

DISCUSSION PAPER 10/2018

Lucky Goldstar and the Rockets

What worked in South Korea?

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*Strengthening Africa's
economic performance*



Executive Summary

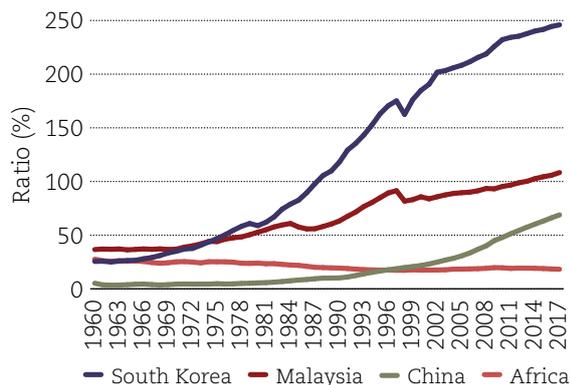
From a per capita income of just US\$80 in 1962, three times poorer at the time than North Korea, from 1965 to 1990, South Korea achieved an average growth of 9.9 per cent, the highest in the world. Today its per capita income is US\$30 000, and a number of its companies are global market leaders. A focus on early authoritarianism under President Park Chung-hee as the reason for Korea's rapid growth and transformation obscures the complex myriad programmes and tough deliberate choices made in the process. This involved, at its heart, the strategic re-orientation from protectionism to export-led growth and the rapid refocusing of society on competitiveness. Looking back, over nearly 60 years later, this seems logical and, following Southeast Asia's subsequent development path, passé even. At the time it was revolutionary.

Introduction

'Get on with it' best summarises the thinking of General Park Chung-hee, the boss and president of South Korea for 18 years.¹ Or as he put it more politely, 'We need wordless deeds and ambitious construction programmes'.²

While he was democratically elected five times, Park was no democrat. His instinct and focus were elsewhere. He oversaw a rapid economic take-off, driven by an export-led industrialisation strategy. From 1965 to 1990, the country achieved an average growth of 9.9 per cent, the highest in the world, increasing its annual exports more than 5 000 times. In the process, along with the other Asian 'Tigers' (Hong Kong, Taiwan and Singapore), it altered perceptions and expectations of development worldwide.

Figure 1: National income as a share of global income (per capita)



For South Korea's economy grew as much in a single generation as America did over a century.³ Today this growth model has been taken over by China, leading to a massive decline in global poverty over the last three decades. While East Asia was home to around half of the world's extreme poor in 1990, since then no less than 800 million have escaped poverty in China alone, reducing the regional share of global poverty to under 10 per cent.

Both China and Korea are used to promote a 'growth through authoritarianism' or 'development through a benevolent dictator' thesis. Yet the evidence shows that the key components to Korea's path were far more complex than just

having a strongman; indeed, Park's style of rule threatened and ultimately undercut his success.



The three years of the Korean War saw four million casualties and the destruction of 70 per cent of infrastructure.

There was much more to it than perspiration and militarism. With a belief in *Shin-Sang-Pil-bul* ('Never fail to reward a merit'), Park's ideology centred on what Sung Hee Jwa, the head of the Park Chung Hee Foundation, describes as 'economic discrimination', as opposed to 'egalitarianism'.⁴ Economic discrimination was the process of inserting the element of competition into economic policy, from favouring performing companies on their export record to villages on their delivery to their citizens.

From Destruction to Construction

In the wake of the devastating war on the Korean peninsula (1950–53), which cost four million casualties, destroyed 70 per cent of infrastructure and displaced 10 million, then half its population (it is 51 million today), South Korea was one of the world's poorest countries. In 1960 its annual (nominal) income per capita was then just US\$80, lower than the sub-Saharan African average. It seemed then to have few possibilities, given its poor store of natural resources, low savings, and tiny domestic market.

It was poor, broke, insecure and seemingly with few options.

Park had come to power after Syngman Rhee, the country's inaugural president and hero of the war, was forced out by a student-led uprising over his increasing authoritarian rule and widespread corruption. Already, in 1950, the British

chargé d'affaires in Korea, Sir Henry Sawbridge, wrote to the Foreign Office from Pusan (Busan): 'It appears from here that this war is being fought *inter alia* to make Korea safe for Syngman Rhee and his entourage. I had hoped that I might find it otherwise. I may be wrong, but I fancy that the experience, incompetence, and possibly corruption of the present regime are in some measure responsible for this crisis.'⁵

Whatever his excesses, Rhee laid a foundation for Korea's subsequent success through a land reform programme, strong relationship with key ally (and aid provider) in the United States, and education drive. Illiteracy fell from 70 per cent to 15 per cent in a decade. Peasants were encouraged to gain land ownership and increase production through a scheme whereby they paid half the crop over to the government for five years, their improved financial situation creating a positive cycle to be able to send their children to school.



Still a favourite after all these years.

Although a democratic government initially took over from Rhee, Park led a coup in May 1961 upon learning he was to be retired from the military. Park's regime was no less authoritarian, but as an admirer of Napoleon and Bismarck and student of German and Japanese industrialisation, he had a far more ambitious economic plan than the 84-year old Rhee. At the time South Korea was three times poorer than its northern neighbour in per capita GDP terms, Seoul's politicians being wedded to the idea of agrarian-led growth and import-led substitution.

Park's strategy by contrast was dependent on shifting from import substitution to export-led industrial growth given the tiny domestic market. Labour-intensive manufactured exports offered a

competitive advantage, but the challenge was to build businesses of scale.

Government incentives were to play a part, but first he had to get the businessmen on side. As in much of East Asia at the time, much business was focused on rent-seeking from American aid, which provided as much as half of the government budget in the 1950s.

Here authoritarianism might have helped at the outset to speed things along. Park swiftly gained the attention of business by locking up 12 captains of industry at Seoul's Seodaemun Prison, which had gained notoriety under Japanese colonial

South Korea–Africa Ties

20 African Embassies in Seoul

(Algeria, Angola, Côte d'Ivoire, DR Congo, Egypt, Ethiopia, Gabon, Ghana, Kenya, Libya, Morocco, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Tunisia, Zambia)

24 Korean Embassies in Africa

(Algeria, Angola, Cameroon, Côte d'Ivoire, DR Congo, Egypt, Ethiopia, Gabon, Ghana, Equatorial Guinea, Kenya, Libya, Madagascar, Morocco, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Sudan, Tanzania, Tunisia, Uganda, Zimbabwe)

Korean Investment in Africa: US\$455 million in 2017

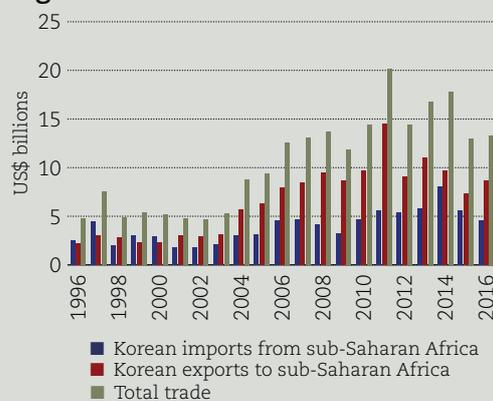
Total Korean ODA to Africa

US\$3.6 billion since 2000

Trade Volume with Africa

US\$18.35 billion in 2016

Figure 2: Two decades of trade



rule, under a ‘Special Measure for the Control of Illegal Profiteering’. This was a blunt signal that the era of crony capitalists, those who Park termed ‘liberation aristocrats’ who took a slice while doing little for their country, was over. Those suspected at having made illicit gains were ‘invited’ to form a Committee for Economic Reconstruction, a forerunner to the Federation of Korean Industries. The Economic Planning Board was, too, set up to facilitate the development process.



A history of militarism – and a longer one of democratic struggle. Mural at Seoul's Seodaemun Prison.

Later, entrepreneurs were regularly called to the presidential palace to report on their progress. Park proved a willing listener in formulating successive five-year national development plans from 1962, early on sending out teams to gather information from Hong Kong and Japan.

Despite some early recalibration of initial targets, which necessitated liberalising the exchange rate, by 1964 Korea reached a benchmark US\$100 million in exports. Thereafter 30 November became National Export Day, on which companies were publicly ranked by the scale of their achievement.



‘I just want to say one word to you. Just one word ... Are you listening? ... Plastics.’ Lucky Goldstar's A501. In 1969, just 6 per cent of South Korean families owned a television. Within ten years, this had increased to 80 per cent.

The start was modest in developing textile, footwear, toy and wig, and light electronics industries. But the result was the development of large-scale conglomerates, the *chaebols*, modelled on the Japanese *zaibatsu*, of the likes of Samsung and Hyundai. Seoul's National Museum of Korean Contemporary History details the transformation from an agrarian to high-tech society, displaying the first attempts at a Korean radio in Lucky Goldstar's white plastic A501 of 1959, the agricultural Kia three-wheeler truck and Hyundai's early, clunky 1982 Pony sedan through to the *Baekgom* missile produced under the Yulogok military modernisation programme.



They have come a long way, fortunately. KIA's early T-600 truck.

Lucky Goldstar became LG, and Kia and Hyundai are global brands. Hyundai's factory in Ulsan is the largest car-production facility in the world, where 34 000 workers can produce 5 600 vehicles daily, this from assembling Ford Cortinas under licence in 1968. Such *chaebols*, family-managed conglomerates, started small, but were responsible for two-thirds of the growth in the South Korean economy during the 1960s.

Park didn't just strong arm businesses, but provided the conditions they needed, especially tax breaks and export finance. And crucially his administration invested heavily in infrastructure, including the nationwide expressway system and the Seoul subway. One of Park's early accomplishments was to ensure the 24-hour provision of electricity by 1964, which previously had been available just a few hours each day.



The construction of the 428-km Seoul-Busan highway (known also as the Gyeongbu Expressway), started in February 1968 and was completed in July 1970, slashing travelling time across the country. Kim Jung-ryum, who was chief presidential secretary at the time, recalled later, 'The rapid economic growth we saw during the 1970s and 80s would not have been possible without the expressway.'⁶

Innovation and Evolution

He was also willing to innovate and evolve his plan. Once light manufacturing had got up and running, he turned his attention to building heavy industry in the late 1960s, focusing on automotive, chemicals, ship-building, steel and electronics. Aid was used creatively. For example, the steel plant at Pohang was funded by Japanese war reparations.

Today these five sectors total 70 per cent of Korea's exports, a third of economic output and a quarter of all jobs. Domestic savings grew tenfold to over 35 per cent by 1989.

Having been born into a poor, peasant family, in 1970 Park also turned his attention to modernising rural life through the *Saemaul Undong*, or 'New Villages', focusing on improving basic conditions, then income and infrastructure. His rural upbringing apparently made an indelible impression on Park; as a youth his ambition was reportedly to 'escape' the Korean countryside.⁷

All of this happened while under extreme military threat from the North, whose forces were lined up on the border just 40kms from Seoul. This inspired economic performance as a pillar of national strength and security, but also drew off considerable financial resources into a domestic arms industry capable of developing and manufacturing high-tech equipment, from aircraft to

electronics, naval vessels to rockets. 'This drive to increasing self-sufficiency was sparked by [US President Richard] Nixon's 1972 visit to China, and the fear that US troops would be pulled out from the Korean peninsula,' says Park Jin, the head of Parliament's National Future's Institute. But the strong anti-communist motive also excused excesses, including the absence of a free press, imposition of a nationwide curfew, forced movement of homeless people, and the detention of activists.



The National Assembly, Seoul. Single-member constituencies comprise 253 of the assembly's seats. The remaining 47 are allocated by proportional representation. Parliamentarians serve four-year terms.

And while Park's authoritarianism may have got the economy moving quickly, it also nearly undid the whole thing.

'Essentially there were two phases to Park's rule,' says Park Jin. 'Between 1961 and 1972 he was a remarkable president, pressurising the country for development. After 1971, when he nearly lost his re-election to Kim Dae-jung, he changed the constitution to allow himself a third term and to be elected indirectly via an electoral college system, rather than directly so. He remained economically sound but became politically terrible.' Park introduced, amidst growing public opposition and student-led protests, the *Yushin* (renovation) constitution in November 1972.

After that time, his rule hardened as he was less willing to take external advice, 'He changed, especially after his wife was killed [in a failed assassination attempt on Park's life in August 1974], and he turned to his brothers and nephews in the military for input' says Chung Hee Lee, of Hankuk University for Foreign Studies. The *Hanahoe*, comprising mostly of graduates from the 11th class of the Korean Military Academy,

and formed by future president Chun Doo-hwan, especially grew in influence.



Three major civil society demonstrations define Korea's recent history: the April 19 Revolution of 1960, the Gwangju Popular Uprising of 1980, and the June Democratic Uprising of 1987. To this can perhaps be added the 2016 Candlelight Revolution which helped to bring down Park's daughter President Park Geun-hye.⁸



President Park was killed by the head of his KCIA, a former Military Academy classmate, ostensibly over a dinner argument about taking a tougher line on domestic protestors.

Despite the political ructions, by 1979 South Korea's per capita GDP had grown to US\$1 800, or US\$6 600 in today's money.

Park was killed by his former classmate at the military academy Kim Jae-gyu, the director of the Korean Central Intelligence Agency (KCIA). What became known as the '10.26 incident' inside the Blue House presidential compound in October 1979, set in train events resulting in the country's democratisation in 1987. Park had apparently rebuked Kim for not being tough enough on protestors in Busan, so he shot him and his head of security, among others.

A coup two months later brought General Chun Doo-hwan to power until 1987. Willing to take advice from the experts in the Korean Development Institute, Chun cooled what had become an overheated economy, including freezing the national budget for two years in 1983 and 1984, setting the stage for a subsequent export boom as Korea's competitiveness increased. Chun's party, the Democratic Justice Party, and its leader, another general and Hanahoe member Roh Tae-woo, won the first election in 1987 against veteran activists Kim Dae-jung and Kim Young-sam who effectively split the opposition vote. Kim Young-sam thereafter served a term in alliance with Roh from 1993 to 1998. The transition from autocracy to democracy was marked by key events, including the hosting of the Olympics in 1988, signalling Seoul's emergence into the global community of nations, and the election of liberal political icon Kim Dae-jung ten years later.



On 21 January 1968, Unit 124 of North Korean People's Army attempted to assassinate Park at the Blue House. They were stopped 800 metres from the presidential residence by a police patrol. All but two of the 31 North Koreans were killed or captured. In response, Park organised Unit 684, a group intended to assassinate Kim Il-Sung

By this time, however, bubbles had formed in the economy, which partly had their origins in the politically connected practices and loans. A combination of overborrowing with government backing, investment in unproductive assets including real estate, and the opening of the capital markets led to the 1997 crash. 'In a way this was a real blessing,' reflects Park Jin, who was called to serve in Kim Dae-jung's reform office for three years. 'We needed to restructure a lot of sectors: private, labour, public and finance. Kim Dae-jung did this, acting like a president from the outset.' Korea also accepted a US\$58 billion international bailout, which it paid off by 2001.

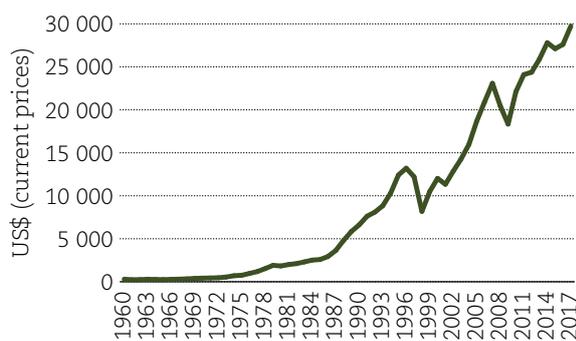
Kim Dae-jung reduced the nepotistic connection between the government and the private sector, so much so that subsequent heads of government have been indicted for corruption. Most infamously, Park's eldest daughter, Park Geun-hye, who had become the first female president of South Korea in 2013 in an election that was seen by some as reinforcing her father's legacy, was impeached four years later in an influence-peddling scandal and sentenced in April 2018 to 24 years imprisonment. Her predecessor Lee Myung-bak, president from 2008 to 2013, and a former CEO of Hyundai, was arrested in 2018 on bribery and tax evasion charges, and in October was sentenced to 15 years.⁹ In 2016 former Prime Minister Lee Wan-koo was convicted of taking illegal funds, and this year, his successor Choi Kyong-hwan was jailed for five years for bribery. The message: business as usual was unhealthy.



Some rogues and one Nobel Peace Prize Laureate.

Despite the Asian financial crisis and the democratic transition, growth in Korea continued apace, GDP per capita reaching US\$20 000 in 2006, rising again to US\$30 000 by 2017, making it the world's 11th largest economy, and the fifth largest exporter.

Figure 3: South Korea's GDP per capita



Conclusion: Authoritarianism as a Chimera?

Is authoritarianism thus necessary for economic triumph?

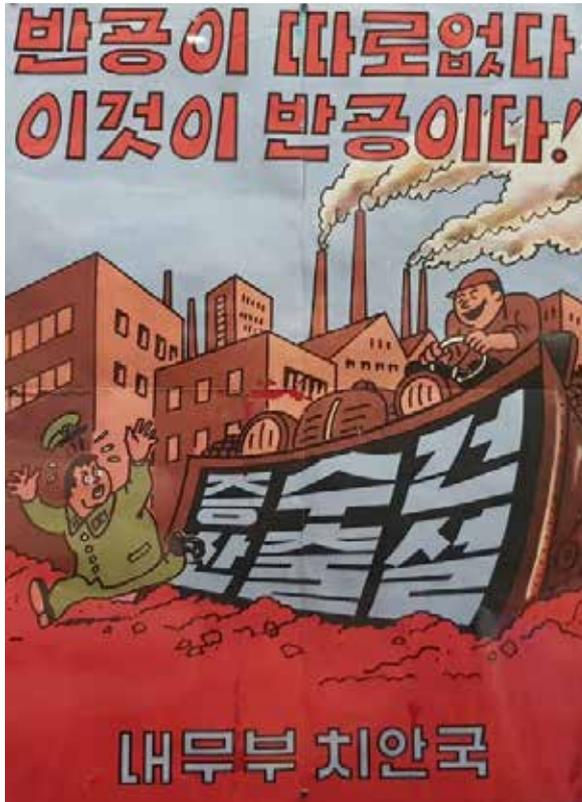
While it's a tempting single, silver bullet developmental answer, authoritarianism is no guarantee of success on the Korean peninsula as elsewhere: only look at the record of Mao Zedong or the myriad African authoritarian failures along with the North Korean regime. It only works if you have a 'good' authoritarian, and the easiest way to get rid of a bad one is paradoxically through democracy.

'If you have a benevolent dictator,' says Park Jin, 'it would be a good thing, at least in the early stages. But there is no guarantee that it will be a good thing; that the person in charge will turn out to be good. Rather democracy is a safer bet.'

Korea also enjoyed three features largely overlooked in the pro-authoritarian argument: first, while Park's regime can hardly be described as liberal, there was an active civil society throughout, despite the absence of a free media and pervasive militarism. Indeed, Park came to power because of people's activism against Rhee, and was re-elected five times.¹⁰ And whereas Park may have been no liberal, by the standards of the (Cold War) time and his region, the extremes of his rule were unexceptional, especially considering the overarching security imperative.

Yet the overriding national mood ensured that liberal democracy was not only inevitable, but that when it happened, the transition stuck. 'Everyone knew what democracy was in Korea,' says Choon Kun Lee, of Korea's Institute for Strategic Studies. Regardless, in evaluating Park's regime, there is today a concerted effort made to whitewash his rule from the collective memory – despite polls finding that he remains the 'greatest leader of the country since South Korea's liberation from Japanese colonial rule in 1945,' with a 44 per cent approval rating overall, followed by Roh Moo-hyun and Kim Dae-jung with 24 per cent and 14 per cent respectively. There is a wide generation gap, however, to his popularity. Some 62 per cent of those surveyed in their 50s and 71 per cent in their

60s preferred Park while 60 per cent in their 20s and 30s preferred Roh and Kim.¹¹



Some paranoia about the North's intention apparently helped.

The left and right are closer on one issue. Nam Kyu-sun, the head of the Korea Democracy Foundation, and a former student activist, 'Authoritarianism is not needed for development, both of the economy and of our politics. To the contrary, she says, 'if we didn't have 18 years of authoritarianism, the economy would have been more developed.' Professor Jwa emphasises that there are 'no grounds' to argue that Park's success is a by-product of his authoritarian politics and similarly 'to claim that no lessons can be learned for 21st century democracy. Rather,' he adds, 'democratic leadership that embraces economic discrimination is a precondition for economic take-off.' The failure to embrace such a competitive ideology explains, he says, along with 'creeping socialism' why Korea's growth rate has slowed considerably: from 8.8 per cent between 1987 and 1997 to 5 per cent from 1997 to 2007, and just 3.3 per cent between 2007 and 2017.¹²

The second factor explaining why authoritarianism was not critical, as Jin again notes, is that

'there was always a well-functioning civil service. Our national exam for civil servants started 1 000 years ago, and our bureaucracy was modernised by Japan during their period of colonial rule.'

And third, crucially, unlike the record of authoritarian socialist regimes, rather than fearing the creation of alternative centres of wealth and power, Park realised that the success (or not) of business would define Korea. As a result, the transition has been staggering. Samsung was, for example, once a small exporter of agricultural and fishery products. Hyundai started as a small car repair business. LG Group was once a factory making face cream and toothpaste. SK started out as a small textile manufacturer and has grown into SK Telecom. Embracing corporate growth has fundamentally facilitated Korean economic development.



Hard to believe it's the same place 50 years apart. Nearly half of South Koreans, some 25 million people, live in the greater Seoul area.

Culture, especially Confucianism, is also sometimes similarly used as a single casual factor to explain Korea's performance as in China, Taiwan and Singapore. Chung Hee Lee notes that 'in the Oriental system, in the Confucian ideal, hierarchy

and political power is commanding, perhaps stemming from our lengthy practices of royalty.’

But it is equally overlooked that culture was once used to try to explain exactly the opposite: why some countries – from South Korea to Germany, China and Japan – would not be able to develop, including in UN reports of the early 1950s, a time when Koreans were viewed by some as lazy and backward. ‘What Park was able to change,’ reflects Park Jin, ‘was to incentivise hard work by increasing the rewards for performance.’ Famously this was done in the programmes for cement distribution to villages in the early 1970s, when those who were adjudged to be in the top half of performers received double the allotment the next year, and those in the bottom half, zero. Park did not care whether he upset those groups, just as he did with business.

The focus on authoritarianism as the reason for Korea’s rapid growth and transformation obscures the complex myriad programmes and tough policy choices which had to be made in the process. This involved, at its heart, the strategic re-orientation from protectionism to export-led growth and the rapid refocusing of society on competitiveness. Looking back, over nearly 60 years later, this seems logical and, following Southeast Asia’s subsequent development path, passé even. At the time it was revolutionary.

Korea’s transformation from a poor, developing to a developed country is known as the ‘Miracle on the Han River’. But it was no miracle, just one requiring a lot of hard work, discipline, leadership, innovation and education, incentivisation, a focus on growth above all else, and, ultimately, democracy.



The benefits of growth. Infant mortality reduced from 9.6 per cent in 1960 to 0.4 per cent in 2010, life expectancy over the same period from 54 to 80, and teacher/children ratios from 1: 47.4 in 1980 to 1:18.7 in 2010.

Endnotes

1. This is based on a research trip to South Korea in September–October 2018. Thanks are expressed to the Korea–Africa Foundation for its role in organizing the itinerary. Unless otherwise indicated, the interviews cited were conducted during this time.
2. Cited in Joe Studwell, *How Asia Works: Success and Failure in the World's Most Dynamic Region*. London: Profile, 2014.
3. See Louis Kraar, 'The New Power in Asia', *Fortune*, 31 October 1994, p. 82.
4. See his *The Rise and Fall of Korea's Economic Development*. Switzerland: Palgrave, 2017.
5. Cited in Max Hastings, *The Korean War*. London: Pan, 1987, 0.280.
6. At http://english.chosun.com/site/data/html_dir/2010/07/07/2010070701203.html.
7. See Hwang Kyung Moon, *A History of Korea*, London: Macmillan, 2010, p. 244.
8. For details of these processes and movements, see Seo Joong-Seok, *Contemporary History of South Korea – 60 Years*. Seoul: Korea Democracy Foundation, 2007.
9. At <https://ewn.co.za/2018/10/05/south-korea-jails-former-president-lee-for-15-years-on-corruption-charges>. At <http://english.yonhapnews.co.kr/national/2015/08/07/84/0301000000AEN20150807006800315F.html>.
10. 1963, 1967, 1971, 1972, 1978.
11. At <http://english.yonhapnews.co.kr/national/2015/08/07/84/0301000000AEN20150807006800315F.html>.
12. These and other growth statistics are generated from the World Bank's World Development Indicators at <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.