's citation of the favorable income distribution of South Korea, Franklin B. Weinstein wrote, "I fail to see what purpose is served by hyperbole, such as General Stillwell's that South Korea has 'effected a distribution of income more egalitarian than most any other country of the world.'" More often, Western scholars unsympathetic to the South Koreans cite the absence of Western levels of income or Western institutions such as independent unions. A distinguished historian wrote as follows: "As a class, workers live on on near subsistence level, often in severe poverty. Rapid economic development has created a constantly expanding body of jobs, but the availability of ever-ready pools of new rural migrants helps to keep wages low and inhibits the organization of unions and other institutions to secure basic improvements in wages and working conditions. And if by chance an organizing

effort should look promising, it is sure to be broken up by an army of Korean CIA agents..."<sup>116</sup> He concludes from such evidence that "in an economic development based on the trickle-down effect, very little trickles down."<sup>117</sup> The best that can be said for such views is that, first, no economist would support the argument that Korean workers live on a subsistence level; second, the soaking up of the unemployed was a major achievement and not an appropriate object of criticism; third, the organization of unions would almost certainly have inhibited the soaking up of the unemployed as it has in Mexico; fourth, it is virtually impossible to make an economic case that unions would have raised living conditions faster for the majority of the Korean poor; and, fifth, while the breaking up of unions may be a valid political criticism, it does not support Ledyard's economic thesis. The fallacy behind such views is the mistaking of conventional western means (unions, welfare, transfer payments) for the South Korean ends (improving standards of living and distribution). The conclusion that very little trickles down is radically inconsistent with every study that has been done of wages in South Korea.

This having been said, the precise direction of current income distribution trends is unclear. Until the new statistical system is established, analysts will remain dependent on occasional World Bank studies and academic sample survey and modeling efforts. Most Korean dissidents are absolutely certain the distribution is deteriorating, but their evidence is spotty and in no case takes adequate account of mobility and migration from

one sector to another. Some government spokesmen maintain that there has been a dramatic trend toward equalization, due to rising rural incomes relative to urban, but they seem to have neglected the impact of differential inflation. The most careful statisticians, such as the former Director of the Economic Planning Bureau, Kim Jae Ik, simply acknowledge that the evidence is inadequate for either side to prove its case. The World Bank study does suggest that accumulated wealth (as distinguished from income) "is probably more unequal now (1977) than it was 10 or 15 years ago."<sup>118</sup> It is difficult to judge the consequences for distribution of the severe inflation that occurred in 1979-'81. The important point for the policy analyst today is that, even if the pessimists are correct, any deterioration would be very slow and would not affect for many years South Korea's egalitarian standing relative to the rest of the world. From the standpoint of today's political stability, what is important is South Korea's current egalitarianism. The importance of current trends is modified by the slow rate at which they would affect the overall distribution and also by the likelihood that the government would act decisively to counter proven unfavorable trends, as it has done for low-paid workers and for farmers in the past.

In short, South Korea has achieved one of the world's smoothest distributions of income, despite odds heavily stacked against such an achievement. It has largely overcome the historical pattern of U-shaped development. It has by-passed the supposed tradeoff between high growth and economic equity. It has achieved its egalitarian distribution with an export-oriented strategy that many Third World economists have attempted to

associate theoretically with a tendency toward maldistribution of income. It has even managed to surmount major pressures within the South Korean economy, as indicated by all econometric models of that economy, for income distribution to worsen over time. It has accomplished all this in part by eschewing precisely those methods--unions and welfare programs--most frequently employed in the West to achieve the same goals. In South Korea, the engine of growth is also the engine of income distribution:

In general, successful export promotion results initially in an increase in the incomes of urban groups, especially urban workers, without a significant decline in the domestic supply of urban goods. The increased income leads to differential increased demand for goods, especially because the marginal injection gives more income to poor urban groups, which spend relatively more of their budget on food. The result, an increased relative demand for food without an increase in supply, results in a significant shift in the terms of trade in favor of agriculture. The change in the terms of trade transfers income to rural groups, which tend to spend an even larger share of their income on agricultural goods. The ultimate outcome is that the benefits of the export promotion accrue in large part to rural groups."<sup>119</sup>

This achievement of a social goal, egalitarian income distribution, which is the characteristic goal of the political left as understood in most of the world, clashes sharply with the image of South Korea as a right wing regime. The right-wing image is partly valid, reflecting accurately the pro-American, fervently anti-communist international posture of the government, as well as

the heavy emphasis on trade and business in the political and economic strategy of the regime. But the clash between reputation and achievement as regards the distribution of income reflects the inadequacy of the international categories of right and left. Syngman Rhee is remembered for his anti-communism, but even students of Korean affairs are often shocked when reminded that he ran on a socialist platform and was an acceptable candidate to the left wing of Korean politics immediately after World II.

While the methods used to achieve income distribution in Korea eschew the methods of the West, and therefore do not raise questions of economic equity, those methods do raise the questions of political viability and political ethics. The foregoing survey of the educational, military, urban growth, rural growth, and income distribution institutions of South Korea reveals them to be extraordinarily effective, unusually innovative, and unusually adaptable to crises. It is appropriate to turn now to a set of institutions where the results are more mixed, namely South Korean political institutions.

## III

## POLITICAL INSTITUTIONS

There are two ways to evaluate Korea's political system. One way is to analyze its degree of institutionalization, that is, the extent to which it possesses, the personnel, structures, cohesiveness, purposefulness, innovative capacity, and adaptability to survive and lead the nation. The second way of analyzing it is to judge whether its structures and methods conform to central American political values and more generally whether the institutions are one that Americans can approve and support. The two kinds of analysis are not unrelated, but they are analytically separable. This chapter addresses the question of institutionalization, while the next chapter addresses the issue of approval and support.

By any standards, South Korea of the 1950s was a primitive polity. While a fervent sense of nationality existed, that sense of nationality was pan-Korean, ideologically fractured between extreme right and extreme left, and lacking in even the most elemental consensus as to the appropriate means of governance. Outbreaks of rural and urban violence were common. The last days of Syngman Rhee, and every month of the brief democratic government which followed Rhee in 1960-'61, saw an endless series of massive student demonstrations in all the major cities. Political parties, government ministries, and the military and police were all divided into contending

factions that more or less immobilized them. Government jobs were perceived almost entirely in terms of patronage and personal power: "In less than 12 years, Rhee consumed 129 ministers and prime ministers. The bureaucracy itself swelled to over 300,000 by 1953 to accommodate the power race. For the undivided peninsula Japan has used 95,385 officials as late as 1938."<sup>120</sup> Bribery and corruption were massive and omnipresent.<sup>121</sup> As Henderson noted, "High rank tended to be destructive rather than formative of an elite. Tenure lasted mostly months, sometimes weeks."<sup>122</sup> Because of the debility of its governmental as well as its economic institutions, Korea had "the second worst known record in getting her specialists back" from foreign training in the United States.<sup>123</sup> In short, South Korea had few political assets, aside from cultural identity, and a collection of institutions notable only for extraordinary corruption and incompetence even by Third World standards.

Modern political institutions should provide a nation with a sense of identity, a common ideology, a consensus on the appropriate structure of government, a generally accepted system for resolving political or other disputes, an agreed method for determining the succession of top leaders, an assured supply of talented officials who are effectively used, and a high degree of administrative efficiency and honesty. South Korea's polity has achieved some of these qualities but not all of them. Its polity is highly developed by comparison with most African countries, but quite immature by comparison with most west European nations. Its political institutions are less developed than its educational, military, and economic institutions, and are therefore the most vulnerable part of the South Korean system. For this



reason, it is particularly important to explore exactly what South Korea's polity has and has not achieved.

South Korea under Park was led by a president, elected indirectly through an electoral college known as the National Conference for Unification (NCU). Members of this Conference were locally elected, but had to be nonpolitical figures. In the eyes of the government, this requirement ensured a certain selfless objectivity, but its primary political consequence was to turn the election into a referendum on President Park's leadership, rather than an electoral contest between an organized incumbent party and an organized opposition party. In the 1978 election, there were no valid votes cast in the NCU against Park Chung Hee. This result did not reflect corruption or miscounting of votes, but it did reflect the degree to which the system was stacked against an opposition leader. This kind of result is characteristic of elections which are primarily referenda on the top leader, rather than elections between two organized parties; for comparison, it is worth noting that President Marcos in the Philippines can obtain upwards of 90 per cent of the votes in every referendum, although it is generally conceded that he would have been defeated in the 1972 election, which was never held due to martial law, and although his party had to resort to extreme methods (corruption, miscounting of votes, and a short campaign which gave the opposition little opportunity to organize) in order to defeat the opposition party decisively.

The National Conference for Unification also elected one-third of the National Assembly, while two-thirds were popularly elected. In the 1978 election, the ruling Democratic Republican Party gained more seats than the

principal opposition, the New Democratic Party, but the New Democratic Party obtained a higher percentage of the vote. In that election, opposition parties and independents obtained 68.3 per cent of the vote as compared with the ruling party's 31.7 per cent of the vote.

To an American, the most noteworthy feature of the South Korean political system to an American is that only a hapless chief executive could be defeated by any opposition, because that opposition would need to clear the hurdles of extremely constrained campaign rules and the indirect electoral system. But other characteristics of the system were also of great significance, particularly because of their long-run implications. The system did--and does--permit the existence of an organized opposition--albeit one funded by, and with leadership constrained by, the government. It permits a press which is constrained but sometimes critical. The 1978 election and others were conducted with notable honesty, given the formal constraints. The principal opposition party was allowed to defeat the governing party in terms of votes cast, and the combined opposition was permitted to win overwhelmingly in terms of votes cast.

The new Constitution implemented by Chun Doo Hwan in 1981 formally liberalizes some aspects of Korea's governance, broadening the base of the National Council on Unification; establishing a single-term limit for the President; re-instituting habeas corpus; and strengthening the powers of the National Assembly and the judiciary. The initial effect of these changes was small, because they were made in the context of very firm military control and of dismissal from political life of all the leading opposition political

figures. The first leader of the official opposition was an exceedingly docile figure. Thus, the results of the liberalization, while they could eventually become quite significant, remained to be seen and depended very heavily on the spirit with which Chun Doo Hwan eventually implemented them. A great deal will depend on whether President Chun respects the one-term limit, which requires him to step down in 1988, and/or the ways in which his successor is designated. South Korea has hitherto lagged behind even such military regimes as Brazil (1964-1980) in institutionalizing the successor.

These characteristics differentiate South Korea sharply from the western democracies; given the constraints on political expression, opposition organization, and on the opposition's ability to convert votes into high political office, South Korea is emphatically not a democracy. On the other hand, these characteristics differentiate South Korea at least as decisively from such totalitarian states as North Korea, China, and Vietnam, and also from the characteristic one-party states and dictatorships of most other Third World countries. Most of these do not permit an organized opposition and certainly would not permit it to win a majority of the votes.

During the 1940s and 1950s, one of the most obvious characteristics of South Korea's political system was its extraordinary degree of ideological division. Each ideology from extreme Confucianism to extreme Maoism appeared to possess some substantial following. By the 1970s these ideological divisions had greatly narrowed. Reaction to the extreme brutality of the North Koreans during the war, and against the totalitarian methods of the North, combined with Syngman Rhee's suppression of the left to create a nearly

universal anti-communist sentiment. Through the mid-1960s, this sentiment was moderated by a feeling that the system of the North was providing superior security and economic prospects, but the successes of the late 1960s and the 1970s removed most such qualms. Those successes also produced other aspects of consensus. The basic export orientation of the economy became widely accepted. (A comparison with Argentina indicates how important that consensus is.) Both the principal means to growth and the principal means to distribute income became matters of wide, although seldom articulated, consensus--- notwithstanding the complaints of the contemporary opposition about the income distribution.

This consensus produced a marked improvement in South Korea's long-term political prospects, but it is by any calculation a somewhat truncated consensus. It is fundamentally an anti-communist consensus on particular economic tactics. It is not a positive consensus in favor of some other ideology, such as democracy or fascism or Islamic fundamentalism. While there is general acceptance of the basic concepts of democracy, there is no consensus as to how those concepts should eventually be implemented. The government believes security, economic growth and economic egalitarianism to be more important than Western-style elections and parliamentary power, and believes that the opposition carries with it a danger of chaos, stagnation, and military vulnerability. The opposition proclaims democratic means as an alternative criterion of politics and morality, and asserts that it could achieve greater egalitarianism and equal or greater economic growth, along with equal security. The result is a relatively organized political division,

which parallels the structural divisions mentioned above: the substantial scope given to the opposition mirrors respect for democratic ideals, while the protected position of the administration reflects a priority for economics and military security over parliamentary democracy. In short, both South Korea's ideological divisions and its organizational structure institutionalize a deeply rooted ideological ambivalence. The degree of consensus is formidable: in discussing North Korean proposals for reunification, and in discussing particular economic policies, the government and the opposition use the same values, vocabulary, and policy positions to a degree that anyone familiar with most other countries will find extraordinary. On the other hand, the extent to which both governing elite and opposition believe that the other party represents a fundamental threat to sacred values, and even to the survival of the system, is equally noteworthy. South Korea thus lacks the ethnic divisiveness of most nations, and has made great progress as compared with the early 1950s in forming an ideological consensus. If the truth be told, the consensus extends to disregard of democratic norms, during 1980, emissaries of Kim Dae Jung toured the U.S. demanding privately that the U.S. ensure the election of Kim Dae Jung. Asked if that would not be imperialistic and undemocratic, these emissaries invariably replied that such considerations were irrelevant, since the choice was between good and evil. However, Korea has a long way to go in forming either a positive ideology, or an awareness that the contending parties agree on more policy issues than they disagree about, or an agreed balance among the central values of security, prosperity, egalitarianism, and democracy.

The degree of ideological consensus achieved under Park Chung Hee had its most outstanding success in defining a role for the military. Unlike Latin American militaries, which are often highly politicized, deeply divided along ideological lines, and unprofessional because of their politicization, during most of the 1960s and 1970s the South Korean military had achieved nearly total professionalism and a certain aloofness from politics. Although the Park government was an offshoot of the military coup of 1961, the formal civilianization of the government after 1964 was followed by the gradual assumption of nearly complete civilian government. In 1981, the military seemed again to be receding into the background, although a crisis could reverse that trend. Within the military, there is a conservative professional consensus reinforced by the omnipresent sense of immediate military threat from the North.

The military's role is limited in normal times because the civilians are competent and because the military has important tasks to perform. In 1961, the military was not only the formal leading institution of the country, but also the most efficient and most modern institution. Today, the civilian government and the industrial sector are equally strong institutions, and the business sector is by all accounts the preeminently modern and dynamic sector. The achievement of military unity, and the balancing of three such modern institutions in distinctive roles, are achievements matched by few Third World countries.

For purposes of this chapter, the most obvious cases for comparison are the Vietnamese military, which was an archetype of incompetence,

politicization, and factionalism; the Iranian military, which was so deeply divided in the crisis of late 1978 that it could not be deployed in support of any political force; and various Latin American militaries, which typically lack military tasks and are drawn into politics by the incoherence and incompetence of civilian political institutions.

In terms of organizational effectiveness, the South Korean government has been more unambiguously successful than in terms of ideological unity. A government which is relatively small both in terms of proportion of the population and as a proportion of the economy exercises extraordinarily successful control over the nation's economy and other aspects of society. All of the specific educational, military and economic achievements cited earlier, and the ability of the system to reconcile competing goals (such as economic openness and national control, growth and equity), are particular aspects of the efficiency of the South Korean organizational system. Three aspects of that organizational effectiveness deserve particular mention: its relative honesty, its ability to act, and its ability to attract talent.

The relative honesty of the South Korean governmental system is relatively recent and traces back to a single institution and a single man. The core of an honest administration was produced by the Korean Military Academy in its early days, and the imposition of its values on the rest of society was largely the work of Park Chung Hee. Worldwide, military leaders who take over their nation's politics have developed a deserved collected reputation of avariciousness, but that pattern does not extend to Park Chung Hee and Chun Doo Hwan. Even Park's most vociferous critics acknowledge his

financial integrity. Gregory Henderson, the most outspoken detractor of Park Chung Hee among American specialists on Korean politics, refers to him as "an officer known for financial probity."<sup>124</sup> From an organizational perspective, Park Chung Hee spent most of his life cleaning up and disciplining organizations. First he cleaned up a part of one division of the military, then he cleaned up the whole division, and subsequently used his military position as a base for taking over the country and cleaning up its other principal institutions. His ability to seize power and to govern such a fractious country for so many years was largely based on this ability to create institutions of discipline and integrity. As Henderson says, "On coming to power, the coup leaders indulged in one of the greatest purges of Korean history both inside and outside the Army. Inside, 2,000 senior officers, including 55 of general rank were dismissed, many being temporarily jailed on charges of varying validity."<sup>125</sup> These harsh methods both cleaned up the institutions concerned and consolidated Park's political power. Similarly, when Chun Doo Hwan took office, he purged thousands of military and civilian officials, usually but not always for good reasons of corruption, incompetence, or mediocrity.

Park's integrity went well beyond financial integrity. He kept his financial assets in the country. Unlike many Asian leaders he refrained from sending his children to foreign schools. In short, he displayed a quiet, but consistent and visible, commitment to South Korea that created a tone quite different from the tone of most Third World dictatorships. Park's allies focused on his patriotism and his cleaning up of Korea's institutions, whereas



his detractors focused on the way his methods facilitated the consolidation of his power. Both were true.

The cleaning up of major institutions is of course never complete. Moreover, in the process of consolidating political power, and getting the country on its feet, the means employed were not always above reproach. Park's honesty always meant personal financial probity and insistence that organizations and their funds be deployed in what he perceived as the national interest. It never meant an unwillingness to manipulate the system in ways that appeared to him to serve that interest. Likewise, Chun Doo Hwan's purges did cleanse South Korea's administration and did unburden key politicians of ill-gotten wealth, but they also consolidated Chun's power.

Through the late 1960s, South Korea had a reputation for corruption, partly due to the universal corruption that attends the presence of foreign bases (no institution is more susceptible to corrupt use than a U.S. Army PX), partly due to the equally universal Third World problem of low government salaries, and partly due to the means employed to finance the ruling Democratic Republican Party. The Koreagate scandal certainly conveyed an image of Korean corruption in the late 1970s. As time has passed, however, the American bases have shrunk and along with them the resultant corruption. Similarly, as the country has become more prosperous, government salaries have risen and, as in Taiwan and Singapore, more stringent standards have taken effect. The Koreagate scandal of the mid-1970s was an important instance of corruption, but not representative of the domestic Korean scene. Like the American CIA in many countries around the world, the Korean CIA distinguishes

fundamentally between bribery at home and bribery abroad. The Koreagate scandal was, in Korean perspective, a stupid and inept operation, but it was in Korean terms no more corrupt than the American CIA's inept expenditure of properly accounted funds in a similar operation would be considered corrupt by Americans. (The American CIA has certainly paid Korean officials for services rendered. A U.S. ambassador to South Korea has acknowledged that the U.S. bugged President Park's office complex in Blue House, and the U.S. apparently bugs and decodes South Korean Embassy communications.)<sup>126</sup>

There remains the relationship between foreign and domestic corporations on one hand and South Korea's governing party on the other. Particularly in the early days of DRP rule, major domestic corporations were expected to make substantial contributions to the DRP. Large contributions were frequently extracted from Japanese and American corporations doing business in South Korea. While there is general agreement that this pattern of demands for contributions has declined, there is no consensus as to the extent of the decline. Leading government officials in Korea acknowledge that the pattern existed in the past, but deny that it persists today. Japanese industrialists insist that they are forced to make such contributions, and Koreans retort that Japanese executives are using the allegations as a way to take unaccounted funds from their own corporations. The truth appears to be somewhere in the middle. Korean corruption appears to be gradually approaching the Japanese norm: corruption is not so large in Japan as to hobble the economy, but demands by high executives for kickbacks are not unusual. Whether the Chun regime will follow a different path in this respect

cannot yet be foretold.

The close relationship between the major industrial firms and the ruling political elite has not disappeared. Most of this close relationship, however, reflects Japanese-style concepts of proper business relationships as opposed to American concepts. The Japanese view is that the major industrial groups and the major government bureaucracies should be closely cooperative; the idea that a so-called "revolving door" relationship between government and business is bad would appear peculiar to the Japanese. The Korean government has used its closeness to business as a tool for guiding the economy in accordance with indicative plans, just as Japan's Ministry of International Trade and Industry gains effectiveness through informal guidance as well as through formal legal procedures. A close cooperative relationship is employed to avoid destructive competition and to achieve economies of scale. For instance, South Korea could never have achieved its successes in overseas construction, particularly in the Middle East, had the government not encouraged the rise of giant firms whose scale was appropriate to the size of the projects being bid for. Large firms support government programs. The government bails out some large firms than get into trouble. Through such means, the government manages to shape the entire structure of the economy.

The ultimate test of such a relationship is whether the economy is thereby weakened or strengthened. A close relationship between government and business has greatly facilitated the economic success of Japan, whereas the political efforts of Marcos to gain control of the Philippine economy have

undermined the creation of efficient institutions in sector after sector. By this test, there is no question that the Korean system has evolved from something that looked very much like the Philippine pattern in the 1950s to something more efficient than the Japanese pattern today. (South Korean growth rates, distribution, and rates of technological improvement are superior to Japan's performance in a similar phase of development.) By standards of electoral fairness, the heavy corporate political contributions of the 1960s can only be judged corrupt. In terms of administrative efficiency and economic achievement, the close relationship between government and business in today's South Korea has been the key to the effective and relatively honest institutions. It has also been the key to consistency and continuity of economic policy in a country whose factionalism would otherwise have been expected to create fragmentation and discontinuity. The results have enhanced Korea's economic performance and undergirded its military security, but have simultaneously made a mockery of the prospects for democratic political competition.

Governmental management of South Korea has been critically linked to two critical kinds of institutions, namely the think-tanks and the Korean CIA. These institutions have been principal keys to the solution of vital problems faced by any nation, particularly an authoritarian one, namely, assuring a flow of innovative ideas, ensuring that the leadership has broad knowledge of what is happening, ensuring coordination among organizations, and ensuring recruitment of talented officials.

Several references have been made to the role of the Korea Military Academy in training a corps of modern, able military leaders whose influence later extended to the whole society. Similarly, the Korean Institute of Science and Technology (KIST), established by a shipbuilding figure who was special assistant for economic affairs to President Park, led Korea's exploitation of foreigners and foreign-trained scholars to acquire the technology needed to build South Korea's economy. KIST brought to Korea over 100 scientists, giving them apartments and high salaries. Similarly, the Korean Development Institute has led South Korea's domestic economic planning and research in exploiting the talents of leading economists from Korea and abroad. The Korea International Economic Institute, initially an organization primarily devoted to Korea's economic relationships with the Middle East, has played a leading role in planning international trade. The Korea Educational Development Institute, established in 1972, guides Korea's educational system. The Academy of Korean Studies, founded in July of 1978, has a mandate to enhance knowledge of traditional Korea, to enhance Korean access to music, dance, plays, and other forms of culture, and to spread Korean culture abroad.

South Korea probably employs more such think-tanks than any other nation except the United States. It employs them in a far more prominent role than any other country known to this writer. The institutions possess a remarkable degree of independence (unlike, for instance, the U.S. State Department's Policy Planning Staff), but also possess remarkable access to decision-makers (unlike American contract research organizations). The heads of these think-tanks enjoyed direct access to President Park Chung Hee (the pattern

under Chun Doo Hwan is not yet clear), and their leaders uniformly said that the President was quick to act on their recommendations. Each of these organizations is run by dynamic, young, foreign-trained intellectuals who have the resources and the mandates to draw upon a broad range of highly-talented people. The result is a series of staff organizations, relatively independent from the line ministries, which have a major innovative influence that their counterparts in the West lack.

The foundation of each of the principal think-tanks has coincided with a major phase of Korean development. Not surprisingly, the military came first, based upon the overwhelming security needs of the early Republic of Korea, and based upon the military's greater access to American training and resources. Next came the domestic economy, then the international economy and the education system, and lately South Korea has geared up with notable success for a cultural program. The sequencing of major waves of development, as symbolized by the successive founding of these institutions, represents almost a textbook case of management of national development in accordance with a firm set of priorities. The waves of institutions have corresponded to waves of development in the acquisition of talented people.

One wave of leadership came from the North Korean refugees during and after the Korean War. Prior to the Korean War, the populations of North and South were almost equal, but a huge migration out of the North, heavily weighted toward the intellectual and social elite, provided South Korea with a wave of social leadership. These northerners had lost everything and had a tremendous drive to restore their social positions. South Korea was largely

led by North Korean Christians in the 1950s, and they were surpassed by indigenous southerners only in the late 1960s. North Korea kept most of the nation's industries, but South Korea acquired a disproportionate share of the nation's leadership.<sup>127</sup>

The first major post-war personnel and administrative reform occurred in the military, largely caused by the huge influx of Korean military personnel into American training programs. The military first purged its own ranks, then purged the ranks of politics and business leaders. The influx of military-trained executives into Korean government and business had an effect like the emergence of the samurai into economic activities at the end of the Tokagawa era in Japan. From this source came the initial infusion of modern attitudes, entrepreneurial risk-taking, and modern management, as well as the informal network which consciously and unconsciously directed all sectors into a combined modernization effort that was larger than the sum of its parts.

The second wave of personnel, beginning in the 1960s, was a great influx of American-trained Koreans, with masters degrees and doctorates from the best American universities. Unlike the Japanese, who regard foreign experience with suspicion, the Korean government was eager to use these people and was willing to provide the salaries and power and other incentives to attract them back from the United States. First came the natural scientists and engineers. Then, in the late 1960s, came the economists, and following them the political scientists and sociologists. Initially a country which Henderson correctly described as being unable to attract its foreign-trained talent home, South Korea became Asia's most successful exploiter of the American intellectual

connection. Initially, the extraordinary vacuum of intellectual and managerial leaders left by the withdrawal of the Japanese and by the subsequent Korean War was a devastating liability for Korea's development hopes, but it was turned into an asset as South Korea found itself able to staff leading positions in all sectors of society, including business as well as the military and government, with highly-talented, highly-modern, American-trained scholar-executives. To a remarkable extent, South Korean business, government and military are led by American-trained officials in their late 30s and early 40s, a stark contrast with Japan, China, Taiwan, and the Soviet Union where most leaders are in their sixties or even seventies.

This pattern developed firmly under Park Chung Hee, and it was carried to a peak under Chun Doo Hwan. By the time Park was assassinated in October 1979, private economic institutions and the press were already dominated primarily by a stratum of brilliant, American-educated Ph.D.s in their forties. Chun retired most of the older military men and brought to power in the military the first generation of senior leadership which received a full four-year education at the Korea Military Academy. A large number of this younger generation had received advanced training in the United States. (A National Defense College official estimated that by 1980 the Korean Army had 200 officers with Ph.D.s from leading American universities.) Then he imposed rule by the "Forties Generation" on Korea's civilian institutions, bringing to power a stratum even more educated and energetic than its impressive predecessor.



Another institution which is a key to the overall pattern of Korean development is the Korean CIA. Largely known in the West for its heavyhanded intimidation of political opponents and its bribery of foreign leaders, the Korean CIA (renamed under Chun the Center for National Security Studies) long served as the core of Park Chung Hee's command, control and planning system. As Henderson says of this institution, "It broadly advised and inspected the government, did much of its planning, produced many of its legislative ideas and most of the research on which they were based, recruited for government agencies, encouraged relations with Japan, sponsored business companies, shook down millionaires, watched over unorganized students, netted over \$40 million by manipulating the Korean stock market through cover brokers, and supported theaters, dance groups, an orchestra, and a great tourist center. From its chrysalis rose the government's political party..."<sup>128</sup> The Korean CIA is both an intelligence agency and a critical planning institution. It performs many of the organizational functions performed by networks of military officers scattered through Latin American governmental business and organizations and by political commissars in the Soviet Army. Its role is radically different from that of a communist party, because it does not engage in systematic indoctrination and omnipresent politicization of society, but its communication and coordination roles bear some resemblance to such parties. To a considerable extent, the South Korean CIA has been responsible both for the successful coordination of diverse organizations in an otherwise factionalized and fragmented social situation, and for creating through

incompetent, to provide social leadership. It has ensured that these technically capable leaders share the egalitarian ideals of Park Chung Hee and South Korean tradition; even key business leaders speak with pride of South Korea's egalitarian ideals, unlike their American counterparts, who mostly denounce more pallid redistributive programs. (Ronald Reagan would be upset by the notion of an economy with an 87 per cent maximum tax which manages to grow at five times the U.S. growth rate.) But the very system which has made it possible to institutionalize this high quality leadership at most levels has made it difficult to solve the problem of leadership at the very highest level.

Park Chung Hee was in power from 1961 to 1979. The centralization of Park's Democratic Republican Party tended to cut out strong leaders. Development of strong leadership aside from Park was not encouraged, and when it did appear, as occurred with Kim Jong Pil and a few other notable leaders, banishment from power was the most common outcome. South Korea did not assure development of top leaders and it did not assure a method for choosing them. Although in every other developmental respect, South Korea has outperformed Brazil, South Korea lacks the Brazilian military regime's system of regularly changing the President and with him much of the top leadership of the government. Having one man at the top for nearly two decades stultified the development of high-powered political leaders, deeply alienated the opposition from not only Park himself but from the whole economic and managerial system, and thereby cast into doubt the procedures by which a successor would theoretically be picked. The opposition believed that Park would never leave

the power peaceably, and that belief, right or wrong, influenced their attitude toward the institutions of succession. Chun Doo Hwan has promulgated a constitution with a one-term limit for the president, and has promised to abide by that limit, but many Koreans are waiting to see for themselves what will happen when his term ends.

In short, while the South Korean leadership recruitment system has assured the very finest talent to staff most of the principal social institutions, and while those institutions have an unusual capacity for adaptation, innovation, and effective administration of policy, South Korea has so far failed to ensure political leadership at the highest level and it has so far failed to institutionalize the procedures for selecting its top officials. The deepest fears of patriotic oppositionists centered on this problem of the succession to Park Chung Hee. There was the most profound concern that he was unwilling to create the institutions necessary to assure a smooth transition and unwilling personally to step down when that would be required. These concerns were summarized by an opposition Assemblyman whom this writer interviewed: "Syngman Rhee, a good Confucian, stood down after a couple of hundred students were killed. But Park would stay in office even after 20,000 were killed, because of his conviction that he is saving the country from North Korea...Park will never step down without a coup or some similar event. Korea has never had a peaceful transition in its history, except for transfers from emperor to son." Such fears were fully justified. Park's assassination led to an irregular struggle for power, but it averted the worse succession struggles that might have occurred.

The question of succession inevitably leads to the question of opposition. In South Korea, the opposition is the obverse of the regime. While the government is highly organized, the opposition is divided almost to the point of immobilization--both because of its longstanding factionalism and because of the government's efforts to disorganize it. While the government concentrates overwhelmingly on economic and security issues to the neglect of politics, the opposition concentrates overwhelming on politics to the exclusion of economic issues. (The opposition is as fervent as the government on security issues.) While the government is numerically small and organizationally strong, the opposition is numerically large and organizationally weak. A clear majority of the population was toward the end, willing to vote against the Park government, and Chun's government was at least initially unpopular, but willingness to take active organizational steps to oppose them was limited to small groups of students, Christians, and a few others. Neither government was not popular in the sense that John F. Kennedy's government was popular, but they were deeply respected, perhaps to an extent that Kennedy's was not. In its first two years, Chun's government was distinctly unpopular, but it elicited respect so long as it seemed to be making economic progress. To the extent that it is not respected or is actively opposed, it uses intimidation to ensure the impotence of its opponents.

The factionalism of the opposition and its lack of experience combine with the extraordinary attractiveness of service in the regime to deprive the opposition party of a base of technocrats and an organizational capability to

develop positive programs. The opposition party is largely a party for opposition, not a party with a distinctive or detailed vision of the future. The opposition criticizes the government largely for its repressiveness and for alleged deterioration of the income distribution. Unlike all other sectors of Korean society, Henderson's 1968 description of South Korea's political parties in general, and of the opposition in particular still holds: "On balance, Korean parties have been ineffective in adding to the cohesion of the nation and comparatively unimpressive in the creation of an elite. To legislation, to welfare, to the economy, to the stability of the country, they have contributed little...the part played by the representational process has been chiefly obstructionist..."<sup>129</sup>

While there have been impressive leaders in the opposition, notably Kim Dae Jung, who nearly defeated President Park in the 1972 election, and Kim Young Sam, the leader until his arrest by Chun of the so-called "hard core" opposition within the New Democratic Party, the urban party and dissident movements as a whole have consistently lacked solidity. Kim Dae Jung and some of the lawyers and politicians who opposed President Park occasionally demonstrated an almost Gandhian ability to endure prison, loss of jobs, omnipresent surveillance, illness caused by prison cold, and various other forms of harassment. These men do not deny the material achievements of the government, except for an occasional misleading remark about the deteriorating income distribution, and take their positions firmly in terms of the nation's need for a political consensus, the need to heal political divisions, and the need to respect individual rights. But one does not dig too deeply beneath

these men before one finds the comfortable professor of political science sitting in his study and denying that the economic growth is anything more than a statistical deception, the student fervent in his simplicities who will retain his fervor until the moment of graduation and then become a strong supporter of the system, and the missionary writing home exaggerated accounts of worker poverty that always forget to mention the extraordinary rise in both employment and wages. This part of the dissident leadership is heroic in opposition, but would be tragic in power.

From the viewpoint of stability of the system, the character of the opposition is both a concern and a cause of complacency. The gulf between government and dissidents is extraordinarily wide. Whereas, in Brazil, government and the principal opposition leaders have a certain empathy for one another and can explain sympathetically the reasons why the others take the actions they do, in South Korea one finds mutual incomprehension and sometimes mutual hatred. In some universities, the dissident students have organized themselves into cells and into organizations which protect leaders who never appear at demonstrations. Given the depth of mutual suspicion, it is probably true that, as one Assemblyman argued, "There is no way for the government and the students to get together under this election system. The government would lose under another system. The gap is as wide as the Pacific ocean." For the time being, however, the opposition is divided, based upon a fickle student-intellectual base, heavily dependent upon a Christian minority which is widely regarded to be responding as much to loss of Christian social predominance as to idealistic motives, and led at the upper-middle levels by people who lack a

coherent program and often appear to lack contact with economic reality. The student base tends to become still more fickle as the brightest students obtain scholarships and then guaranteed jobs by their sophomore years. The dissident base in the labor movement is largely confined to the smaller and more traditional low-technology industries, contrary to the Western pattern of radicalism built upon the organization of the workers at the commanding heights of the economy. For the time being, the role of the opposition in Korea will remain like the role of Alexander Solzhenitsyn relative to the Soviet system: the dissidents are caretakers of high political ideals and the only possessors of coherent political ideology, but few people would want to be ruled by them. Their role is extremely important but is not likely to be a source of revolutionary instability.

The principal analogy frequently made with Vietnam has not been derived from urban instability but from rural instability. It is said that North Korea might assist an uprising within the South Korean countryside, then take advantage of this disorder. Aside from the possibility of a transparently fake uprising, staged entirely by North Korean soldiers, this scenario is simply not plausible in South Korea. South Korea is a country extremely difficult for even small groups of North Korean infiltrators to penetrate, because the southern population quickly alerts the government to the presense of strangers. South Korean farmers are prosperous, egalitarian, patriotic, closely tied to national communication centers, and intensely fearful of a repetition of the North Korean barbarism of 1950-1954. This kind of rural society is simply not vulnerable to the kinds of social disturbances and

northern manipulation that plagued poverty-stricken, inegalitarian, socially divided, and haplessly administered South Vietnam. Moreover, the gradual development of a domestic armed uprising would alert South Korean forces and deprive the North of the surprise which would be critical to northern military success. There is not even a hint of widespread discontent or of organized opposition anywhere in the South Korean countryside. In this respect, South Korea, Japan, Taiwan, and Singapore stand alone in Asia.

The combination of effective government, extraordinary economic success, and absence of domestic political disruption, have gradually spread a positive morale throughout much of South Korea society. Problems remain, the political gap sometimes appears unbridgeable, and aspirations invariably outrun achievements, but there is nonetheless a pervasive sense of confidence and even enthusiasm radically different from the pervasive low morale of a generation earlier. As early as 1971, Morton Abramowitz could write that, "Previously southerners looked with sneaking but genuine admiration at the North's economic dynamism. Many felt that without unification the South was doomed to stagnancy. All this has changed."<sup>130</sup>

Indeed, South Korea's economic success is built upon a degree of political-military-economic confidence. Hard work, savings, and investment are premised upon political confidence that these virtues will be rewarded. That political confidence is in turn based on the successful maintenance of peace for a generation, on the personal integrity of Park Chung Hee and Chun Doo Hwan, on assurance that South Korea will be protected by the United States, and on the degree of ideological cohesion described earlier. There is



a pervasive sense in South Korea that, despite all flaws, the system is working, that time is on the side of South Korea.

In conclusion, the South Korean political system is as yet immature, and it contains tensions that could become disruptive. But its achievements, namely a degree of ideological consensus, unusual organizational effectiveness, extraordinary capacity for exploiting talented managers, a stable rural political situation rare in the Third World, cooperation of the leading sectors of labor, and effective cooperation among government, business, and military, are at least as impressive as its flaws, namely, failure to institutionalize a clear succession, heavyhanded and politically counterproductive use of the Korean CIA, lack of a positive ideology, and aggravation of a serious gulf between government and urban opposition.

The flaws are serious and particularly evident to Americans, who tend to take political development for granted. However, the strength and weaknesses must be balanced, and the balance can best be eliminated by a contrast with Iran in 1978. Iran was ruled by a Shah who had alienated every major political group. The mullahs hated his land reforms and other forms of modernization, and they carried with them all of the religious conservatives. The left despised the Shah because he was a monarch in a world where all monarchs are anachronisms. The middle class detested the Shah because of the pervasive corruption that surrounded him. The urban poor were often miserable, despite the economic growth, because of terrible social inequality and disorganization of public services and infrastructure programs. By contrast, the South Koreans' Confucianism contains none of the barriers to

modernity posed by Islamic codes. The South Korean regime is supported by a united military, by a prosperous business community, by a united government sector, by the peasantry, and by some sections of labor. The provision of social services and infrastructure has been efficient and well planned. The honesty of South Korea's leader and of his principal administrative aides is unquestioned. The distribution of income is a strength rather than a weakness. Thus, while it would be a serious error to downplay South Korea's political problems, it would also be an error of the first magnitude to draw, as many observers have done, firm parallels between rapidly modernizing authoritarian Iran and rapidly modernizing authoritarian South Korea.

#### An Overview of the South Korean System

South Korea thus emerges as a country of extraordinarily effective military, educational, economic, social and governmental institutions, but also of disturbing political problems. Its political problems are potentially manageable, but also potentially disruptive if mishandled. There is no Korean Political Development Institute, with a brilliant staff of young modernizers who have combed the world for political ideas and imposed modern political practices upon South Korea. But even in politics, South Korea is far ahead of most of the developing world.

The South Korean system is so far the most successful, except possibly for Taiwan, of a group of systems which keep democratic ideals alive but give priority at least temporarily to some combination of economic growth, economic egalitarianism, and security. The general model of development is shared by

Taiwan, Singapore, and to a lesser extent Brazil, with such countries as Indonesia and Nigeria attempting to follow their lead. All such systems seek organizational efficiency through a combination of quasi-military rule and market discipline. Their economic successes tend to be directly proportionate to the degree that they achieve administrative efficiency. (Indonesia and Nigeria have a long way to go.) Their income distributions tend to be egalitarian in direct proportion to the openness of their economies; whereas South Korea and Taiwan achieved a remarkable egalitarian distribution of income through extremely open economies, acceptance of all kinds of technology, and diligent efforts to equalize opportunities, Brazil skewed its income distribution through protectionist policies that built up protected sectors at the expense of others, through refusal to accept any but the highest technologies in any areas, and through failure to ensure equality of access to education and other sources of social mobility. South Korea and Taiwan achieve administrative control of their economies by using a small and efficient central government apparatus to structure the rules and incentives for private firms, whereas Brazil lost administrative control of most of its economy by fostering massive state-owned firms which proved far less easy to discipline than private firms would have been. Despite small size and lack of resources, South Korea and Taiwan achieved substantial economic independence of foreign interests by cooperating with foreign corporations, in ways that were conducive to rapid transfer of technology, and by accepting disciplines which avoided the massive debt acquired by such countries as Brazil. South Korea has been far more successful in offsetting its energy dependence on the

Middle East than either Brazil, which simply proved to be a less imaginative and disciplined competitor, or Taiwan, which failed to create trading and construction organizations on the scale necessary to undertake massive projects in the Middle East and elsewhere.

The Korean system of combining private ownership with government guidance to bend huge private organizations to the service of social objectives conforms neither to the Western democratic capitalist model nor to the Western socialist model of social management. From the Western democratic capitalist perspective, the relationship between the major corporations appears politically corrupt and economically either inefficient or corrupt. From a democratic capitalist perspective, government interference in the market is likely to create dangerous economic distortions, and the close relationship between the ruling economic elite and the dominant political party infringes on the most basic rules of democratic competition. From a socialist perspective, on the other hand, the dependence of South Korea upon private ownership and initiative appears to leave the most important social functions in private hands and dependent upon the basest of human motives, namely greed. If one accepts either Western perspective, then the basic criticisms appear valid. However, the example of Japan, both politically and economically, shows the danger of assuming that Asian systems can be judged according to orthodox Western models.

The South Koreans would maintain that the Western democratic capitalist model is characteristically incapable of responding to crisis, that it has difficulty maintaining consistent policy through long periods of difficulty,

and that it is chronically incapable of achieving egalitarian distribution of wealth, particularly under Third World conditions. The Western system of independent unions and welfare system fails to provide growth, equity or employment at levels adequate to South Korean minimum expectations. On the other hand, socialist systems characteristically achieve planning and relatively egalitarian distributions of income (in those countries where the systems are relatively well administered), but typically fail to generate very rapid growth and often create such unwieldy central administrative mechanisms that they become organizationally flabby. Such mixed Western systems as Mexico, Argentina, and Brazil emphasize patronage to an extent that leads to extraordinary inefficiency, lack of competitiveness, and massive unemployment, and they are run by social elites (including some unions) which effectively counter egalitarian programs and (in Mexico) employment-stimulating wage policies. South Korea has achieved efficiency, growth, planning, employment, and egalitarianism, while accepting authoritarianism but avoiding the totalitarian political practices of communist countries.

The South Korean system is closest to the Japanese system, but more economically open than the Japanese system and thus probably over the long run more efficient. The Japanese system is far more democratic than the Korean, despite Japan's close economic, political, and administrative relationships between government and business. Judged by virtually any economic standard, the South Korean system is more effective than any of its competitors. Judged as a crisis management system for coping with any contingencies from war to economic emergency, the South Korean system is far more adaptable and decisive

than any of its competitors. Judged as a cohesive political system, South Korea appears less successful than Japan or the principal Western democratic capitalist or socialist systems. South Korea does not appear to be at a political disadvantage, however, in its competition with North Korea, which is faction-ridden and so oriented toward maximizing military power that it has neglected popular welfare.

There is unquestionably uncertainty in South Korea's future, but it is a double-edged uncertainty, an uncertainty of opportunity as well as risk. The risk of disruption is real, due in large part to immature political institutions. But there is also the possibility that the South Koreans have created a more efficient engine of growth and equality than Japan, and that their immature political system has acquired a crisis management capability superior not only to other Third World countries but also to Japan and the West. Most Third World polities, and many Western ones (e.g., France and Italy) possess political disabilities and risks as severe as those of South Korea. Few possess its national unity, innovative capability, and crisis management potential. South Korea achieved in twenty years, 1953 to 1972, social changes that required forty years in Japan and Sweden,<sup>131</sup> and change has since accelerated without undermining stability. No nation has matched South Korea's adaptations to recession, protectionism and oil price rises.

As these comparisons suggest, despite its political problems, South Korea simply competes in a different league from such politically primitive countries as South Vietnam and Iran.

## NOTES

### Chapter I

1. Gregory Henderson, "Korea: Militarist or Unification Policies?" in William Barnes, ed., The Two Koreas in East Asian Affairs (New York: New York University Press, 1976), pp. 152-153
2. See Chapter 4 below.
3. Sungjoo Han, "South Korea's Participation in the Vietnam Conflict: An Analysis of the U.S.-Korean Alliance," Orbis, Vol. 21, No. 4 (Winter 1978), p. 902.
4. Shim Jae Hoon, "South Korea: Kim Comes out Fighting," Far Eastern Economic Review, January 12, 1974, p. 28.
5. Gregory Henderson, Korea: The Politics of the Vortex (Cambridge, Mass.: Harvard University Press, 1968), pp. 86, 19.

### Chapter II

6. Ibid., p. 375.
7. James Morley, Japan and Korea: America's Allies in the Pacific (New York: Walker & Co., 1965), p. 53.
8. See the discussion early in the following chapter. See also Henderson, The Politics of the Vortex, op. cit., p. 53.
9. Ibid. ., p. 353.
10. James Morley, Japan and Korea: America's Allies in the Pacific, (New York: Walker & Co., 1965). p. 51.
11. Sungjoo Han, "South Korea's Participation in the Vietnam Conflict: An Analysis of the U.S.-Korean Alliance," Orbis, Vol. 21, No. 4 (Winter 1978), pp. 909-910.

12. 22 per cent is the most widely accepted figure. See Irma Adelman and Sherman Robinson, Income Distribution Policy in Developing Countries: A Case Study of Korea (Stanford, Calif.: Stanford University Press, 1978), p. 37, and the sources they cite. However, it is worthwhile noting the extraordinary discrepancies in the literature. For instance, Henderson, op. cit., says that "At liberation, little over 20 per cent of Koreans had any formal schooling," p. 89, but on the same page says that "The 1944 census shows that some 733,000 out of a population of 17 million in South Korea were illiterate, yielding a literacy rate of 55 per cent for South Korea. On page 223, Henderson says that literacy was "15 per cent in 1945," a figure wildly inconsistent with 22 per cent in 1944.
13. Economic Planning Board, Government of the Republic of Korea, Major Statistics of Korean Economy 1977 (Seoul, Korea, 1977), p. 219.
14. Henderson, Politics of the Vortex, op. cit., p. 223 and note 75.
15. Hapdong News Agency, Korea Annual 1978 (Seoul, 1978), p. 210.
16. Ibid., p. 211.
17. See Adelman and Robinson, op. cit., p. 41 and Henderson, Politics of the Vortex, op. cit., p. 170.
18. Adelman and Robinson, op. cit., p. 42.
19. Henderson, Politics of the Vortex, op. cit., p. 223.
20. Adelman and Robinson, op. cit., p. 41.
21. World Bank, Growth and Prospects of the Korean Economy, World Bank Report No. 1489-KO (Washington, D.C., 23 February 1977). p. 10.
22. Author interview with Lee Young Duck, Director, Korea Educational Development Institute, 15 July 1978.
23. Major Statistics of Korean Economy 1977, op. cit., 220.



24. World Bank, op. cit., p. 10.
25. Ibid., p. 10.
26. Based on author interviews at several of Seoul's leading universities.
27. Author interview with Kim Jae Ik, Director, Economic Planning Board, Republic of Korea, July 1978.
28. Author interview, July 1978.
29. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. 1.
30. Irma Adelman and Sherman Robinson, Income Distribution Policy in Developing Countries: A Case Study of Korea (Stanford, Calif.: Stanford University Press, 1978), p. 38, citing T. Hataka, A History of Korea (New York: Clio Press, 1969), p. 126.
31. James W. Morley, op. cit., p. 37.
32. Ibid., p. 49.
33. Henderson, Politics of the Vortex, op. cit., p. 230.
34. Ibid., pp. 330-331.
35. Federal Reserve Bank of San Francisco, Pacific Basic Economic Indicators, Vol. 3, No. 4 (December 1978), p. 40.
36. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. i.
37. Ibid., pp. 17-18.
38. 1962 and 1965 figures are derived from World Bank, Growth and Prospects of the Korean Economy, Statistical Appendix, Table 3.1; 1980 figures from Bank of Korea, Monthly Economic Statistics, XXXV, 5 (May 1981), p. 8.
39. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. ii.
40. Ibid., p. 3.
41. Ibid., p. 9.
42. Ibid., p. 9.

43. Ibid., p. iii.

44. Hapdong News Agency, Korea Annual 1978, op. cit., pp. 145-146, for 1977 figures. The 1980 figures are estimates from Korea Herald, 7 January 1981, p. 3.

45. World Bank, Growth and Prospects of the Korean Economy, op. cit., pp. viii and 14.

46. Adelman and Robinson, op. cit., p. 44.

47. Ibid., pp. 44-45.

48. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. 4.

49. I am indebted to Herman Kahn for several of these observations.

50. These quotations and observations are from Atsuko Chiba, "The Region: A Weekly Dispatch on Trends in Asian Trade, Industry and Government," Asian Wall Street Journal, 26 April 1978, pp. 1, 7.

51. For instances, in May 1978 imports of 133 items were liberalized, and in September of 1978 imports of 299 items were liberalized. See also World Bank, Growth and Prospects of the Korean Economy, op. cit., p. 4. The items covered a wide range of raw materials, processed materials, machinery and consumer items.

52. Adelman and Robinson, op. cit., p. 43.

53. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. i.

54. Adelman and Robinson, op. cit., p. 43; citing also David C. Cole and Princeton N. Lyman, Korean Development (Cambridge: Harvard University Press, 1971), p. 86.

55. Charles R. Frank, Jr., Kwang-suk Kim, and Larry E. Westphal, Foreign Trade Regimes in Economic Development: South Korea (New York: Columbia University Press, 1975), p. 241.

56. Seung-yun Lee, "Major Achievements and Problems of the South Korean Economy: 1962-74," in Young C. Kim and Abraham M. Halpern, eds., The Future of the Korean Peninsula ( New York: Praeger Publishers, 1977), p. 24.
57. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. viii.
58. Ibid., p. 16. Note 1.
59. For a discussion of Brazil's economic situation, see William H. Overholt, ed., The Future of Brazil (Boulder, Colorado: Westview Press, 1978), Chapters 1,4,5. On the debt issue in particular, see William H. Overholt, "Brazil's Debt Burden" in that volume.
60. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. 32.
61. Ibid. p. 31.
62. Federal Reserve Bank of San Francisco, Pacific Basic Economic Indicators, Vol. 3, No. 4 (December 1978), pp. 39, 40, 41.
63. The above information is derived from "Business Concerns a Major Force in South Korea," Financial Times Survey, London Financial Times, May 16, 1977, p. 16. Note that the growth process is not always smooth: Yulsan went bankrupt in 1978, with an accompanying scandal.
64. "The South Korean Economy: Future Growth," Financial Times, May 12, 1978.
65. Adelman and Robinson, op. cit., p. 38.
66. Ibid., pp. 38-39.
67. Ibid., p. 39.
68. Author interview, Professor Lee Nam Shik, Jan. 18, 1979.
69. Author interview, Park Jin Hwan, July 1978.
70. Ibid.

71. For a study of a land reform program which later broke down, in substantial part because of failure to solve this administrative complexity, as well as failure to solve some of the political problems cited below, see William H. Overholt, "Land Reform in the Philippines," Asian Survey XVI, 5, (May 1976).
72. For some of these observations, I am indebted to a speech by Vincent Brandt, an anthropologist, given at a luncheon of the Korean Economic Council in New York 30 January 1979. For a description of these aspects of the program, see G. Cameron Hurst, III, "Seoul: Awakening a Nation's Spirit," Asian Wall Street Journal 13 March 1979.
73. See Overholt, "Land Reform," op. cit. p. 450.
74. World Bank, Growth and Prospects, op. cit., p. v.
75. Ibid., p. 8.
76. Ibid., p. 15.
77. Ibid., p. vi. See also p. 28.
78. Vincent Brandt speech, op. cit.
79. Based on author interviews with dissident leaders.
80. World Bank, Growth and Prospects of the Korean Economy p. 19.
81. For the World Bank statistics, see ibid., p. 26.
82. Ibid., p. 27.
83. Again, the Philippines provide a useful base of comparison. See William H. Overholt, "Land Reform in the Philippines," op. cit. See also U.S. welfare programs, which tend to benefit the middle class.
84. Irma Adelman and Sherman Robinson, op. cit., p. 87.
85. This political point was emphasized by Vincent Brandt, op. cit.
86. Adelman and Robinson, op. cit., p. 17.

87. Ibid., p. 103.
88. Ibid., p. 190.
89. World Bank, Growth and Prospects of the Korean Economy, p. 91.
90. Among many others, see Adelman and Robinson, op. cit., p. 39.
91. World Bank, Growth and Propsects of the Korean Economy, p. ix, x.
92. Ibid., p. vii.
93. Charles R. Frank, Jr. et. al., op. cit., p. 223.
94. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. iii.
95. Charles R. Frank, Jr., et. al., op. cit. ., p. 242.
96. Minimum wage and college graduate wage information was provided by Kim Kwang-suk, Deputy Director of Korea Development Institute in an interview during July of 1978.
97. The \$90 figure is for Thailand's rural areas, \$120 for urban. Source: telephone discussion with John Schilling, World Bank Economist for Thailand, 28 March 1979.
98. World Bank, Growth and Prospects of the Korean Economy, p. 111.
99. Adelman and Robinson, op. cit., p. 191.
100. Ibid., p. 191.
101. Author interviews Kim Jae Ik, Director, Economic Planning Bureau, 11 July 1978.
102. Adelman and Robinson, op. cit., p. 80, state that "The country's income tax structure is quite progressive," and proceed to give extensive details. The World Bank report, op. cit., on the other hand, reports that "the tax system does not appear to be especially progressive," pp. 23-24. The World Bank conclusion is not based on a detailed analysis, and in particular does

not even look at the indirect taxes which provide two thirds of Korea's tax income. It is therefore less persuasive than the later Adelman and Robinson study.

103. Author interview, Kim Jae Ik, July 11, 1978.

104. "Demand Takes Off," Financial Times, 2 April 1979. On gasoline prices, see Korea Herald, 19 April 1981, p. 1.

105. Author interview, Kim Kwang Suk, Deputy Director, Korea Development Institute, July 1979.

106. World Bank, Growth and Prospects of the Korean Economy, op. cit., p. 23.

107. The figure 1.2 million, and discussion of underutilization, can be found in "Electronics: A Challenge to Japan," Financial Times, 2 April 1979.

108. Adelman and Robinson, op. cit., p. 192, which is also good for an overall summary of Korea's rural distribution policies.

109. "A Handsome Half Share," Asia Week, 2 June 1978, p. 42.

110. Shim Jae Hoon, "South Korea: Kim Comes Out Fighting," Far Eastern Economic Review, 12 January 1979, p. 29.

111. Adelman and Robinson, op. cit., p. 45.

112. Ibid., p. 45.

113. Ibid., p. 45.

114. World Bank, Growth and Prospects of the Korean Economy, p. 21. See also p. vii.

115. Shail Jain, Size Distribution of Income: A Compilation of Data (Washington, D.C.: World Bank, 1975), passim.

116. Gari Ledyard, "A Critical View of South Korea's Condition," in Young C. Kim and Abraham M. Halpern, editors, The Future of the Korean Peninsula (New York: Praeger Publishers, 1977), p. 76.

117. Ibid., p. 77. Ledyard says on p. 81 that "Seoul could well lead the world in the percentage of Mercedes-Benz automobiles that move importantly up and down its streets." This inspired the writer to pay some attention to the Mercedes-Benzenes on the street in 15 countries, mostly in Asia, visited during 1978. In 30 days in Korea, the writer saw two old Mercedes-Benzenes only. The streets of Bangkok, Manila and Kuala Lumpur approximate Ledyard's description of Korea; Mercedes-Benzenes are assembled in Malaysia. Only in Afghanistan did the writer find as few Mercedes-Benzenes on the streets as in Seoul. Even Tokyo and Taipei have more.

118. World Bank, Growth and Prospects of the World Economy, op. cit., p. 23.

### Chapter III

119. Adelman and Robinson, op. cit., p. 97.

120. Gregory Henderson, Korea: The Politics of the Vortex, op. cit., p. 216.

121. Ibid., pp. 198, 347.

122. Ibid., pp. 161-162.

123. Ibid., p. 244.

124. Ibid., p. 356.

125. Ibid., p. 357.

126. On bugging Blue House, see Richard Halloran, "Ex Envoy to Seoul Confirms Bugging," New York Times, 3 April 1978, p. 5, and "Seoul Demands Clarification on Bugging of Presidential Office," New York Times, 5 April 1978, p. 8. On bugging of diplomatic cables, see "NSA Decoded Messages on ROK Payoffs," Korea Herald, 25 May 1978, p. 1, citing the Washington Star.

127. I am deeply indebted to Kim Se-jin, for many insights into the Korean think-tank system and the waves of personnel.

128. Henderson, Korea: The Politics of the Vortex, op. cit., p. 264.
129. Ibid., pp. 310-311.
130. Morton Abramowitz, "Moving the Glacier: The Two Koreas and the Powers," "Adelphi Paper No. 80, Institute of Strategic Studies, London, August 1971, p. 5.
131. R.P. Dore, "South Korean Development in Wider Perspective," Pacific Affairs 50, 2 (Summer 1977), p. 190, citing P.W. Kuznets, "Accelerated Economic Growth and Structural Change in Korea," presented to a conference on problems of Korean population and development, Seoul National University, June 1975.