

Markets and Government : The Korean Case

川上, 忠雄 / KAWAKAMI, Tadao

(出版者 / Publisher)

法政大学比較経済研究所 / Institute of Comparative Economic Studies, Hosei University

(雑誌名 / Journal or Publication Title)

Journal of International Economic Studies

(巻 / Volume)

6

(開始ページ / Start Page)

12

(終了ページ / End Page)

26

(発行年 / Year)

1992-03

(URL)

<https://doi.org/10.15002/00002091>

Markets and Government : The Korean Case

Tadao Kawakami

Professor, Faculty of Economics, Hosei University, Tokyo

1. 'Liberal' resurgence in development economics

Conservative 'liberal' resurgence began in the United States, when the decline of its economic power went on and it faced the crisis of its hegemony in the postwar capitalist world economy. So was in the United Kingdom rather in advance. This phenomenon has not confined itself within the Anglo-Saxon region but has spread all over the world as a big wave with strong ideological infiltration. 'Government failure' has been loudly asserted and there have echoed the slogans, 'back to the market', and 'small government'.

Development economics, particularly that of IMF and World Bank economists, has been caught up in the same passion (World Bank, 1983, 1988 ; Esho, 1991). Developing countries which have long been in the habit of living with strong state intervention, are now advised to diet. The Korean case is recommended as a model. It is explained that Korea once made a false choice of adopting a dash plan to build up heavy and chemical industries in the 1970s when they met an economic crisis, and failed therefore ; and that then after 1979, through a total change of the policy course from government leadership to private initiatives and opening up of domestic market to the world market, it succeeded in overcoming the economic crisis and has now kept on the path of dynamic economic growth realizing yearly surpluses of the current balance of payments.

Now in the period of a great reorganization of world economy as a natural result of the decline of the U.S. hegemony, it is true that the relation between markets and government needs reexamination. No more fever for the wholehearted espousal of extensive state intervention with ideological affinities with socialism. However, should we follow the conservative 'liberal' infiltration into development economics or not ? I would examine the Korean case relating to this question.

2. Major epochs of development planning in Korea

Development planning in Korea has experienced five epochs since it was introduced

after a fashion in development economics (Kobayashi and Kawakami, 1991).

The first epoch is of course the introduction of development planning. Although development planning was in fashion among developing countries in early 1950s, Korea was rather behind the times mainly due to the devastation of the Korean war. In addition, President Lee was an old fundamental liberalist who hated communism together with its planned economy. It was out of question to make an economic development plan, although the Korean economy has been heavily controlled by the central government from since the Korean war. It was not until in 1957 when the Korean authority began its efforts to make a plan. The introduction was undertaken largely due to a personal initiative. The key person was Song In Sang, minister of Reconstruction Department. He had fallen into serious difficulties when he was obliged to face the decrease and uncertainty of U. S. foreign economic aid—the decrease following the ceasefire and the uncertainty owing to U.S. legislative decisions which cannot project beyond a budget year. He made up his mind to work out an economic plan primarily in order to eliminate the very uncertainty of U. S. official aid by appealing to Korea's own efforts to formulate a plan for its own future. His attempt was encouraged privately by a U.S. representative of U.S.-Korea Combined Economic Board (Inst. of IES, 1990a).

After obtaining the consent of President Lee, Song visited the U. S., successfully persuaded the U.S. parliamentary committee on foreign aid, and recruited an advisory team from Oregon University. He set up the Committee for Industrial Development recruiting its best members mainly from government departments, The Bank of Korea and universities with offers of the highest salaries up to and even exceeding President Lee's. After receiving lectures in World Bank upon development planning, Song went on a tour of inspection and found two models of development planning—the Indian and the Brazilian. He decided to adopt the latter as he thought the former was too rigid constrained wholly by the state budget (Inst. of IES, 1990a).

At the end of 1959 the committee completed a preliminary three-year plan that was to consist of a part of a larger, seven-year, plan. The contents of the plan were not so ambitious, targeting a 5.2% growth of GNP based upon the theory of balanced growth. The plan was worked out upon the premise that at the early stage of industrialization the sole way of fostering and protecting the domestic industries was to coordinate production and consumption together by combining the purchasing power increases through promoting agriculture and the development of small and medium manufacturing firms (Inst. of IES, 1991a). If the plan had been implemented, an industrialization of Formosa-type would have been realized.

However, even this plan advocating liberalism was to be financed more than half of the investment by the U.S. aid-backed state budget and was to resort to direct controls upon major capital goods as well as major consumption goods. More active state intervention than Keynesian indirect inducements were conceived from the beginning. We should recognize there lay a great crevasse between the ideological principle of the liberal society which Korean people rather passionately embraced, and the reality of the economy and hence the choice of economic policies.

The choices by Song and his committee upon the mode of planning together with policy measures first decided the basic character of economic planning in Korea.

The three-year plan, however, was not actually implemented because of the April 19th student revolution in 1960.

The second epoch was marked by Ryu Won Sick, member of the Supreme Council for National Reconstruction. He and his workforce reorganized the Reconstruction Department and a part of the Finance Department into a super organ, The Economic Planning Bureau (EPB), and had it make up the first five-year plan.

The GNP growth target was raised up to 7.1% by incorporating into the plan a series of ambitious new enterprise projects, most of them state-owned. This 7.1% reflected an extremely rapid economic growth for a country still in the agricultural stage. He established the ambitious super-priority production together with the 'growth first, distribution later' both of which were to continue to be dominant features of development planning in Korea. Huge investment was to be financed both by mobilizing domestic funds through raising the saving ratio and by new introduction of foreign loans mainly from developed countries other than the U.S. Chairman Park's dream of economic independence was loaded in this plan which was totally made by Koreans with no foreign advisor team. Nationalization of banks was carried out, if not formally, at least in effect through confiscation of stocks from big business leaders condemned for unfair accumulation of wealth. Strict controls of bank lending and interest rate followed immediately. Moreover, even a currency reform was tried in order to freeze deposits and put them under public control. It must be admitted that the elements of the controlled economy in policy measures also increased strikingly.

But soon events proved to thwart the ambitious five-year plan. This was after triggering a serious dispute with the US authorities about the currency reform and causing a fiscal inflation and a balance-of-payments crisis. Park's dream was sadly dashed, and a revision of the plan was deemed necessary to match the cold reality.

A revision of the first five-year plan implemented in 1963~64 marked the third epoch.

No wonder excessive government control and intervention were reflected. Liberal tendencies grew with the advice from World Bank and IMF. However, it did not necessarily mean the revision was liberal and was to fill up the crevasse which lay between the ideological principle of liberalism impressively clearcut in Korea and the realities of the economy and hence of economic policies.

In order to find a way out of great difficulties of shortage of investment funds and balance of payments deficit, the policy course of 'industrialization through export' was newly adopted. Systematic promotion measures for export were arranged one after another. The priority allotment of foreign exchange according to export performance and the allotment of substantial part of bank money to export sector in term of low interest were institutionalized. Alternate direct measures were developed, instead of shifting the economy toward free competition. On the other hand, the 'growth first, distribution later' became more clear, hand in hand with the strengthening of authoritative power apparatus for oppression. Besides, long neglected diplomatic relations with Japan were reestablished rather hastily and funds from the settlement of property claims for colonial exploitation began to pour in, which could largely offset the decrease in U.S. aid. This led to a grand design of Korean economic development plan as an export-oriented industrialization dependent heavily upon foreign money.

The grand design, mode of planning and policy measures were thus all fixed. A very fast economic growth was set on its way. The second and third five-year plans were elaborated upon as an extension. Though the target for growth rate was raised, the

relative weight of new state projects in development gradually diminished.

However, the fourth epoch came when an economic crisis and a coinciding political crisis both originating mainly from abroad occurred in 1971~73. President Park's resolutions following the 'declaration of building up heavy and chemical industries' at the beginning of 1973 obscured the faint liberal tendencies that had existed.

The choice of President Park was rather to focus on the repercussions of the U. S. change in Far East military strategy due to the defeat in the Vietnam war rather than to meet the domestic economic difficulties influenced by the first world stagflation. It was shown in that inflation and balance of payments deficit were not so severe as in early 1960s or at the end of 1970s. However, it should be noted that the narrow limits of export-oriented industrialization by means of textile industries were increasingly felt. The Park's determination was so to speak a bold jump in a predicament at the risk of his regime itself. A drastic industrialization scheme was pushed for adoption after his having tried in vain to insert heavy and chemical industries projects into the usual plan. Thus the task of gaining independence, military and political as well as economic, was again driven to the fore, but this time by the U.S.

Incorporated into a ten year term were super ambitious heavy and chemical industries projects, which, nevertheless, were without doubt incapable of being sustained in the macro-economic framework of the existing plan. The third five-year plan was thus actually shelved. The macro-economic management changed its character again toward backing up specific projects and seeking an ex-post-facto macro-economic balance. Super priority production revived as the mode of planning (Lee, 1990 ; Yoo, 1990 ; Inst. of IES, 1991b). In order to carry out all projects, the planning organ itself was substantially strengthened by setting up a presidential committee and its special task force for promotion of heavy and chemical industries, which concentrated broad powers and coordinated the activities of all economic departments including the EPB (Inst. of IES, 1991b). Not that export-oriented industrialization was ignored, but strategic resources and funds were primarily distributed to new enterprises of heavy and chemical industries, which were at least for a while domestic market-oriented and import-substitutive, though aimed at export from the very beginning (Lee, 1990).

So came into full bloom in the 1970s the Korean type of development planning and economic management with its heavy state intervention. It might be recognized that its tendency towards heavy government control matched if not exceeded that of Indian 'socialist' economy which is ideologically influenced by the Soviet Union. However, it is worth to note also that economic management by the Korea government maintained a remarkable flexibility in comparison with the situation in India, and displayed quick and entrepreneurial responses to the constant changes of an increasingly uncertain world market. Truly such flexibility was definitely necessary because of Korea's abnormally high foreign trade/ GNP ratio.

Yet, the course of the ambitious schemes was obliged to reach its limits in 1979. It was after experiencing too big an investment boom to be dealt with and, we had better add quickly, after completion of more than 85% of projects two years earlier than had been planned.

Fundamental policy changes were advocated and accepted in order to meet the most serious economic crisis after the war. This is the fifth epoch of the development planning in Korea, and the policy choice—the adoption of the 'economic stabilization measures'—was for the first time definitely liberal (KDI, 1981).

3. Overwhelming government interventions of the 'development dictatorship'

A brief summary of the Korean history of development planning clearly shows us that the IMF-World Bank's evaluation of the Korean experiences is utterly inaccurate and ideologically biased.

First, the role of government in developing countries differ from those in developed countries in nature. The new role of government in developed countries has been introduced in order both to safeguard their own national economy against the breakdown of the world market in the 1930s and to realize social security and welfare; while the *aim* of development planning in developing countries is to realize —more accurately, rapidly realize —and accelerate industrialization by using planned state intervention. Protectionism and bringing up infant industries are the key concepts. These trends have been familiar to economics since the proposal of Friedrich List. The aim of the development planning in Korea fits this pattern exactly. It is not that the role of government in developing countries have nothing in common with the new role of government in developed countries, for the breakdown of the world market are now threatening developing countries as well as developed countries. However, it is certainly better to argue the merits and demerits of government intervention after a sharp distinction between the two.

The *mode of planning* in Korea has been super priority production and hence *policy measures* have been characterized by so extensive direct controls, though based upon private enterprises and markets, as to remind us of the planned economy in socialist countries.

It may be agreed that development planning in Korea had been dominated by throwing large investment into specific projects until the end of 1970's, and scarce resources such as foreign exchange and low interest money had been allotted to them according to the order of strongest priority. The total plan served, so to speak, as a waiting maid, and macro-economic policies rather followed those strategic investments and sought to find an ex-post-facto balance whatever than were themselves a primary concern with macro-economic figures in the plan as the norms. It was imperative for macro-economic management to avoid any imbalances that might arise from the remarkable unbalanced growth of specific sectors (Inst. of IES, 1991b).

Therefore, the planning organs acquired impressive powers of direct controls besides macro-economic planning so as to push specific projects. The EPB has been a super economic office symbolic of Korean rapid economic growth. Not only has the EPB maintained the power of compilation of the budget, together with that of allotment of foreign exchanges; but its minister has been a vice-premier who is to coordinate all economic departments including the Finance Department, the Trade and Industry Department, and the Construction Department. Moreover, a committee ran directly by the President himself, the Committee for Promotion of Building-up Heavy and Chemical Industries, was organized once the EPB was felt too weak to fulfil the task.

As a rule among developing countries, Korea had to suffer from market failures. In almost all sectors that Korea hoped to initiate rapid development, there must have been huge externalities, increasing returns to scale, and slow and imprecise adjust-

ment because either of imperfect information or of market inflexibility. At the same time Korea, whether willing or not, had to inherit a war-time controlled economy as a country once devastated and then extensively supported by foreign armies. Serious external imbalances persisted.

Under these conditions, it cannot be imagined that the Korean authorities with such grand aspirations could have been induced to leave matters to the care of markets. Moreover, markets, even if they had realized an optimum allocation of resources at given moments, would never have achieved the ambitious state goals. It is not feasible because of the nature of markets themselves. Besides, industrialization by state had the meaning both of creating markets themselves and of gradually preparing for the opening of those markets to the world market overcoming external imbalances.

The ambitious plan of building up heavy and chemical industries was worked out as an extreme application of the Harshman model of unbalanced growth, dashing at one point and extending after a break through. At the same time it also had the character of the kind of 'big push' Rosenstein-Rodan advocated, as Korean government started huge investments into various industries simultaneously, clearly aiming to create markets each other.

Market failure aside, however, there are no reasons to believe that state intervention in general is certain to succeed. On the contrary, there are abundant examples of the utter failure of state intervention among developing countries.

A specific catalyst is absolutely necessary for assuring the success of state planning and intervention. This was the so-called 'development dictatorship' in Korea. The 'development dictatorship' was composed of a combination of young military elites, who grasped the power by way of coup d'état, and young technocrats mainly gathered in a super government office, the EPB. It was a strong authoritarian political power which, apart from the formal institutions, had an essentially exclusive power structure limiting people's participation backed up by traditional political culture.

The 'development dictatorship' showed an amazing capability to oppress people's dissent. Particularly workers' protests and contestations were systematically frustrated by reorganizing trade unions into a system of confederations of enterprise unions and by direct and often violent interventions of the Labour Bureau of the Trade and Industry Department and the KCIA. However, political coercion was not the only measure it used. Rather, it should be emphasized that the 'development dictatorship' in Korea tried and succeeded in ideological integration mainly through two key concepts —anti-communism and economic development. Although anti-communism was a natural ideological stance for a devoted nation at the frontline of the East-Western struggle, its terrible effectiveness lay in the basically self-destructive tendency to condemn social and political dissidence as treason. It could not avoid losing its power gradually. On the other hand, the call for economic development was increasingly useful so as to integrate people positively, and therefore served as another trump card for President Park to legitimize his political power.

Table. 1 How Korea Government Met the Problems of State Intervention

Problems of state Intervention ¹⁾	in the 1960's ²⁾
(i) Individuals may know more about their own preferences and circumstances than the government.	Direct control of consumer goods was rapidly abolished, except trading and price control of cereals and import control of sugar and some agricultural produces.
(ii) Government planning may increase risk by pointing everyone in the same direction-governments may make bigger mistakes than markets.	Exactly such biased activities were strongly promoted by treating very well, but mistakes might be said to have been reduced to the minimum thanks to the <i>flexibility</i> and the <i>quick response</i> of the government to the changes of world market conditions.
(iii) Government planning may be more rigid and inflexible than private decision-making since complex decision-making machinery may be involved in government.	The EPB could retain the flexibility and quick response as it <i>stood aloof</i> upon established interests, safeguarded by President Park.
(iv) Governments may be incapable of administering detailed plans.	Government bureaucracy, particularly that of the EPB mission-inspired, was remarkably competent and its morality was relatively high in comparison with those in other developing countries. Moreover, the detailed plan was confined to the strategic enterprise projects, while the macro-economic targets were left not as rigid norms but as soft standards for reference. Still, there exposed in no small instances was the managerial incompetence of ex-generals who grasped the chair of companies from above.
(v) Government controls may prevent private sector individual initiative if there are many bureaucratic obstacles.	Clearly the development of the small and medium firms was prevented owing to the government control partial to big firms which belonged to concerns.
(vi) Organisations and individuals require incentives to work, innovate, control costs and allocate efficiently and the discipline and rewards of the market cannot easily be replicated within public enterprises and organisations.	The number of public enterprise ran directly or indirectly by the government was 108 in 1972. Public enterprises account for 8.6% of GDP and 35.2% of gross domestic fixed capital formation. (Jones and Sakong, 1980) In the manufacturing industry the relative weight of public enterprises was 16.9% in 1972 in the added value term. (Kajimura, 1984) In early 1970's there exposed was the failure of not few strategic firms, the rescue of which became the top political agenda.
(vii) Different levels and parts of government may be poorly co-ordinated in the absence of the equilibrating signals provided by the market, particularly where groups or regions with different interests are involved.	A super government office, the EPB, whose minister was vice-premier, was authorized to and actually could coordinate all the economic departments.
(viii) Markets place constraints on what can be achieved by government, for example, resale of commodities on black markets and activities in the informal sector can disrupt rationing or other non-linear-pricing or taxation schemes. This is the general problem of 'incentive compatibility'.	Under strict control of the interest rate and part of lending policies of banks, the informal money market, called the 'private debts' market, grew so huge up to one-third of the formal money market in monetary resources that it checked the government to secure the domestic funds necessary to carry out the five-year plan and induced resale and mis-appropriation of funds within the concern.
(ix) Controls create resource-using activities to influence those controls through lobbying and corruption-often called rent-seeking or directly unproductive activities in the literature.	The acquisition of power by military elites through coup d'état accusing leading capitalist for corruption, together with the emergence of mission-inspired young elites of the EPB with the U. S. master degree, secured, at least at the beginning, the advantageous position relatively untied by established interests. However, the 'development dictatorship' could not help raising new interests and corruptions therewith through its own export promotion measures. Still, the early half of the Park administration was distinguished as the cleanest among the postwar Korean administrations.
(x) Planning may be manipulated by privileged and powerful groups which act in their own interests and further, planning creates groups with a vested interest in planning, for example bureaucrats or industrialists who obtain protected positions.	
(xi) Governments may be dominated by narrow interest groups interested in their own welfare and sometimes actively hostile to large sections of the population. Planning may intensify their power.	It may be said that, while 'development dictatorship' kept aloof from people, social welfare policies were markedly delayed to develop owing to the "growth first distribution later" policy, from the formulating process of which the voices of workers were utterly excluded.

Notes :

1) Stern (1989) p. 616.

2) Precisely stating, in the first and second five-year plan period (1962~71).

3) Precisely stating, in the third and fourth five-year plan period up to the introduction of the all out measures to stabilize the economy in 1979 (1972~79).

in the 1970's ³¹
<p>Direct control of consumer goods was further diminished. However, as building up of heavy and chemical industries advanced, the number of monopolized or oligolized goods, the price of which was controled, increased up to 148 in 1979. (Korea Developing Inst., 1981)</p>
<p>Clearly the overinvestment in heavy and chemical industries in late 1970's was an utter example of this problem.</p>
<p>However, the bureaus of the 'development dictatorship' were gradually caught up by the newly developed concerns fostered by the government policies themselves. It inevitably made government planning rigid and inflexible.</p>
<p>The relative weight of strategic enterprise projects ran directly or indirectly by the government was remarkably increased.</p>
<p>The circumstances disadvantageous for the small and medium firms were fundamentally unchanged, although the government began to promote the development of the small and medium firms at least in order to fill up the vacancies felt within the newly introduced heavy and chemical industries.</p>
<p>The relative weight of public enterprises in the manufacturing sector was decreased to less than half in the 1970's. Yet, at the end of the 1970's again the government must find itself unable to move at all among the managerial crisis of strategic firms.</p>
<p>As it was made clear that even the powerful EPB was insufficient to promote building up heavy and chemical industries, a committee ran directly by President Park was newly set up, which was designed to coordinate all the economic departments including the EPB.</p>
<p>A drastic measure to freeze 'private debts' was introduced in vain. More realistic measures to narrow the gap between the formal interest rates and the informal interest rates could not succeed at once. Thus, firms which belonged to concerns mainly enjoy the institutional finance, leaving the small and medium firms to the tender mercies of the 'private debts' market.</p>
<p>The strategic policies to build up heavy and chemical industries inevitably resulted in an overinvestment owing to the incompetence of the government to appropriately select overlapping applications from concerns fiercely competing with each other.</p>
<p>Neglect of environmental protection inevitably caused serious pollutions in the areas contiguous to the industrial sites for chemical plants. It was not until the dramatic end of the Park administration that opened the new era of the 'economic and social development' five-year plan (1982~86), which for the first time really put the stress upon social policies.</p>

Table 1 shows how Park's power successfully cleared several problems of state intervention which Stern (1989) summarized.

An investigation of Table 1 might show it that the Korean industrialization can not be the general model applicable to any developing countries. However, in order to make it clearer, the following three points should be noted.

First, the influence of initial social conditions are definitely large. It is the smallness and weakness of established interests together with the undeveloped class split owing mainly to the devastating and levelling effects both of the land reform and the Korean war that gave a free hand to the Korean government. Such a free hand could not be attainable for any government in Latin America that is besieged and captured by mounting interests. Schematically saying, most of interests were to be created by the government.

Second, the importance of a specific condition of divided anti-communist state must not be overlooked. As already pointed out, extreme anti-communism was one of the two trump-cards by which President Park legitimized his power. It greatly helped implement the Park administration. Developing countries usually have political and economic independence as the key concept for national integration. But it was greatly strengthened by anti-communism in the divided frontline state.

Third, crucial is the type of development strategy peculiar to the structure of national economy.

No one denies that there exist two prototypes of development strategy —the domestic development-oriented and the export-oriented. But it must be emphasized that, against the popular view, development strategy is not a matter of choice. Each country has its own inherent development strategy fit to the structure of its national economy (Kobayashi and Kawakami, 1991). On one hand, a big continental state which has a vast territory and large population, can enjoy the potential for *intensive* development. This is because a big continental country can secure within its territory abundant resources as well as potential stable markets which are out of danger of international economic disorder. Therefore, the more uncertain and severe the international conditions are, the greater are the advantages a large continental country is to enjoy. However, it is rather difficult for a big continental state to adopt bold measures of priority production, not to say, production for export. Even if the government decides to adopt such a policy course following the unbalanced growth model, it must take care of development of the domestic market as a whole, and therefore, it must be a more balanced growth path. If not, the government will, sooner or later, fall under fierce attacks and be overthrown.

On the other hand, a small oceanic country, that is, comprised of small islands or a peninsula, the territory and population of which are limited, can pursue a possibility of *extensive* development. This is namely export-oriented development. A small oceanic country, is able to choose and convey the cheapest materials from abroad on the one hand, and look for a new market elsewhere abroad on the other hand. It is easier for a small oceanic country to adopt the priority production scheme for export promotion. That is because its culture itself is already outward-looking or, if not, can easily adopt such a view, the export/GNP ratio is naturally high, and indifferent and opposing interests towards export are relatively small. The government can engage in priority production even up to transforming the whole economy for export promotion and then for building up heavy and chemical industries which would be expected

to quickly be leading export sectors. However, it is easy to see that the possibility of extensive development would be in the nature of things the largest when there exists a stable and prosperous world market, and would likewise diminish during periods of world economic disorder and fortress building.

Of course, the two types of countries described above are the products of abstraction. Most actual nation states stand between these two ideal-types. However, the difference is crucial for developing countries as it fixes their developing strategy. It is not that one has inherent advantages over the other in economic development ; but that the advantages and disadvantages of the two types of development strategies depend exactly upon the conditions of the world market. And moreover, we had better add that even if the advantages are clearly recognized at one period either for the domestic development-oriented or for the export-oriented, still it depends totally on the domestic conditions whether the specific country would make use of them. There is no doubt Korea could coincidentally exploit an opportunity, but the 'development dictatorship' and its flexibility of quickly exploiting are indispensable domestic conditions which helped make the most of the advantages.

Recently in China the neo-authoritarianism controversy has been going on concerning a leading article which asserts that China needs its own authoritarian state at least for decades in order to succeed in its 'take-off'. (*The Time*, Mar. 13, 1988) Though this opinion seems to be getting fairly broad support even within the people who wish for thorough economic and political reform, it can not be denied that it, too, is a product of excessive abstraction, as far as it asserts authoritarianism as a general theorem applicable to any developing country. No doubt support for this opinion arises in relation to the righteous desire for the promotion of China's economic reform which is to boldly open coast areas to the world market. However, it is needless to say that China is a typical big continental country. The domestic development-oriented strategy definitely fits it. So the real problem is not whether the authoritarian power structure is necessary or not; but how to overcome the coming huge negative effects of the economic reform on the rest of the country which might not get immediate gifts from the reform, rightly maintaining a domestic development-oriented strategy and thereby without awakening fatal oppositions.

Moreover, both sides of coin must be recognized. The unusually rapid economic growth in Korea is not merely a success story. It was realized with the serious sacrifices of the nation : 1) a great divide in people and the immaturity of democratic traditions owing to the harsh oppression and the mostly tactical denunciation of the North instead of tenaciously looking for the path to dialogue ; 2)stubborn disinclination to develop national friendship with neighbouring Japan as a result of government's repeated tactical use of Japan money etc. without just settlement of the negative property left at the time of colonial dominion ; 3) persistent poverty and lagging behind of social welfare owing to the Park's 'economic growth first, distribution later' policy ; 4) the decline of Confucian traditions through the collapse of village community with no formation of new civic morality ; 5) very rapid pollution of the environment mainly because of unrestrained accumulation of industrial wastes. Among these sacrifices some could easily be recovered after catching up with the developed countries. However, others would not be cured even in two or three decades. Therefore, it should be admitted still a matter of serious national choice whether the adoption of a 'development dictatorship' was beneficial even if it proved viable for

economic growth.

4. The change after 1979

Then what is the change which began in 1979 ?

The introduction of the 'economic stabilization measures' was necessary first of all to meet the emergency of economic crisis which caused a serious deficit of the balance of payments. However, it was not confined to emergency measures. The new policies package consists of deregulation, opening up the domestic market to the world market, and diminution of government activities to tract the economy under the slogan, 'from government leadership to private initiatives'. One may point it out as evidence of a 'failure of government' as the economic crisis occurred on account of government's arbitrary and excessive traction. However, this failure should be analyzed concretely instead of being exhibited as a proof of failuire of government in general.

First, there is no doubt the evils of state intervention came to the fore in the 1979 economic crisis. Though Park's power had long enjoyed not small advantages of standing aloof from existing social interests, the fusion of the political power and a few newly rising concerns grew rapidly to form solid interest communities during the building up of heavy and chemical industries. So it is quite natural that the very discipline needed to check the concern's activities (ix) (x) (xi) shown in Table 1 disappeaed. Particularly, investment grants were given one after another in the excessive competition among concerns up to build up huge plants and quantities of equipment capable of supplying goods even thrice as large as the demand expected. At the same time, incentive compatibility was threatened as concerns grew to giants and could easily pool the low interest money borrowed by some firms in the group according to specific government policy decisions, which they made use of either in the black money market earning high interst margin or in other firms in the group. Therefore, investment boom in late 1970s inevitably caused not only serious disequilibrium which was a temporary disease in itself, but also the economic conditions difficult to morally legitimize.

Second, preceding the change of policy course, the Korean economy itself has changed its character in passing two important turning points. The one is the Louis' turning point of labour supply and demand. It became no longer possible for the Korean authority to make a priority production plan upon the premise of infinite labour supply. Owing to increasing shortage of labour, measures to promote free transfer of labour and job training have gained increasing importance. In particular, skilled labour has come to be badly needed. The fundamental change of the labour market allowed strong wage claims to grow even under the Park's regime. Demands for social welfare followed.

The other turning point is the realization of the surplus in the current balance of payments, which means national saving exceeds investment. This change has immediately brought about a new situation in which such means as permission for foreign loan, allotment of foreign exchange and low interst bank money lose their traditional validity dramatically. They were once the indispensable tools to press upon big enterprises according to policy priorities of the economic development plan.

Third, under the new system of 'private initiatives', government intervention is expected only to fulfil the distributor and coordinator function. 'From promoting economic growth to equitable distribution' and 'from protection to coordination' demonstrate the new role the government is expected to play. It means exactly that government activities in Korea moves from within the spheres where problems of state intervention has grown to the spheres where necessary interventions have been neglected so far, notwithstanding when failure of market is beyond dispute.

In any event, no wonder that the five-year plan has markedly lost its character as prescriber of norms, as specific enterprise plans have almost disappeared and major policy tools have lost their former absolute powers. The five-year plan has been reduced to one of medium term prospect. By 1990, whether the making of the five-year plan should be continued or not was seriously debated in the EPB, though no conclusions were reached.

However, It should not be overlooked that the process of formulating a five-year plan has changed its character, too. It has shifted from a genuinely administrative and confidential process to an open process of seeking the consensus in the nation after being renamed as the economic and social development plan.

If it had been fully realized, no one would have denied an unconditional movement in Korea towards the free market. However, the pace of liberalization has been rather timid and with a U turn when unstable international conditions were reversed from the 'three Lows' to the 'three Highs'(high won rate, high oil price and high interest rate). Furthermore, there coincided high wage rises under the principle of relatively awkward government intervention amidst fierce criticism of KCIA practices. A tendency to prolong labour disputes has exerted gloomy influences upon production. Early in 1990s it together with the 'three Highs' phenomena has affected the economy so seriously that the Korean economy has looked even like falling into stall. There are sufficient reasons for one to suspect whether the Korean economy has really realized the long sought conditions of economic independence and passed the threshold of becoming truly developed. The liberalization of the Korean economy had better be understood, therefore, not as straightforward but as phased in, with decreasing government protection for development.

Moreover, if carefully observed, a new role of government is sure to be found emerging. It is concerned with the breakdown and impending reorganization of the postwar world economy.

The growing uncertainties of the world market, particularly of the US market, must be a primary concern for Korea, which has resorted to exporting more than 40% of GNP. A growing trend towards protectionism in the United States and repeated pressure for raising the won-dollar rate so as to depress Korean exports to the United States would put the future of the Korean economy in danger. So far as it may be expected that the the US problem of the 'twin deficit' would not be settled though urged from abroad and with all efforts of the US government and that such a trend of protection and repeated pressures therewith would grow strong, Korea has to look for an alternative way of living in the world market —that is, to form a kind of co-prosperous region with Japan and others which could secure for it stable reproduction on an enlarged scale. The stable foreign exchange rate system among region member countries is crucial. Such a region should and perhaps would be an open one because Japan and Korea could maintain its relative strength in international trade

competition at least for a decade or so.

Open as it is, the fact that Korea as well as Japan would be compelled to form an economic region is itself decisive. This prospect has already pushed the Korean government to foster close economic relations with East Asian countries. This new role of government is not the one confined to developing countries or NIEs, but the one which all countries have come to feel necessary in the transitive and uncertain period of the world market system.

However, it must be noticed that such a task as to form a co-prosperous region would not be achieved only by inter-governmental negotiations. It is clear with a glance at the formation of the European Community. Necessary were innumerable accumulations of communication and cooperation, not only economic but political, social and cultural. Hence it naturally demanded tremendous efforts not only at the inter-governmental level, but of inter-people level. It is not too much to say that the success depends ultimately upon the progress of people's friendly communication and mutual understanding.

It can not be denied, however, that the Korean government has tactically made the most of the danger of the North so far to get immediate results of industrialization; and that it has hastily shook hands for the sake of money with reactionary Japanese politicians who failed to see the necessity of expressing their regret for the past colonial dominion and settling thoroughly. Such behavior has not failed to foster the feeling of deep anger and hatred against the enemy and ex-enemy together with the growing internal social split, both of which are sure to make it extremely difficult to form a co-prosperous region in East Asia. Even now, the government of South Korea tightly prohibits visits to and from the North, and also prohibits Japanese songs, for example, to be imported, in an entirely opposite direction from that of policies for mutual understanding ! Therefore, a thoroughgoing democratization might be said necessary in order to achieve a success of a new kind.

5. Concluding remarks

It is certain that Korea has experienced, at least partly, a contemporary 'state failure'. However, not only that this 'state failure' has come after the grave 'market failure' in the 1930s, the breakdown of the pound sterling predominating world market; but that it must be causing a grand new 'market failure', the breakdown of the US dollar predominating world market.

Therefore, there no longer exists a simple choice between two alternatives —markets or government. Markets and government can no longer stand independently of each other. The mixed economy is and will be the reality, though necessary to confirm that the private enterprise and the market are the basis of the social system just as they were. It must be agreed that the difference should not be in whether markets or government entirely take the place of the other, but in the character of mixing the two or, in other words, the very mode of state intervention.

The light and the dark of the 'development dictatorship' has been in sharp contrast for two decades, miraculously achieving industrialization with a strong control over the economy and harsh oppression. However, both direct control over the economy and effective suppression of social opposition have been gradually losing strength,

though with sudden U turns. So new governmental roles of securing social equity and reconciling conflicting interests have been developed from the early 1980s side by side with the political democratization.

Moreover, a totally new role of government is emerging to the front —the formation of a co-prosperous economic region. However, the realization of this is sure to demand further democratization, as mutual understanding and reliance of nations can only be created with in the protracted accumulation of friendly communication at the popular level.

References

- Balassa, Bela (1971), *Industrial Policies in Taiwan and Korea*, WA, Band 106 Heft 1.
- (1978), *Export Incentives and Export Performance in Developing Countries*, A comparative Analysis, WA, Band 114p, Heft 1.
- Esho Hideki (1991), *Development Economics — Its Formation and Development* (in Japanese), Hosei University Press.
- Institute of Comparative Economic Studies, Hosei University (1990a), *The Evolution of Korean Economic Planning — Report of Hearing Research* (in Japanese), working paper No. 14.
- (1990b), *The Evolution of Korean Economic Planning* (2) — *report of Hearing Research* (in Japanese), working paper No.18.
- (1991a), *The Economic Development Three-year Plan* (in Japanese), working paper No. 23.
- (1991b), *The Evolution of Korean Economic Planning* (3) — *Report of Hearing Research* (in Japanese), working paper No. 24.
- Jones, Leroy P. and Sakong II (1980), *Government Business and Entrepreneurship in Economic Development, The Korean case*, Harvard University Press.
- Kajimura Hideki (1984), *The Government Role in the South Korean Economy*, in : the 1960s and 1970s, in : Kajimura H, Suzuki Y, Tomioka M, and Nino Y, *Essays on the South Korean Economy*, (in Japanese), Hakuto Bookshop.
- Kobayashi Kenichi and Kawakami Tadao (ed.) (1991), *The Economic Development and Industrial Relations in South Korea* (in Japanese), Hosei University Press.
- Korea Developing Institute, (1981), *The Collected Materials of The Economic Stabilization Measures*, Vol. 1 and 2 (in Korean).
- Krueger, Anne O. (1974), *Foreign Trade Regimes and Economic Development, Liberalization Attempts and Consequences*, New York, National Bureau of Economic Research.
- Lee Suk-chae (1990), *Korea's Heavy and Chemical Industries Promotion Plan (1973 ~ 79), Impacts and Lessons*.
- Nishimura Toshio (1982), *Formosa that has challenged Korea* (in Japanese), Kokusai-Keizai-sha.
- Stern, Nicholas (1989), *The Economics of Development, A Survey*, in : *The Economic Journal*, Sep. 1989.
- Yoo Jung-ho (1990), *The Industrial Policy of the 1970s and the Evolution of the*

Manufacturing Sector in Korea, Korea Developing Institute.
World Bank (1983), *World Development Report 1983*, Oxford University Press.
— (1988), *World Development Report 1988*, Oxford University Press.