

# Building a Developmental State: The Korean Case Reconsidered

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## INTRODUCTION

The unprecedented economic success of South Korea in the latter half of this century has made it a favorite test case for just about every theory of development. Explanations of its transformation have been especially valued since its galloping growth rates stand in such stark contrast to the prolonged stagnation of so many other developing countries. Among such explanations, the one that held sway for nearly two decades starting from the 1970s was neoclassical in fundamentals: South Korea developed, so the story went, because of its fidelity to free market principles and the wisdom of its state in adhering to a minimalist role in the developmental process.<sup>1</sup> This pairing of economic success with a minimalist state stood in sharp relief against the contrasting pair of economic stagnation and an interventionist state, which seemed to obtain just about everywhere else in the developing world. The symmetry appeared to give the neoclassicals a watertight case: the solution to the developmental conundrum lay in minimizing the direct hand of the government in the economy.

Since the late 1980s, however, a series of detailed case studies have served to raise grave doubts about the descriptive adequacy of the neoclassical story, at least as it pertains to Korea. In the work of Alice Amsden, Jung-en Woo, Robert Wade, Stephen Haggard, and others, it has emerged that the Korean state, as well as that in Taiwan, has been anything but minimalist; not only has it been involved

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extensively in virtually every sphere of economic activity, but a compelling case has been made that this involvement was in large measure responsible for the remarkable economic success of the country.<sup>2</sup> Further, the kinds of interventions that the state initiated—manipulating interest rates, offering protection to industry, subsidizing new ventures, directly channeling flows of new investment—were of a piece with the policies found in many cases of failed development.

The discovery of sustained state intervention in Korea was thus a mixed blessing for critics of orthodoxy: it served to undermine the neoclassical picture, but since this also undermined the attractive symmetry of the latter's theory, it demanded a new explanation for the divergent outcomes found in the developing world. If state intervention in the economy was common across developing countries, wherein lay the secret to its success in Korea? It soon emerged that a central difference lay in the quality of state intervention in East Asia: unlike in many developing states, where state subsidies were treated by industry as gifts, in Korea the state was able to extract performance from industry in return. The South Korean state, in other words, was different in that it was able to "discipline" its capitalist class. Firms were given access to state resources, and in return, the state took it as its prerogative to have a say—sometimes a decisive say—in its investment decisions. As one authoritative source has put it, a firm that went against the prescribed investment pattern "may find that its tax returns are subject to careful examination, or that its application for bank credit is studiously ignored, or that its outstanding bank loans are not renewed."<sup>3</sup> Alice Amsden sums up the matter thus:

All governments know that subsidies are most effective when they are based on performance standards. Nevertheless state power to *impose* such standards, and bureaucratic capability to implement them, vary from country to country. . . . The state in Korea, Japan, and Taiwan has been more effective than other late-industrializing *countries because it has had the power to discipline big business.*<sup>4</sup>

The findings of the new generation of scholars thus brought the issue of Korea's success squarely into the domain of state theory: if one of the keys to its success was the capacity of its state to impose discipline on capital, the obvious question now was, How did Korea acquire such a state where others did not?

In this paper, I attempt to answer this question by examining the origins of the developmental state in Korea. Two features of the Korean experience appear to make it worth serious study: first, as already mentioned, the state has had an uncommon capacity to exert influence over its business class and hence avoid the fate of many developing countries, where state subsidies and protection became a trough at which businesses come to feed. How did a regime with such power consolidate itself? Second, this ability to discipline capital has developed in tandem with exceptional success in export markets of advanced countries. This too sets Korea apart from most of the developing world. What makes it especially interesting is that its export-led strategy came as a switch from an import-substitution

policy that had dominated in the 1950s. The commitment to export-led industrialization (henceforth ELI) thus involved a turn away from an established strategy of ISI, something which other countries also tried with little success. Both of these—the developmental state and the turn to exports—were born virtually simultaneously. It is no surprise, then, that explanations of Korea's economic success tend to treat these two phenomena together.

The view that has emerged in the literature and that has received the assent of a growing number of commentators is that both of these phenomena—the Korean state's ability to discipline its capitalist class and the turn to ELI—were a symptom of the state's more general dominance over that class. In the new consensus that is developing around the work of the revisionists, the Korean state after 1961 was able to achieve a position of dominance over its business class through a series of reforms: these included measures that increased the institutional coherence of the state—such as the creation of a nodal agency in the Economic Planning Board (EPB)—but centered most crucially on the usurpation of control over finance. Through the nationalization of banks in 1961 and the careful regulation of capital markets, the Korean state was able to bring its business class to heel; having achieved its position of dominance, the new regime launched its export drive and closely monitored capital's adherence to it. Both the ability to extract performance from business and the turn to ELI are thus presented as artifacts of the more general dominance of the state over capitalists. The developing consensus is thus statist in substance: industrial policy was successful because of the unique power that the state had to override its capitalist class's own proclivities, and it was this power that set it apart from other developing states.

The argument that I develop in this paper is, most broadly, in agreement with much of the new consensus. I agree that the Korean state was able to discipline its local firms to a remarkable extent; I also agree that the institutional basis of this capacity lay in the reforms of the state that were carried out after the coup of 1961, such as the creation of the EPB and the nationalization of banks; I also agree, finally, that this power was in large measure what accounted for the divergence in outcomes between industrial policy in Korea and that in other developing countries.

Yet, I shall also urge that in their zeal to overturn the neoclassical picture, the statist go too far. Specifically, where I part company with them is on the assertion that the Korean state was sufficiently autonomous from its capitalist class that it could simply impose a new development strategy—like export-led development—with little regard for how firms would react. My argument turns on a distinction between coercing particular firms and coercing large swathes of the business class, in the sense of simply imposing a development model or investment strategy on the latter. Statists argue that the Korean regime's power extended to both domains; I will urge, instead, that while the former kind of coercion was exercised with tremendous success, there is no reason to believe that the latter

power was any more developed in Korea than in other states. This is not to deny that the state wielded considerable power over domestic businesses, but all capitalist states have such power to varying degrees. The statist do not present any compelling reason to believe that the Korean state's power was qualitatively greater than that of other states.

Perhaps the most serious consequence of the statist exaggeration is the misunderstandings that it generates about the origins of the developmental state in Korea: since the Park regime is assumed to have dominated its capitalists, the question of how it got them to switch to an ELI strategy is not regarded as especially difficult. But once the thesis of general dominance is rejected, the transition becomes more puzzling. I shall show that, in fact, the transition occurred not because of the state's unquestioned power over local capitalists but rather because of the latter's own enthusiasm for it. And this enthusiasm, extremely rare in developing countries, was made possible by a development that statist tend to overlook entirely but was central to the story—the emergence of an alliance of Korean and Japanese firms, which gave the former group access to export markets that would otherwise have been inaccessible.

It bears repeating that this critique of the prevailing wisdom does not question the fact that the state did enjoy great success in disciplining local firms; it simply urges that the limits to the scope of this power be realized more clearly. Instead of a dominant state imposing a new development strategy on domestic business and then punishing the ones that do not perform up to standard, I propose a state with more limited power. It was a state that launched ELI in alliance with domestic business, not over it. Further, it was the peculiar nature of ELI that gave the state the leverage and the space to exercise its disciplinary functions. In other words, pace the statist, it was not that the Koreans first built a developmental state, which then herded local capitalists onto the new accumulation strategy. The causal arrow in fact ran the other way—it was the launching of ELI that provided the basis for building a developmental state.

In what follows, the statist argument is first presented in more detail. I then show that despite its insights, this school fails to make its case for the state's inordinate power over capitalists. In particular, the two sources that are typically alluded to—the legacy of colonialism and the usurpation of control over finance—cannot bear the burden that is placed on them. This is followed in the article by an alternative account of the origins of the developmental state in Korea and its relation to ELI.

#### THE EMERGING STATIST CONSENSUS

The emerging consensus on the state in Korea during the quarter century after the coming of the Park regime in 1961 is aptly summarized in one of the earlier analyses of the Korean experience by Leroy Jones and Il Sakong. The authors note that the heavy role of government in the Korean developmental experience has led

some to render it as “Korea, Inc.,” as a direct parallel to “Japan, Inc.” But they suggest that

there is . . . one decisive difference between the two countries. In Korea, *the dominant partner is unequivocally the government*, whereas, in Japan, the reverse may be closer to the truth. . . . [In Korea], *the government’s wishes are tantamount to commands*, and business dare not take them lightly.<sup>5</sup>

This position is echoed in an authoritative study contemporaneous with Jones and Sakong, which also takes the position that in “Korea, Inc., it is the government that is the chairman of the board, with business holding a few of the directorships.”<sup>6</sup> The proposition has tended to be maintained through the years by various students of the Korean experience. For example, a more recent book by Byung-Nak Song adverts to the “Korea, Inc.” metaphor, which to him denotes a regime in which the state “was the primary decision maker,” whose suggested economic targets were “taken by businessmen as equivalent to compulsory orders.”<sup>7</sup> Then again, in one of the most detailed studies of the Korean case, Eun Mee Kim concludes that while the power of the state has declined in recent years, the state-capital relation in the 1960s was one of “state dominance”<sup>8</sup> (i.e., capital operated under the command of the state). We will encounter this strand of argument in more detail in a later section. But let us note for now that this position can be labeled statist at its core: in the relation between the state and business, it is the former that is said to be dominant.<sup>9</sup>

Of course, business must always operate in a policy environment that is nominally set by government. In this sense, “discipline” is imposed by the latter through a variety of ways—through tax policy, labor law, exchange rate policy, and so on. Industrial policy, however, presents a particular problem for governments because unlike fiscal and monetary policy, it involves a more or less direct intervention in firm-level decisions regarding production and distribution. Instead of manipulating the environment within which all firms function while leaving actual investment decisions to owners, the state, through industrial policy, targets particular firms or sectors to influence decisions at the micro-level. The mechanisms of this influence are often quite coercive: in Korea, firms that did not “go along” with state directives could find that their requests for credit were refused,<sup>10</sup> or that they began to experience abrupt cutoffs in power supply,<sup>11</sup> or that their tax returns were subjected to especially close scrutiny.<sup>12</sup> Any account of the developmental state must therefore explain how states acquire the power and autonomy to intervene in this, the most fiercely guarded prerogative of business.

Within the broader statist school, there are two positions regarding the roots of the developmental state. One is a distinctly minority view, which explains Korean developmentalism as a gift of its history, while the other, the majority camp, sees it as the product of a more or less sharp break with the past. Both, however, agree on the fact of the state’s domination over Korean capital.

## THE TWO VARIETIES OF STATISM

*The continuity thesis.* This first variant of the statist school is, as suggested above, a minority view. For votaries of this position, the unique capacity of Korean planners to enforce compliance was a happy legacy of the colonial and immediate postcolonial period. According to this argument, Korea as it emerged from the War of 1950-1953 was bequeathed a state and a class structure that combined to provide a uniquely enabling set of conditions for industrial policy. The pillars of this legacy were the initiation of land reform on the one hand, and the inheritance of a strong, bureaucratically efficient state structure on the other. The former was critical in removing a class that proved to be an obstacle to rapid industrialization elsewhere both politically and economically, while the latter provided the state with the wherewithal to intervene effectively in the economy. In other words, land reform was crucial in enhancing state autonomy, while the bureaucratic inheritance was critical in boosting state capacity. Add to this the basic precondition that Korea was—by Third World standards—relatively developed industrially, with a foothold in light manufacturing and extractive industries, and you have a situation ripe for the advent of a developmental state.<sup>13</sup>

This argument has recently been subjected to effective critique by Stephen Haggard, Chung-In Moon, and David Kang, so I shall not dwell on it at great length.<sup>14</sup> But its basic weakness is that while it is plausible that the historical legacy of colonial rule and the war would allow a developmental state to *emerge*, it is by no means clear why they should *produce* one. Proponents of this strand of argument seem to rely on the premise that reforms and institutions of the sort they adduce are necessary for the emergence of a developmental state, and therefore in demonstrating their presence in the Korean case, an explanation has been provided for why such a state did emerge. But even if we grant that such institutions were necessary for a successful interventionist state, it does not by any means follow that they were sufficient for it.

The history of Korea in the decade after the war bears out these doubts. Take first the issue of the state. Here, the continuity thesis overstates the beneficial legacy of colonialism. It is true that the Japanese bequeathed a fairly developed bureaucratic structure to the Koreans; it is also true, however, that Syngman Rhee worked assiduously to mold this structure to his purpose, undermining its purported efficiency and solidity and rendering it riven with the clientelistic ties that scuttled the chances of successful development policy.<sup>15</sup> Just as important is another aspect of the state that the continuity thesis tends to ignore, and that is the issue of intrastate coordination. Even if the bureaucratic legacy had been as propitious as this thesis claims, it would have run into the crosscurrents generated by the fact that under Rhee, there was in fact no center of economic policy. Authority over such policy was shared along two axes: the U.S. representatives in Seoul and Rhee's policy regime, on one hand, and within the Rhee regime, between the various economic policy-making bodies, chiefly the Finance Ministry, the Korean

Central Bank, Monetary Board, and the legislature.<sup>16</sup> This parcelization of authority was a powerful obstacle to coherent policy because not only was there no clear center of authority, but powerful forces arranged themselves behind the various bodies, and the bodies themselves, owing to their different responsibilities, brought correspondingly different orientations to policy debates. Minimally, this produced a deadlocked regime; maximally, it generated genuine animus between the bodies. For example, a matter as simple as the annual budget was the product of wrangling between the Monetary Board (which was the arm of the United States), the Finance Ministry (Rhee's pagoda), and the legislature (dominated by the erstwhile landlords and old elites).<sup>17</sup>

This set of circumstances was further compromised by the nature of the state's relation to Korean business, which was thoroughly clientelistic in nature. Rhee had no real base in Korean society—political or economic—and hence used the purse strings of government to buy the loyalty of domestic elites, particularly the business class.<sup>18</sup> The latter in turn happily conformed to the neoclassical economist's picture of avaricious, rent-seeking agents, geared steadfastly to profits from the manipulation of scarce rights over markets and largely unconcerned with strategic investment in productive activities.<sup>19</sup> Note that this was not driven by an "exhausted" import-substitution regime in which businesses, having no outlets for their products, resorted instead to draining the public exchequer. Korea in the 1950s had just initiated ISI, and there were still ample opportunities for developing markets. The reason business resorted to rent-seeking activities was in large measure because it could; the easy access to state managers, the steady flow of U.S. aid, and the utter absence of any long-term strategy on Rhee's part made such short-termism an appealing alternative to the arduous and costly path of investment-led profits.

With a state apparatus of the kind just described and the link to business that encouraged rent seeking instead of productive investment, it is difficult to see how the subsequent success of the Korean regime can be viewed as a continuation of the Rhee era. Nor can the 1950s be seen as a decade in which the basic prerequisites for success were present but only lacked a regime sufficiently committed to development. On the contrary, conditions of the Rhee period were such as to actively prevent the emergence of a developmental state. What made the Park era different from that of his predecessor was not just Park's more determined passion for development. It was the fact that Park adroitly restructured the state itself to excise the institutional blocks to effective policy and, further, went about changing the state's relation to capital. Without such restructuring, there is no reason to believe that Korea in 1959 would have been any different than the Korea of 1969 or 1979. Hence, the emergence of a developmental state was not a product of history in the sense that this variant of statism argues; it required instead an exogenous event, and this was the coup of 1961.

*The (statist) discontinuity thesis.* The argument for a continuity between the Rhee and the Park era in fact has few takers. Far more common is the view that the military coup that put Park Chung Hee into power in mid-1961 was the critical event that turned Korea into a developmental state. Upon coming to power, Park, it is argued, immediately set about rectifying the chief obstacle to effective industrial policy—namely, the patterns of corruption and institutional incoherence within the state. A second move was to rein in the kind of profiteering that businessmen had resorted to during the previous regime, which did not hold much promise for future economic development. This latter measure was launched with a flamboyant rounding up of the biggest industrialists, who were threatened with imprisonment and then released upon their promise that they would hitch their wagons to the developmental project of the state. Oddly, despite the hint of a “pact” or compromise that this episode conveys, it occupies an ambiguous position in the statist approach. While the event is mentioned in almost all of the accounts, its importance as an indicator of compromise is downplayed against the coercive power of the state over Korean capital. We shall examine the issue in more detail shortly, but for now the point to note is that this second variant of statism, while affirming the general dominance of the Korean state over capital, attributes it not to a historical legacy but to the changes wrought by the new Park regime. Once the dominance of the state was secured, its developmental ambitions were realized through the launching of the ELI policy and its ability to discipline its industrial class—thus was born Korean exceptionalism.

This account has much to recommend it. Park did indeed undertake reforms that were crucial to the subsequent success of the Korean state in extracting performance from its capitalist class. The revamping of the economic policy institutions in particular was of central importance in enabling the state to monitor, coordinate, and guide domestic capital. In this respect, this second variant of statism is superior to the first. Where I shall part company with it is on the matter of whether the reforms in question were capable of securing a general dominance of the state over the business community, so that the state could impose its own agenda on the class, regardless of the latter’s own perception of its interests.

The main theoretical pillar on which the claim of dominance rests is the state’s control of finance. Once Korean banks were nationalized, the argument goes, the state also secured its power over the business class. The burden of this section is to argue that the case made for the state’s putative power fails to convince. There is no reason to think that control of banks gives the state sufficient power to unilaterally set the agenda in the form of a particular accumulation model. Capitalists have a countervailing power of their own, through their control over final investment. Statists provide no argument as to how the state can be immune to this power, even if it does enjoy financial hegemony. But this does not demand that we reject altogether the importance of the state’s control of this crucial resource. Instead, it suggests that we simply reformulate the scope of the power that it



confers: while it does not enable the state to coercively impose new conditions onto the entire class—like an export-oriented development strategy—it does give the state an effective stick to wield against particular firms within the class once the strategy is in place.

This theoretical difference is of some significance: it not only provides a different analysis of the dynamics and the limits of the developmental state, but it also calls for a closer look at the origins of the regime. I shall argue that in assuming the state was simply dominant over capital and hence launched the new developmental regime and export-led industrialization on its own, statist overlook what is perhaps the critical factor that allowed for the policy change—the emerging alliance between Korean and Japanese capital. It was this alliance that made the sudden shift to ELI possible; further, it was the peculiar features of ELI that gave the state the leverage to discipline its capitalist class. It was not the case, then, that the turn to ELI and the ability to discipline domestic firms were both symptoms of the state's general power over capital. To the contrary, ELI emerged in large measure as an accommodation to the emerging orientation of local business groups, and it was ELI in turn that gave the state its newfound power to extract performance. Let us now turn to the facts of the case and the statist arguments pertaining to them.

The Syngman Rhee regime fell in the fall of 1960, in the wake of new elections that were blatantly rigged by the incumbent. Rhee's ouster was followed by the ascent to power of Chang Myon, a development that turned out to be a short interregnum separating the Rhee era from that of Park Chung Hee. Chang Myon was able to hold power for scarcely nine months, to be replaced by Park and his military junta through a relatively bloodless coup.<sup>20</sup> Although the Chang Myon interregnum was not given much attention in the initial studies of the Korean "miracle," the more recent analyses have shown that despite the tenuous hold that he had on power, Chang in fact attempted in his short tenure many of the same kinds of reforms that Park initiated more successfully in later years. In particular, Chang put on the table two measures that were to be carried forward with great success by the later junta: first, he maneuvered to give greater power and resources to the nascent planning agency, the Economic Development Council, which Rhee had placed in the Ministry of Reconstruction, thus signaling a more serious commitment to long-term planning;<sup>21</sup> second, Chang initiated the famous move against the biggest profiteers of the Rhee era, a move that has come to be known as the "illicit accumulation of wealth" episode. This measure was explicitly aimed at some of the biggest industrialists in Korea who were known to have made fortunes through the black market and the manipulation of prices more generally.<sup>22</sup> Given his short tenure, Chang was unable to make much headway with either of these moves, but they were important in establishing a momentum for further reform—first, in signaling that Korean leaders were making initiatives for bureaucratic reform, and second, in immediately putting business on alert that changes in state-capital relations were on the anvil.

With the onset of the Park regime in May 1961, a genuine transformation of the Korean regime was set into motion, and that too along the lines established by Chang.<sup>23</sup> First, the restructuring of the economic institutions of the state was completed and in fact taken further. Park immediately set about purging the bureaucracy of its most obviously corrupt denizens with an extensive review of the state apparatus; upwards of 40,000 upper- and middle-rank bureaucrats were screened in the initial months of power, and close to 2,000 were dismissed on charges of corruption.<sup>24</sup> It is of course impossible to imagine that corruption within the Korean state was confined to a scant 2,000 miscreants, but the move was nevertheless of some importance: it sent a clear signal that graft, to the extent that it was to continue, would not go unnoticed. The later trajectory of Korean development suggests that what was behind the “purge” was in fact not a commitment to eliminate corruption but to confine it strategically so that it would serve the political ends of the regime, without interfering with its economic strategy.<sup>25</sup>

Along with the effort to restore some coherence to bureaucratic functioning, Park launched his well-known initiative to curb the dispersal of effective authority between the institutions responsible for economic policy. Soon after the coup, a new Economic Planning Board (EPB) was announced, which quickly became the apex body for economic policy and planning.<sup>26</sup> The new body took charge of statistical operations (previously housed in the Ministry of Home Affairs), the all-important budgetary operations (previously the provenance of the Finance Ministry), and overall plan coordinating authority (previously in the Ministry of Reconstruction). This effort to create a “super-ministry” reflected a critical element of continuity between the Chang and the Park regimes; the small group of planners in the Economic Development Council, which had been effectively sidelined by the Finance Ministry under Rhee and had been newly empowered under Chang, found a ready audience for its ideas in the person of Park.<sup>27</sup> On the issue of monetary policy, the autonomy of the Monetary Board—which had been the main conduit for direct U.S. control over economic policy—was curtailed, and it was made a virtual arm of the Finance Ministry, and banks were brought under state control, so that their annual budgets as well as their top management became subject to the Finance Ministry’s approval.<sup>28</sup>

The importance of these reforms lay not simply in the nominal restoration of bureaucratic efficiency but in their resolution of the institutional blocks to effective planning. The creation of the EPB and its promotion to the unquestioned nodal agency for industrial policy greatly reduced the conflicts between the state economic institutions; further, in vesting the EPB with powers of plan design as well as implementation, Park altered the balance of material power between state agencies, so that capacity of other ministries scuttling the planning process was also weakened. The control over the banking system that was established soon after served, in coming years, as a central mechanism to influence the flow of credit to industry and hence to increase compliance with

industrial policy. The overall effect, therefore, was to increase the capacity of the state to plan effectively.

With the restructuring of the state economic agencies proceeding on one side, Park also moved swiftly against the domestic industrial class. Immediately upon achieving power, the military junta vowed to carry through Chang Myon's measures against the "illicit accumulators," threatening arrest and even expropriation.<sup>29</sup> In a well-publicized display of force, the junta rounded up and arrested many of the leading industrialists in the country as evidence of its resolve to eradicate the corrupt practices of the Rhee era. The strategy was not a punitive one, however. Upon arresting the businessmen, Park quickly called a meeting with leading representatives of the group and settled on a bargain: instead of a direct expropriation of their properties, the businessmen would face a series of fines, which in turn would be paid by investing them in new enterprises. At one stroke, Park thus demonstrated that the junta held no brief against private property while maintaining its dominance over the propertied class.

Some commentators have taken the release of the "illicit accumulators" as a recognition by Park that the proper orientation toward the big industrialists was one of accommodation and not domination.<sup>30</sup> But the theorists of state dominance veer away from any such conclusion. Eun Mee Kim allows that the need to strike a bargain with industrialists after the initial arrests in 1961 could be taken as a sign that Park and the military junta "were forced to negotiate with the *chaebol* due to the latter's enormous influence" but advises that any such conclusion ought to be stoutly resisted: "the state was *clearly the dominant partner*, with capital under its control and with an expanded and reformed economic bureaucracy."<sup>31</sup> Karl Fields also agrees that the turn in 1961 was brought on with the threats of imprisonment, the reform of the bureaucracy, and, in particular, the control over finance: "From this *position of dominance* and institutional capacity, the Park regime engineered Korea's export-oriented industrialization with the private Chaebol as the chosen instruments to carry out this strategy."<sup>32</sup> Ha-Joon Chang, in his otherwise excellent article on Korean industrial policy, repeats the importance of state control over finance, adding that after these reforms, the business community was like "criminals on parole on condition that they 'serve the nation through enterprise' and, economically, a paper tiger *with little power to make investment decisions*—the ultimate capitalist prerogative."<sup>33</sup>

In this analysis, the state not only initiates a new strategy of economic development but in fact imposes it on an enfeebled business class. The key to the Korean success story for statisticians therefore seems to lie in a kind of "bootstrapping" model of the state: it is not that the state achieves its institutional capacity and power through a *modus vivendi* reached with business; rather, it secures its aims largely by first setting its house in order, usurping control over a key resource (finance), and then herding industrialists onto the new path. The rise of the developmental state is thus causally prior to the launching of the new developmental model.

Now, I agree with the statist that the “illicit accumulators” incident was not the harbinger of a “pact” between the state and the chaebol. But pace the statist position, this is not because the dominance of the state made pacts unnecessary. It is because the pact occurred later, around 1964-1965, when the export-led strategy was made the pillar of the second five-year plan. To hold the earlier incident as the occasion of the formation of a developmental coalition is thus an empirical mistake. But before the evidence for this argument can be presented, the statist position must be addressed more fully.

*Critique of the statist argument.* It is one thing to say that the state initiates a new set of policies for future growth; it is quite another to insist that it can successfully impose them on its business class, regardless of the latter’s preferences. These are quite strong claims, and it is surprising that Kim, Fields, Chang, and others do not expend greater effort in defending them. The debate over Korea is, after all, appearing in the wake of the long and intense discussion of the rise of the welfare state in the West, where many of the same questions about the relative power of the state were raised. Just as it was legitimately asked how states could impose welfare policy on intransigent capitalist classes in the West, we may ask how it came to be that the Korean state acquired its putative dominance over capital. If Korea’s new development strategy was launched by the state, with the business class having to adjust to this turn regardless of its own preferences, wherein lay the source of this power?

Partisans of this argument agree that the Park regime did not simply inherit its dominance over capital, as we have seen. It was, they argue, generated by a new factor—namely, state control over finance. In bringing the banks under the direction of the Ministry of Finance, the new regime radically increased its power to dictate investment strategies to capital. If this argument can be sustained, then of course the origins and subsequent success of the developmental state are mysteries no longer. The turn in strategy in the early 1960s is matched with a corresponding institutional innovation, and the two are connected with a plausible mechanism.

The control over finance is supposed to have given the Korean state sufficient power over the domestic capitalist class to enable it to impose a new development strategy of export-led development. Ultimately, whether or not this argument stands is an empirical question, and as the following section will show, a careful examination of the early years of the Park regime in fact does not support the contention that the switch to ELI occurred because the state decreed it, regardless of how leading capitalists reacted. The empirical record in fact points firmly in the other direction. Nevertheless, despite the empirical evidence, there is also an important theoretical matter at stake here. Even if it is discovered that the capitalist class was a willing participant in the switch to ELI, it could still be claimed that this willingness was, in a sense, historically redundant. It could be maintained that this fact does not touch the basic argument about the state—namely, that even if

Korean business had not been willing to make the switch, the state, through its control over finance, could have compelled it to do so. Hence, before we move on to the actual events, it will be useful to look more closely at the argument that state control over finance turned the chaebol into a “paper tiger.”<sup>34</sup>

Now, it is part of the basic structure of capitalist societies that states enjoy a monopoly over the means of coercion and legislation, which automatically gives them considerable power over economic elites. This power is common to all such states, including late developers trying to initiate a process of industrial transformation. Nevertheless, it is also true that states are typically hesitant to unilaterally impose new economic policies on business classes because of the latter’s control over investment. The introduction of new policy packages is therefore usually preceded by lengthy consultations with business representatives, and their effects on the investment climate are closely monitored. The statist argument appears to be that the control over finance gave Korean planners sufficient autonomy from economic elites to be immune to such worries, and hence the ability to unilaterally impose a new development strategy on the business class. The claim is therefore not only about the Korean state’s power over its business class but also about its power relative to the power enjoyed by other states. Control over finance supposedly gave Korean state managers a power to override considerations that handicapped their counterparts in other countries.

This counterfactual is not purely imaginary. As I shall discuss in more detail in the following section, the 1960s were a period when several late developing countries attempted to push their economies in the direction of a greater reliance on exports. But most of these attempts met with very limited success, the main exceptions being the East Asian cases. To take the most well-known example, ISI strategies had exhausted their run in many Latin American countries by the 1960s, leading to several attempts at export-led growth. But as Robert Kaufman has pointed out, the turn to world markets always remained cautious and halting, “export-adequate” rather than “export-led,” and a primary reason behind this was the resistance of domestic business.<sup>35</sup> Similarly, despite its call to “export or die,” the Egyptian government in the 1970s found its own efforts frustrated, again in large measure because of the resistance from domestic capitalists.<sup>36</sup> Could control over credit and finance be the reason that the Korean state was able to cajole its business class into the new strategy, where others so often failed?

There is no doubt that control over finance considerably increases the state’s power over the business class. But it is not clear how this power could be sufficient to render state managers indifferent to the latter’s reactions to policy changes. Consider the likely scenario if the state tries to unilaterally impose a series of new regulations or a new accumulation strategy—like export-led development—on the domestic bourgeoisie. If there is a widespread sentiment among firms that the new policy will be harmful to their profits or their growth-rates, the most probable reaction will be a cascading decline in business confidence, as firms become

unsure of future returns. If this does happen, the tangible result will be an economic slowdown, and this in turn will mean a decline in the demand for finance since firms will be slowing down the pace of investment. Now, if the demand for finance is itself in decline, it is difficult to see how the state's control over finance can be an effective weapon over the capitalist class. Trying to use finance as a lever in this situation will be, to use Keynes's memorable phrase, like pushing on a string.

What this suggests is that even though its control over finance no doubt increased the state's power, there does not seem any reason to suppose that it was sufficient to render it immune to the countervailing power that capitalists exercise through their control over final investment. And if state managers did have reason to be sensitive to the effects of a decline in the tempo of investment, then the statist argument about the unique power conferred by financial hegemony loses warrant. In other words, while such control may indeed have increased the power of the Korean state vis-à-vis capital, there is no reason to suppose that it gave it a power that was qualitatively greater than that enjoyed by other states. It could, of course, have been that what set Park apart from leaders of other states was his willingness to bite the bullet and suffer a period of slow growth in exchange for a turn to ELI. In this sense, it could be that the Korean state imposed the new strategy on its business class—and happened to get lucky in short measure as it caught on. This could be true—it is an empirical question. But the point is that this does not salvage the statist case that the Korean state enjoyed a singular dominance over its business class. Even if the turn to ELI had been imposed in this fashion, it would have been because of Park's political will and not on some unique capacity of the Korean state.

Now, it should be noted that once the new strategy was settled upon—in the sense that large sections of the business class had switched their investment patterns accordingly—then there is no doubt that the control over finance was an effective weapon for disciplining individual firms. So long as business confidence remained high, the threat of withholding credit from recalcitrant firms could serve as a very effective weapon. The targeted business would face a real opportunity cost as the restriction in credit hampered its rate of growth or resulted in closure. For state elites, imposing such sanctions would not entail great risk since, given that business confidence was high, it could be expected that other firms would pick up the slack generated by the targeted firm being punished. Hence, against a background of a buoyant investment climate, a state with adequate institutional coherence and capacity could effectively impose discipline on particular firms.

The key to the origins of ELI in Korea would thus seem to lie in the means by which state managers were able to elicit a switch to the new strategy by the business class without triggering a downturn in the investment climate. With the export-orientation model in place, so long as the investment climate remained buoyant and the state had the appropriate institutions in place, it could

successfully punish those firms that did not perform up to standard. In this framework, the analytical focus shifts from the premise of overall state dominance to the conditions that enabled the state to elicit—not command—the turn to ELI by firms. The next section provides an account of how this was accomplished.

To anticipate, the turn to ELI was not imposed on Korean capitalists but was arrived at consensually; indeed, there was even pressure from business to initiate it. And this enthusiasm was in turn engendered by the ties that were developing between Korean and Japanese firms, which provided the former group with access to export markets that virtually no other country—except Taiwan—enjoyed. It was this access to markets that induced them to have a go at ELI and not the coercive power of the state. Because it has been assumed that the state dominated capital, most commentators have failed to give due importance to the Japan connection.

Once this strategy was in place, it lay the basis for the Korean state's success at disciplining domestic business. Ready access to export markets was important to open the possibility of success—but it could not ensure it as an ongoing affair. In order to survive in the extremely competitive markets of the West, Korean capitalists required the helping hand of the state. The fact that Korean firms could not survive in export markets without state assistance, at least in the initial decades, was important in increasing the latter's leverage. A partnership with the state now became the precondition for the extraordinary rates of growth enjoyed by the chaebol in the three decades after the onset of the Park regime. Since the partnership generated such lucrative yields, state managers could impose coercive measures on recalcitrant firms without any great fear that they would trigger a downturn in business confidence.

Thus, on this argument, there is a close connection between ELI and the developmental state, just as there is in the statist literature. But whereas the latter version makes the developmental state causally prior to ELI, I argue that it was the latter that was critical to the success of the former.

#### THE ORIGINS AND BASIS OF THE DEVELOPMENTAL STATE

This section is devoted to proving three basic points: first, that there is no reason to believe that Park had any intention of simply imposing his will on domestic business; second, that the turn to ELI was consonant with the emerging orientation of this class, which was in turn generated by its growing ties with Japanese firms; and third, that the new strategy was an important condition for the success of the state in disciplining capital because it made it in the interest of firms to cooperate with the state. The empirical arguments can be enumerated briefly:

1. Despite its initial rounding up of the biggest industrialists, the Park regime was loathe to alienate them. Indeed, after the highly publicized arrests of the “illicit accumulators,” they were quickly released, and much of their “punishment”

- forgiven. Far from being a “senior partner,” the regime thus quickly recognized that it had to work within the constraints of business pressure.
2. The newly formed Park regime did not launch into an ELI strategy. In fact, its initial move, as embodied in the first five-year plan, was in the direction of a firm continuation of ISI, with exports playing a decidedly minor role in the matter. It was only the onset of an economic crisis that brought the regime back to the drawing board.
  3. Once the crisis was under way, three factors combined to sway Park of the merit of an ELI strategy. The first was the initial success in exports experienced in the first plan; the second was pressure by the United States to generate more foreign exchange, which was bolstered by the decreasing quantum of aid the latter was willing to give. The third was the signals from Korean capital that exports were very much on its own agenda.
  4. This willingness on the part of Korean capital needs to be explained. Since other efforts at ELI have foundered on the rocks of business resistance, it is this factor that sets the Korean case apart. I argue that what lay behind it was a growing alliance of Korean firms with Japanese capital, which afforded the former group access to markets that would otherwise have been inaccessible. Grasping at this opportunity, Korean business became a willing ally in the new strategy. The crucial component to actualize it was a normalization of relations with Japan, which was committed to by both countries by late 1963 but became a juridical reality only in 1965.
  5. It was only after this class-level partnership showed promise that the state-capital partnership was cemented in a series of measures that committed the country to an ELI path. Once this strategy was in place, agreed to by capital, the state was able to exercise its vaunted disciplinary powers without fear of provoking a classwide reaction against them.

#### *The First Phase of the Park Regime*

As soon as the small group of army officers led by Park Chung Hee and his brother-in-law Kim Jong Pil came to power, reform of the state economic apparatus and the initiation of an ambitious planning effort were put at the top of their agenda. We have already discussed the measures that were enacted to remove the institutional pathologies and conflicts within the state and to create a superordinate authority for the conception and implementation of economic plans. In this, the argument presented here is in agreement with the statist consensus. But pace the latter school, it now needs emphasis that Park and his colleagues did not have any intention to initiate a switch to an ELI strategy for Korea. Their goals on the assumption of power were much more modest and their vision narrower. Plans were to be put into place but not along the lines that later came to be known as the Korean “model.” It was only later, when this initial strategy failed and state managers were groping for a way out of the economic crisis, that an export-oriented path suggested itself as a viable alternative.



The immediate goal of the military junta was to find a stable social base for its survival. This involved policy along two dimensions: placating leading sections of business and finding a mass base for regime survival over the longer term, which had in fact to be created almost *ex nihilo*. Success on the first issue meant scaling back the threats that had been leveled at leading business houses. One of the immediate effects of the coup had been to bring business activity to a grinding halt, and business outlook was only further panicked by the decrees against the “illicit accumulators” of wealth.<sup>37</sup> Within days after the coup, top leaders arranged to meet with business leaders, already moving to persuade the latter to keep operations at a normal pace. It was made clear to firms that the anticorruption drive would not pose any threat to property and that the junta “plans to deal generously with businessmen,” asking only that they pay the fines levied upon them.<sup>38</sup> Indeed, business was assured that the junta intended to draw a sharp distinction between official corruption in the bureaucracy—which would be dealt with harshly—and corruption among firms.

Despite the assurances, it was clear to U.S. observers that Korean capital was not convinced. Although in early fall of 1961 there were signs of “greater confidence” within the business community, embassy staff were concerned about the group of top business houses, which they had been told had “not yet made up its mind to cooperate.”<sup>39</sup> Concerned about the possibility of a general downturn in the investment climate, American officials in Seoul busied themselves trying to convince the regime, but especially Korean capital, of the need to cooperate. Ambassador Berger in particular was convinced by October—five months after the coup—that the top business houses were on an investment strike. He worked frantically on both parties, persuading Park of the foolishness of levying even the fines that now remained to be paid by the “illicit accumulators,” while at the same time trying to encourage “a more far-sighted view among business leaders.”<sup>40</sup> Berger did not have to work especially hard to convince Park. Of the thirty-odd businessmen accused, only sixteen were put under detention, and within weeks all but three were released.<sup>41</sup> By fall of 1961, leading businessmen had already negotiated a reduction of the fines to be paid, as American officials were urging. In fact, it was clear by mid-1962 that most of the accused would not even pay the bulk of what fines they owed.<sup>42</sup>

This retreat from the initial threats to business did not, however, signal that the *chaebol* would now rule the roost in economic policy. The regime’s intention was simply to avoid a concerted investment slowdown, not to elevate leading firms to a dominant position in the formulation of policy. The policy orientation of the regime, as instituted in the first five-year plan launched in late 1961, was more clearly tilted toward small business and farmers. Thus, the regime forgave all rural debt that it deemed as having arisen from usury, promised a scheme to mobilize savings for farmers and small businesses, and offered several other clearly populist measures.<sup>43</sup> Further, the plan was firmly set within the ISI tradition: exports

were encouraged, but their place in the plan frame was strictly secondary to the import substitution effort. And the exports most encouraged were not those produced by the chaebol but by smaller producers—the key sectors being fishing, farming, and mining.<sup>44</sup> The strategy was to use the plan to placate big business but mainly to win over masses of farmers and small businesses. Exports were to be used to finance import substitution schemes and not as the center of the strategy itself.<sup>45</sup>

All this was partly occasioned by the fact that the state planning apparatus, though formally transformed by the advent of the Economic Planning Board, was still subordinated to political expedience. The EPB held formal power over the formulation and implementation of the plan, but planning was in fact dominated by the officers from the military junta. The role of the EPB was more in the way of “fill[ing] in the details within the guidelines that they had been given” by the military.<sup>46</sup> With the civilian technocrats largely sidelined in the planning process, the immediate need to create a social base for the regime found expression in the character of the plan.<sup>47</sup>

If it had proceeded as intended, there is little reason to think that the Korean developmental experience would have been substantially different from that of many other late-industrializing countries that relied on ISI. But within two years, the plan had to be abandoned, the initial targets forsworn, and a drastically revised plan offered in its stead. The economic crisis that precipitated this turn was itself caused by the junta’s policies, particularly on the monetary front. Its scheme of mobilizing increased savings backfired miserably, triggering instead a massive withdrawal of currency from circulation, the evaporation of funds for industrial finance, and a balance of payments crisis.<sup>48</sup> Business investment again began to plummet, with reports coming in that higher production costs were “forcing many businesses to cut down, or even suspend, production.”<sup>49</sup> Conceding that the plan was a failure, the regime officially proclaimed its annulment in late 1963, barely two years after it was launched. For the remainder of its original term, a revised plan was offered instead, with more modest targets. But the damage was done: even the new plan was not taken very seriously by economic actors, and decisions pertaining to investment and trade were carried out on bases unconnected with the document.<sup>50</sup>

The facts about the first two years of the Park regime thus run directly counter to the qualities attributed to it by the statist. Far from dominating their business class, the new junta, as well as its American advisers, operated in full cognizance of its economic and political muscle. And while they did not raise it to a superordinate position within the new strategy, they had to devise it so that overt opposition from business would not be likely. Further, the failure of the first plan revealed the glaring weaknesses of the new institutions of the state itself. The EPB, despite having formal power, was nevertheless of little importance in the actual policy process; plan targets were of little operational significance; and policy makers

were forced to admit that business investment decisions were being made on bases that had little to do with the plan frame.

*The Emergence of the New Developmental Strategy*

It was at this point that two shifts occurred that were crucial for the subsequent success of the Korean state in industrial policy. The first pertained to the state economic apparatus and the second to economic strategy. One of the positive fallouts of the plan debacle was that those elements within the junta who were associated with it suffered an enormous loss of prestige. Even before the full severity of the crisis was felt, Park forced an admission of failure from the military planners and extracted a series of resignations from them.<sup>51</sup> The demise of this group within the junta was balanced by a corresponding elevation of the status of civilian planners housed in the EPB. It was thus at this juncture, and not in 1961 when the institution was created, that the EPB's formal power was actuated in a meaningful way. Its position was strengthened by a second factor in late 1963, which was the formal inauguration of the Park regime through an election that managed to hide its irregularities just well enough to ward off major crisis. With the military interregnum officially over and a new term of office sanctioned by law, Park was free to concentrate fully on the economic situation.

The second change was in strategy. It was around this point that the idea of a policy shift away from an ISI-centered strategy to one hinging on exports started to congeal. Although incentives to raise exports had been in place since 1960, talk of making exports the center of economic plans did not emerge until the early months of 1964; it was announced only in the middle of that year and became embodied in the planning process in 1965.<sup>52</sup> By 1965, the centrality of exports was announced publicly, and in 1966, the second five-year plan—which operationalized this shift—was launched. Of the two changes—one within the state and the other in policy—the first is readily understood. At one stroke, the ouster of the military “planners” reduced potential rivals to Park and also gave him a scapegoat for the plan's failure.

In the literature on Korea, the shift in strategy to export orientation is also presented as an obvious move for three reasons. First, despite the overall failure of the first plan, policy makers noticed that exports had been a conspicuous bright spot. While the rest of the economy stagnated, exports continued to grow, thanks partly to the incentives that had been put into place as far back as 1958 but also because of the military procurement that the United States was initiating for its Vietnam operations.<sup>53</sup> The happy performance by the export sector would have attracted attention on its own, but it was further highlighted by the second factor—namely, Korea's growing balance of payments crisis, alluded to earlier. An increased emphasis on trade was the natural way to ease the pressure. Third, the United States was in the process of cutting back its aid commitments to Korea, which meant that the cushion that the inflow of U.S. monies had provided would not be

available much longer. To cap matters, the American advisers and funding agencies were all applying direct pressure to increase the emphasis on exports, even to the extent of withholding aid disbursements until Park agreed to a devaluation in mid-1964.<sup>54</sup> The switch to exports thus appears as understandable as the revamped planning apparatus.

There is no doubt that the increased emphasis on exports was in part occasioned by the early signs of success, American pressure, and the precarious situation in the external sector. But what is noteworthy about the Korean case is that within a matter of a year or so, the regime's shift to exports went beyond anything that the American advisers had ever envisioned. What they had been pushing the planners to adopt was what could be called an export-*promotion* strategy; this was in fact what they were advising in many developing countries at this time, as Congress was forcing a shift in aid disbursements from grants to loans for most all recipients. American strategy in Korea was thus of a piece with its injunctions to its clients throughout the developing world. But what Korea in fact ushered in was what has become known as an export-*led* strategy.<sup>55</sup> Export-promotion policies were common all over the developing world at this juncture, with uneven success. Export-led strategies, however, were much more uncommon. The latter not only made exports the pillar of economic planning—unlike the former, where exports were simply grafted onto existing policy—but it had the additional feature of making export performance a condition for access to state subsidies for firms, as noted earlier in the paper.

The difference is crucial for our purposes. Since they are basically grafted onto existing programs, export-promotion strategies do not require a drastic transformation of investment strategies by local firms. They are often used instead as a means of using excess capacity and hence reaping economies of scale through accessing foreign markets—they are, in other words, used as an outlet. Implementing such programs does not therefore require a great deal of power on the part of the state vis-à-vis local capital.<sup>56</sup> To put into place an export-led strategy, however, as Korea did, is not so simple. Commentators have noted that in the Korean case, exports were not simply encouraged and subsidized but were made the fulcrum on which industrial planning rested. Further, performance on this front by firms was made a condition for access to state largesse.<sup>57</sup> The fact that the Park regime went so far as to enact such policies should not, therefore, be seen as a simple extension of the export-promotion measures that were being pushed by the United States. The implications that ELI carried for local capital were of a different order, demanding far more from them. Firms were now not only asked to sell in distant markets, of which they had little experience and knowledge and that were often closed to them, but failure on this front was punished in a variety of ways.

Given this difference between the two strategies, the advent of export-led industrialization would be remarkable anywhere. But in a developing country,

with poorly developed capital markets, infrastructure, and exporting experience, it is even more so. Commentators have tended not only to overlook the importance of the distinction between the two but have also underplayed how, after their maturation under the carapace of a protectionist state, Korean firms in the early 1960s were no more immune to the deleterious effects of ISI than their counterparts elsewhere had been: they were known as uncompetitive, their products were of poor quality, and their own supply chains were unreliable. Thus, when an American industrial mission came to Korea in 1962, one of its chief concerns was about the capacity of local business to meet “international standards of efficiency.”<sup>58</sup> Similarly, despite their interest in entering Korea, Japanese businessmen bluntly informed American officials in Seoul that “Korean firms cannot be trusted to deliver goods to the specification ordered.”<sup>59</sup> This was amply borne out by the experience of American firms importing from Korean sources, who often had to file claims against the latter for delivering low-quality products.<sup>60</sup> The complaints against Korean exports reached such a crescendo by late 1964 that the Ministry of Commerce and Industry had to announce a series of quality control measures on exports.<sup>61</sup> Further, many Korean firms were operating with obsolete and decrepit machinery, so that their prices hovered above other Asian competitors in export markets. Cotton textiles, for example, were experiencing difficulties in U.S. markets because of high prices.<sup>62</sup>

That the Park regime had the confidence to enact a shift from ISI to ELI, with its capitalist class mired in the kinds of inefficiencies just described, demands attention. It cannot be seen as a simple extension of the export-promotion measures that were being encouraged by the Americans and had been in place since the late 1950s.<sup>63</sup> We have seen that there is no warrant to assume that the state simply foisted the new strategy onto a reluctant business class since Park and his junta were visibly concerned to maintain the goodwill of the class. Further, even if they were willing to make a go of it, I have argued that control over finance could not have given them the power that statisticians think it did. How a state that acknowledged its sensitivity to business pressure nevertheless moved so far in the direction of ELI is the object of the next section.

### *The Importance of Japan*

The basic reason that the Korean state ventured to initiate an export-led strategy was that Korean capital had garnered for itself a unique window to foreign markets through entering into an alliance with Japanese capital. In other words, the reason why access to subsidies and credit was made conditional on a reasonable performance in export markets was that firms had a reasonable chance of success in these markets. It is noteworthy that the changes that were wrought on Korean capitalists starting in 1964-1965 elicited very little opposition. Even if the state were the dominant partner that statisticians claim it was, it is difficult to imagine that firms would accept such drastic changes without even a murmur of protest, if

the state's command were the only force pushing toward ELI. As this section will demonstrate, the absence of opposition is explained by the budding links being forged with the former colonial power. Japanese firms were willing not only to facilitate the entrance of their Korean partners into the highly competitive U.S. market but also to provide critical credit and inputs for success. This demand-side opening was the essential precondition for the success of the supply-side incentives that the Korean state doled out and was the factor that allowed export promotion to slide into export-led growth. This, in turn, gave the state the wherewithal to demand performance, without invoking a backlash from local capital.

Japanese capital did not enter into its alliance with Korean capital out of any altruistic sentiments. By the late 1950s, Japan's economy was well into its "high-growth" phase, one of the pillars of which was its flood of light-manufacturing exports into the developed world. The massive increase in investment had turned a labor-surplus economy into one with tight labor markets and hence rising wages. This increase in labor costs was in turn threatening to endanger the competitiveness of its exports; added to this, however, was a rising tide of protectionist sentiments in Western, particularly American, markets against the Japanese competition. Faced with constraints emanating from both the side of supply as well as demand, planning circles in Japan struck upon a now well-known strategy: the relocation of its labor-intensive light-manufacturing industries to neighboring countries with lower wages and a concomitant movement into heavy and electronic industries at home.<sup>64</sup> Japanese capital thus began entering Korea through direct investment and joint ventures; it also entered, however, in the form of trading companies, which played a central role in the Korean success story. These trading companies established links with Korean aspirants to the lucrative export markets of the United States and provided them with essential inputs as well as the benefit of their sales and marketing networks. In turn, they were able to deliver the Korean firms as customers for capital goods to Japanese producers.

The importance of the Japanese as conduits to American export markets has often been overlooked by students of the Korean case.<sup>65</sup> But given the sad condition of most Korean firms, as evidenced in the steady stream of complaints against their exports, the connection is of paramount importance. Korean firms simply did not have the experience and knowledge of foreign markets to jump to an export-led strategy. Most of the literature has focused on the measures enacted by the state on the supply side of the export effort, but as Sanjay Lall and Robert Castley have pointed out, this overlooks the fact that a crucial barrier to success in export promotion strategies is the costs associated with marketing and sales.<sup>66</sup> This is especially true in the case of products where brand recognition and quality play an important role, like synthetics, shoes, and so on—which formed the core of the Korean strategy in its initial stages. In markets for these goods, not only is quality of central importance, but the initiative lies in the hands of the importer in the target country and not the exporter. Links to these importers, their trust, and their

satisfaction reign supreme for export success.<sup>67</sup> Provision of cheap credit and other subsidies can do little to alleviate this side of the export dilemma.

In this set of circumstances, the entry of the Japanese into Korea offered local firms a rare opportunity for export success. The key lay in ensuring that the Japanese would enter the country on conditions favorable to the growth of Korean capital—with assurances of technological cooperation, access to markets, assistance in marketing, provision of inputs and credit, and so on. For this, the state's intervention as an ally of Korean capital would be crucial. But, in turn, this would give the state the crucial leverage to discipline its domestic capital—the secret of the developmental state. Let us now turn to the sequence of events.

Despite the years that stretched between Korean decolonization and the fall of Syngman Rhee, Korea and Japan still had not established normal diplomatic relations. Taking a hard line against Japan in the form of a demand of reparations had been a political staple of Rhee, despite his knowing that the political tensions stood in the way of possible economic gains from the normalization of relations. Hence, despite several attempts, the two governments had not been able to reach a compromise settlement by the time of the coup of 1961.

Yet, capital based in Japan—both Japanese and expatriate Korean—showed an immense interest in setting up operations in Korea. In late 1960, a Japanese-Korean Trade Association mission to Seoul was planned to establish economic ties but had to be called off due to the Korean government's worries about its political repercussions.<sup>68</sup> Interestingly, this mission did not elicit much enthusiasm from Korean firms, but only because they were disappointed that it was not composed of the top Japanese businesses.<sup>69</sup> This was remedied by the middle of 1961, after which the top Japanese industrialists started coming to Korea in a steady stream.

One of the first to come was Yasuhei Yukawa, president of Toyo Chemical Engineering and Construction Co. and the director of the Japan-Korean Trade Association. Yukawa had been one of Park Chung Hee's instructors at the Japanese Military Academy and thus immediately got an audience with the new leader. He proposed a project that was in many ways emblematic of the relationship that was to develop between the two countries' industries: he would set up operations in Korea to produce electrical equipment, auto parts, canned goods, and beer, 20 percent of which would be for the local market and 80 percent for export. To this endeavor Yukawa would bring Japanese technology and parts while using the idle capacity of Korean factories and, of course, Korean labor. Park agreed to this with alacrity, with the proviso that the initiation of operations would have to wait until normalization of relations between the two countries.<sup>70</sup>

This initial success emboldened many other top Japanese firms and trading companies to follow suit. By early 1962, a Korean beachhead was established by Nissan, Hitachi, Neiyata, Marubeni Iida, and Mitsubishi.<sup>71</sup> The inimitable Yukawa soon followed with a mission of twenty leading Japanese firms to discuss

future operations in Korea, which included Hitachi, Japan Cement, Fuji Electric, and Nichio Fisheries.<sup>72</sup> This was followed by a mission in September 1962 headed by Koshiro Uemura, vice-chair of the Federation of Economic Organizations, and another in December headed by Toyoroku Ando, the president of Onoda Cement Co. The Ando mission was noteworthy in that it consisted of thirty-two of the top firms and trading companies in Japan, much to Korean capital's delight.<sup>73</sup> The activity was not restricted to exploratory missions: in 1962, thirteen Japanese firms had set up operations in Korea, despite the absence of normal relations between the two countries;<sup>74</sup> one year later, thirty firms had opened offices in Korea, and agreements had been reached with local firms for the production of fertilizer, textiles, machinery, and transportation equipment.<sup>75</sup>

The textile industry presents a good example of this sort of collaboration. In mid-1962, firms in this sector were already facing a problem of overcapacity, which made a search for export markets something of an imperative.<sup>76</sup> But while the industry as well as the Park regime made the expansion of exports central to their plans, they were not at all optimistic about their chances in the competitive U.S. market; thus, when the first attempt to expand exports was launched in 1962 with the formation of the Korean Textile Trading Company, it was aimed at non-U.S. markets since firms were convinced that they had got about as far as they could there.<sup>77</sup>

The arrival of the Japanese in the early months of the new regime offered a means around this dilemma. In early 1962, Yukawa arranged for the formation of a Korean Bonded Goods Processing Association as a counterpart to his company, the object being the importation of cotton goods from Japan in bond to be processed and then exported from Korea.<sup>78</sup> Toward the middle of 1962, this arrangement had become more generalized, with Korean firms exporting blouses, slacks, raincoats, and Aloha shirts by processing Japanese cotton goods that they had imported in bond from Japanese partners.<sup>79</sup> By late 1964, the strategy of using Japanese inputs for Korean exports was so firmly in place that the Korean government was lobbying the Japanese to allow Korean firms to import such inputs without having to open letters of credit.<sup>80</sup>

Of particular importance here is the benefits garnered by producers of synthetic fibers. On one hand, Japanese firms used bonded processing arrangements with Korean partners for the manufacture and export of synthetic fibers;<sup>81</sup> on the other hand, they helped finance and build new plants for the further production of synthetics. Among the first such plants was the one announced by the Heung Han Chemical Fiber Company in 1964, a rayon plant built with the help of Japanese capital.<sup>82</sup> In the decade that followed, "Japanese investment increased quickly and involved six cases out of eight cases of total investment in the synthetic textile industry."<sup>83</sup> The synthetics industry was not the most important segment of Korean textile exports yet—that was still dominated by apparel.<sup>84</sup> But the launching of the partnerships and joint ventures was strategically important, in that it



offered the promise of moving up the ladder into more sophisticated products and also to escape the protectionist barriers that ordinary cotton textiles were starting to face in the United States.<sup>85</sup>

Ties such as the ones being forged in the textile industry offered Korean manufacturers the opportunity to succeed in the competitive American market, a prospect that had hitherto seemed remote at best. And as Japanese firms continued to enter Korea—establishing branch offices, making tie-ups with local capital, arranging finance, and finding customers for Japanese capital goods producers—the idea of basing future policy on exports increasingly became not only palatable but also desirable for domestic firms. The years between 1960 and 1965 were thus of foundational significance for Korea and its state, in that the developments just described laid the basis for an entirely new growth model. The crisis of the first plan in 1963, particularly the balance of payments problems, inclined the junta toward an export drive; it could even have driven it to install an ELI model of growth. This path could not, however, have been sustained without the underlying alliance that Korean firms had forged with Japanese capital.<sup>86</sup>

This was the structural basis for future export success. For the success to be realized, however, required the normalization of relations between the two countries.<sup>87</sup> Korean business was in fact the prime mover among social groups lobbying for a rapprochement with Japan. One of the first Korean industrialists to pressure Park in this direction was Yi Pyon Chol, the founder of Samsung and one of the most notorious “illicit accumulators.” Chol had close ties to Iue Toshio, chairman of Sanyo, and was eager to establish a working relationship with the latter in the production of electronic goods, which in fact he later did.<sup>88</sup> Chol and other members of the “illicit accumulators” group formed the Korean Businessmen’s Association soon after their release from prison, and this group, which had as its members the major industrialists in the country, turned out to be the primary fount of pressure for the normalization of relations with Japan, explicitly for the purpose of riding the latter’s coattails into export markets.<sup>89</sup> A counterpart to this group in Japan was soon formed in the form of the Japan-ROK Economic Cooperation Organization; this group became part of the larger “Korea lobby,” which had as its members the fifteen top firms in the country, as well as top politicians.<sup>90</sup>

The industrial groups did not confine their tactics to advocacy alone. The members of the “Korea lobby” in Japan were some of the top funders for the ruling Liberal Democratic Party. More immediately, since much of the resistance to normalization came from Korea, a CIA report in 1966 found that in the years 1961 to 1965 (i.e., the years between Park’s ascent to power and the signing of the Normalization Treaty), Japanese firms paid for two-thirds of the budget of Park’s Democratic Republican Party, with six firms alone contributing an estimated \$66 million.<sup>91</sup> This was balanced by the well-known nexus between the DRP and Korean industrialists, in which the latter, especially the members of the KBA were the chief source of funds for the former.

The ratification of the treaty in mid-1965 realized the hopes of the Park government as well as Korean capitalists. Japanese enterprises quickly established Korea as a base for their exports to the United States. Systematic data are hard to come by, but a 1974 survey by the Economic Planning Board showed that 86 percent of Japanese firms in Korea produced mainly for export.<sup>92</sup> Of course, it is well known that FDI accounted for a small portion of total foreign capital coming into Korea. But it is noteworthy that in key sectors, the proportion was much higher: in the early 1970s, 20 percent of the total foreign capital in textiles was in the form of FDI, while in electronics it was 30 percent, and both of these sectors were central to the export strategy.<sup>93</sup> Foreign firms, most of which were Japanese, dominated or accounted for a preponderant share in several key exports;<sup>94</sup> by 1974, 31 percent of all exports from Korea were made by foreign firms.<sup>95</sup> Further, the Japanese most commonly entered through joint ventures: of all Japanese direct investment in Korea between 1962 and 1974, 52 percent was with less than majority ownership, in contrast to the U.S. projects there, only 27 percent of which were with minority stakes.<sup>96</sup> Joint ventures were especially pronounced in textiles, electronics, machinery, metals, and chemical industries.<sup>97</sup> This facilitated the transfer of technological know-how, marketing skills, managerial techniques, and so on.

While the advantages that Korean capital garnered through alliances in Japanese direct investment were important, the more significant services were probably acquired from the Japanese trading companies in the form of marketing outlets and finance. As suggested earlier, the demand side of the export effort is frequently overlooked in the literature on the Korean miracle. Japanese trading companies were critical to the Koreans because of the array of marketing and sales networks that they provided in the lucrative U.S. market: as Robert Castley observes, when they established deals with their new Korean partners, the trading companies “frequently brought their customers with them.”<sup>98</sup> And in doing so, they provided the means to overcome one of the most obstinate hurdles for late industrializers trying to break into what Gary Gereffi has called “buyer-driven commodity chains.”<sup>99</sup> But in addition to the easy access to markets, trading companies were also crucial in ensuring easy and steady access to credit from Japanese banks for their Korean clients, which was absolutely essential for a development strategy that hinged on the use of foreign commercial loans. It is often emphasized that the Korean state played a critical role in backing capital’s procurement of foreign capital, and this is of course true. But what is often overlooked is that the state often entered the picture after initial links between the concerned parties had been made, and this prior liaison was itself greased by the trading companies.<sup>100</sup> For firms trying to break into distant export markets, these two services—delivering up established customers and ensuring a steady flow of credit—were of paramount importance.

With these supports in place, Korean firms rapidly established themselves in the lucrative American market. By 1966, trade patterns between Korea, Japan,

Table 1  
*Main Sources and Destinations of Korea's Trade (in percentages)*

	Exports		Imports	
	Japan	United States	Japan	United States
1960-1962	49	17	23	48
1965	26	35	39	37
1967	26	43	45	31
1968	22	52	43	31
1969	21	50	41	29

Source: Robert Castley, "Korea's Export Growth: An Alternative View," *Canadian Journal of Development Studies* 18, no. 2 (1997), Table 5, p. 195.

Table 2  
*Japanese and Korean Shares of U.S. Market, 1966 and 1971 (in percentages)*

	From	From	From	From
	Japan 1966	Korea 1966	Japan 1971	Korea 1971
Clothing/textiles	36	3	22	13
Clothing	20	2	13	14
Plywood	37	17	21	37
Footwear	26	3	12	4
Other manufactures	21	7	17	18

Source: Castley, *Korea's Economic Miracle: The Crucial Role of Japan* (London: Macmillan, 1997), Table 2.14, p. 98.

and the United States had switched almost completely. Whereas in the early 1960s, Japan had been the major destination of Korean exports and the United States the major source of imports, this pattern was reversed within one year of the treaty (Table 1).

The American market in fact became the main destination for, and accounted for the bulk of the growth in, the "big three" of Korea's exports in the 1960s—namely, textiles, clothing, and plywood—all of which were being vacated by Japanese firms (Table 2). As the Japanese moved out of these niches, Koreans moved in.

The ties made with Japanese multinationals were thus of pivotal importance in the launching of the new development strategy. Soon after Park came to power, efforts by both local as well as Japanese capitalists were under way to ease the latter's entrance into the Korean economy. At the center of the alliance lay the use of Korea as a launching pad for exports into advanced capitalist markets, the most important of which was the United States. The Japanese brought in technology, marketing networks, and finance, while the Koreans supplied cheap labor, a market for Japanese capital goods, and a means of bypassing U.S. trade restrictions against Japan. These potential gains in turn motivated the most powerful business groups in both countries to push for the normalization of diplomatic relations between the two countries. The commitment to ELI—as opposed to simple export

promotion—was made possible by, and was in large part a response to, these developments.

*ELI and the Developmental State*

One of the central themes of this essay has been that the turn to ELI and the rise of the developmental state were closely connected. We are now ready to flesh out this connection. The onset of ELI, which had been secured not over the preferences of local capital but in congruence with them, gave the state the leverage it needed to exercise its vaunted disciplinary powers. Even with the arrival of the Japanese—indeed, in some respects, because of it—local firms had little hope of succeeding without the guiding hand of the state. With regard to Japanese capital, state support was required along two dimensions: first, to ensure that these more powerful companies did not overwhelm local producers and hence had to enter on terms that were favorable to the latter, and second, to act as guarantor for local firms' efforts at foreign loans and credits. Despite the Japanese intention to enter into partnerships with local producers, this would be difficult to cement without adequate assurances from the state on the possibility of default. As we encountered earlier, most Japanese firms had a fairly low estimation of their Korean partners' capabilities. To offer up loans and supply credit without state backing would have been unlikely.

These services were balanced with the state's role in ensuring success in export markets. Again, the simple fact of partnerships with the Japanese could not be sufficient to ensure export success. Korean producers were woefully inadequate, in many respects, to the task of succeeding in the competitive American environment. To reach acceptable levels of performance required state provision of finance (in addition to foreign commercial loans) for new investment, state coordination of the investment levels and flows to avoid overinvestment, and state aid in upgrading into newer and more sophisticated technologies, as in the move to synthetic fibers. This is just to say that the supply-side measures that have been extensively studied by commentators on Korea kicked into action once the access to markets was secured and hence provided the state with a bargaining chip against Korean capitalists.

What ELI did, therefore, was to provide Park with an accumulation model that at once brought "on board" significant segments of the business class while providing him with the leverage to demand in return a given standard of performance. With the enormous American market offering unparalleled opportunities for expansion, firms on one hand had to rely on state support to succeed against the more established and efficient international producers, while on the other hand, those companies that did not "go along" faced a real opportunity cost if support was withdrawn since other aspirants to their place would happily step in and take their place. So long as the strategy remained a workable one, offering unique avenues for growth while also demanding close coordination and need for high

performance, the alliance between the state and capitalists could be reproduced. Capitalists would reap enormous profits while abiding by the state's occasional use of coercion against laggard firms.

This account provides the empirical counterpart to the theoretical critique of statism. The nub of the criticism was that there is no reason to accept the proposition that the Korean state engineered a switch to ELI, impervious to the preferences of its bourgeoisie. The chief mechanism that is adduced to give warrant to the claim—control over finance—does not appear capable of doing the job. On the other hand, once the consent of a significant segment of the class is secured, control over finance is capable of disciplining individual firms. On this argument, if the state manages to hammer out an accumulation strategy with its business class, the exercise of developmental functions is a possibility, so long as business confidence persists—that is, so long as sufficient numbers of firms remain convinced of the strategy.

The preceding account is intended to show that the new strategy that did emerge in Korea—export-led industrialization—was just such a “pact” between the state and its bourgeoisie. It was not foisted onto business by the new regime; to the contrary, it was pushed by business itself. A consideration of the circumstances in which it arose reveals just why so many other countries failed to make such a switch or even more modest switches: Korea was blessed with the happy accident of falling within the ambit of Japanese capital's emerging accumulation strategy, in which declining industries were off-loaded to Korea, where they then set up shop to reexport. Further, Japanese trading companies acted as intermediaries to the United States, helping secure markets that might have been otherwise inaccessible. In return, they were able to provide their Korean clients as purchasers of capital goods to Japanese companies. A triangular pattern of trade thus emerged with Korea exporting light manufactured goods to the United States while importing capital goods from Japan. As in the statist version, ELI and the developmental state are closely linked in my account. Although in the former, the developmental state engineers a turn to ELI and is hence causally prior to it, in my analysis, ELI provides the crucial leverage to the state to exercise its developmental functions. The causal arrow thus runs in the other direction.

Of course, the fact that ELI gave the state an opening to develop its developmental capacity was no guarantee that the latter would in fact do so. Korean firms' alliance with their Japanese counterparts did not in itself produce developmental success—there was still ample room for failure. That it resulted in success is in no small part an achievement of Park and his regime, which was assiduously geared toward ensuring that ELI served as a bridge to genuine domestic development. The emphasis in the literature on the importance of state building, the effective coordination of policy agencies, the extraordinary zeal with which policy objectives were pursued—all of this is fully justified. The opportunities offered by potential export markets would not have fructified without the presence of a state

that was up to the task for which it became famous. The aim of this article has not been to deny the importance of this function; instead, it has been to suggest that an appreciation of the state's ability to foster development need not blind us to the constraints under which it operated and under which it was born.

#### CONCLUSION

The scholarship of the past decade has gone some distance in establishing the critical role played by the state in the industrial transformation of Korea. The thrust of this article does not in any way deny the role or the power of the state in this process. Rather, the argument has been that in their enthusiasm for overturning the neoclassical myth of the necessarily inept and inefficient state, statisticians have constructed a view that strains credulity. They have accorded to it a power for which no convincing argument has been advanced—namely, a power not only to discipline individual firms but to in fact coerce and set the agenda for the class as a whole—irrespective of the latter's own preferences. This premise is not only unsupported, but it also leads to a crucial empirical lacuna in their account of the developmental state's origins: the role of the alliance between Japanese and Korean capital is vastly underestimated because it seems to be taken for granted that once the state decided to pursue an ELI strategy, Korean capital had no choice but to go along. I hope to have shown that the theory behind state dominance cannot withstand scrutiny and that, if we reject it, there is available another rendering of Korean history that can explain how ELI was institutionalized.

On the account offered here, the success of industrial policy in Korea was an achievement, not of a uniquely powerful state, but of a state that was both fortunate and skillful. Fortunate, in that it fell within the ambit of Japan's developmental strategy, which gave it an accumulation model very well suited to state intervention. Since Korean firms had little chance of surviving in export markets without the aid and coordinating functions provided by the state, Park and his planners had an unusual degree of leverage against them. And so long as the state was able to facilitate the enormous success in export markets, large swathes of the class were willing to accept the occasional use of coercion against individual firms. But the state was also skillful, in that Park and his planners were able to build the kind of institutions that were necessary to make the model succeed. Without the myriad forms of control over finance, the close monitoring of firms, the willingness and capacity to redesign state institutions when necessary, and, above all, the ability to discipline local firms into adhering with the overall strategy, the simple availability of markets could not have sufficed to generate success.

This analysis of the origins of the developmental state in Korea thus affirms the centrality of state intervention in the remarkable industrial transformation of the country. But it does so in a fashion that renders it consistent with the larger literature on the state in capitalist societies. The Korean state was exceptional not because it was able to ignore the constraints that bedevil most capitalist states; it

was exceptional because of the manner in which it accommodated itself to those constraints. It is hoped that this analysis will be useful in casting the Korean case in a wider light.

## NOTES

1. An exception to the neoclassical orthodoxy was the series of studies released by Harvard University's Council on East Asian Studies: Leroy Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge, MA: Harvard University Press, 1980); Edward S. Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge, MA: Harvard University Press, 1980); David Cole and Yung Chul Park, *Financial Development in Korea, 1945-1978* (Cambridge, MA: Harvard University Press, 1983). These studies were among the first to show in detail the extensive role that the state played in Korean development. They were also the first to note the centrality of imposing "discipline" on capital. However, they did not have much success in overturning the reigning wisdom among economists.

2. The literature on this is by now enormous. But seminal and still informative works are Clive Hamilton, *Capitalist Industrialization in Korea* (Boulder, CO: Westview, 1986); Alice Amsden, *Asia's Next Giant* (Oxford, UK: Oxford University Press, 1989); Robert Wade, *Governing the Market* (Princeton, NJ: Princeton University Press, 1990); Stephan Haggard, *Pathways from the Periphery* (Ithaca, NY: Cornell University Press, 1990). More recently, Amsden in particular has gone on to propose a more generalized model of development based on the East Asian experience. See Alice Amsden, "Third World Industrialization: 'Global Fordism' or a New Model?" *New Left Review* 182 (July/August 1990): 5-31; Alice Amsden, "A Theory of Government in Late Industrialization," in Louis Putterman and Dietrich Rueschemeyer, eds., *State and Market in Development: Synergy or Rivalry?* (Boulder, CO: Westview, 1992); Alice Amsden, "Like the Rest: South-East as 'Late' Industrialization," *Journal of International Development* 7, no. 5 (1995): 791-99. Another impressive body of work along the same lines has been developed by Dani Rodrik, "Getting Interventions Right: How South Korea and Taiwan Grew Rich," *Economic Policy* April (1995): 55-107; and especially Dani Rodrik, "The 'Paradoxes' of the Successful State," *European Economic Review* 41 (1997): 411-42.

3. Mason et al., *The Economic and Social Modernization of the Republic of Korea*, 265.

4. Amsden, "Third World Industrialization: 'Global Fordism' or a New Model?" 23-24 for first part of quote; *ibid.*, 16 for second part, emphasis added.

5. Jones and Sakong, *Government, Business, and Entrepreneurship in Economic Development*, 67.

6. Mason et al., *The Economic and Social Modernization of the Republic of Korea*, 263.

7. Byung-Nak Song, *The Rise of the Korean Economy* (Oxford, UK: Oxford University Press, 1990), 91.

8. Eun Mee Kim, *Big Business, Strong State* (Albany, NY: SUNY Press, 1997), 5.

9. Alice Amsden and Robert Wade, two of the pioneers in the recent critiques of neoclassical orthodoxy, have tended to remain quite reticent on the general relation of power between the state and capital in Korea. Their analyses have focused on describing the sundry ways in which the Korean experience relied on selective state intervention while leaving aside the issue of sources of the state's power. It is not therefore clear to me how they would react to the position developed in this paper.

10. Mason et al., *The Economic and Social Modernization of the Republic of Korea*, 265; Amsden, "Third World Industrialization," 22.

11. Song, *The Rise of the Korean Economy*, 145.

12. *Ibid.*, 102.

13. The most articulate exponent of this position has been Atul Kohli, "Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's 'Developmental State,'" *World Development* 22, no. 9 (1994): 1269-93. But see also Sang-In Jun, "The Origins of the Developmental State in South Korea," *Asian Perspective* 16, no. 2 (1992).

14. See their exchange with Kohli: Stephan Haggard, David Kang, and Chung-In Moon, "Japanese Colonialism and Korean Development: A Critique," *World Development* 25, no. 6 (1997): 867-81; Atul Kohli, "Japanese Colonialism and Korean Development: A Reply," *World Development* 25, no. 6 (1997): 883-88.

15. Byung-Kook Kim, "Bringing and Managing Socioeconomic Change: The State in Korea and Mexico" (Ph.D. diss., Harvard University, 1988), 100-3.

16. Yeonmi Ahn, "The Political Economy of Foreign Aid: The Nature of American Aid and Its Impact on the State-Business Relationship in South Korea, 1945-1972" (Ph.D. diss., Yale University, 1992), 231, 281-83.

17. *Ibid.*, 183-84.

18. Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991), chap. 2.

19. This too is widely recognized in the literature. For two of the best recent analyses of business strategies in the 1950s, see Ahn, "The Political Economy of Foreign Aid," and Timothy Lim, "Competition, Markets, and the Politics of Development in South Korea, 1945-1979" (Ph.D. diss., University of Hawaii, 1996). Analysts have sometimes attributed the absence of Schumpeterian entrepreneurs to the import-substituting strategy of the Rhee regime, which set up a dense thicket of protectionist measures and relied heavily on discretionary allocation of scarce import licenses and other subsidies; the conclusion that naturally flows from this position is that it was a turn to more market-oriented policies in the next decade—centering on the rationalization of the exchange rate—that drove Korean business into more productive activities by closing off the ready avenues to profit through manipulation of price differentials. But the contrast drawn between the two periods along this dimension is illusory—the policy regime under Park Chung Hee did not do away with protection and import substitution, nor did it rely any less on discretionary allocation of scarce resources. On this, see Amsden, *Asia's Next Giant*, and especially the excellent articles by Dani Rodrik, "Getting Interventions Right," and "The 'Paradoxes' of the Successful State."

20. For an account of Rhee's ouster, see Quee-Young Kim, *The Fall of Syngman Rhee* (Berkeley: University of California Press, 1983); for the coup that brought Park to power, see Se-jin Kim, *The Politics of Military Revolution in Korea* (Chapel Hill: University of North Carolina Press, 1971).

21. Byung-Kook Kim, *Bringing and Managing Socioeconomic Change*, 248-50; David Satterwhite, "The Politics of Economic Development: Coup, State, and the Republic of Korea's First Five Year Economic Development Plan (1962-1966)" (Ph.D. diss., University of Washington, 1994), 377-83.

22. Lim, "Competition, Markets, and the Politics of Development in South Korea," chap. 6; Yoo, "A New Political Economy of Economic Policy Change in South Korea, 1961-1963: Crisis, Uncertainty, and Contradiction" (Ph.D. diss., Ohio State University, 1990), 172-77.



23. The congruence between the junta's reforms and those proposed by Chang has led some scholars to suggest that had he been given enough time, Chang would have eventually pushed through the measures himself. The coup, and hence the authoritarian regime, was thus unnecessary to the Korean experience. This is most explicitly argued by Satterwhite, "The Politics of Economic Development," 384-400.

24. Stephan Haggard, Byung-kuk Kim, and Chung-in Moon, "The Transition to Export-Led Growth in South Korea, 1954-1966," *Journal of Asian Studies* 50 (1991): 857.

25. See David C. Kang, "South Korean and Taiwanese Development and the New Institutional Economics," *International Organization* 49, no. 3 (1995): 575. There is no detailed study of how this delicate operation was managed, for understandable reasons. Conventional sources will simply not yield the required information for such a project. It need hardly be emphasized, however, that one of the most promising directions of future research on the comparative political economy of developmental states lies here. For an interesting critique of the neoclassical and "new institutionalist" analyses of corruption from a broadly class-analytical perspective, see Mushtaq Khan, "State Failure in Weak States: A Critique of New Institutional Explanations," in John Harriss, Janet Hunter, and Colin M. Lewis, eds., *The New Institutional Economics and Third World Development* (London: Routledge Kegan Paul, 1995), and Mushtaq Khan, "The Efficiency Implications of Corruption," *Journal of International Development* 8, no. 5 (1996): 683-96.

26. Kim, *Big Business, Strong State*, 34; Haggard, Kim, and Moon, "The Transition to Export-Led Growth in South Korea, 1954-1966," 860. The formation of the EPB came as something of a relief to U.S. advisers in Seoul. Initial reports after the coup were reporting worrisome signs of a continuation and even exacerbation of the Rhee-era dispersal of authority. Ministries seemed to be usurping a "new degree of autonomy" that had not been possible under the previous regime, and all indications were that "strategically placed bureaucrats" were about to launch "pet projects" that the new regime would be powerless to stop. See Green to Secretary of State, May 28, 1961, 895B.00/5-2861, Department of State Records, (hereafter DSR), RG 59, United States National Archives (hereafter USNA), College Park, Maryland.

27. The notion to establish an apex body for planning came not from Park, as has often been assumed, but from the economists in the EDC. This is stressed by Satterwhite, "The Politics of Economic Development," 377-83. See also Byun-kook Kim, *Bringing and Managing Socioeconomic Change*, 248-51.

28. Chung H. Lee, "The Government, Financial System, and Large Private Enterprises in the Economic Development of South Korea," *World Development* 20 (1992): 190.

29. This episode is now a standard part of every account of Park's rise to power. Representative samples may be had in Jones and Sakong, *Government, Business, and Entrepreneurship in Economic Development*, 69-70, 280-82; Eun Mee Kim, *Big Business, Strong State*, 112-17.

30. See Lim, "Competition, Markets, and the Politics of Development," 229-32.

31. Kim, *Big Business, Strong State*, 117. Emphasis added.

32. Karl Fields, *Enterprise and the State in Korea and Taiwan* (Ithaca, NY: Cornell University Press, 1995), 48, emphasis added; see also Karl Fields, "Strong States and Business Organization in Korea and Taiwan," in Sylvia Maxfield and Ben Ross Schneider, eds., *Business and the State in Developing Countries* (Ithaca, NY: Cornell University Press, 1997), 127-28, where he repeats this almost verbatim.

33. Ha-Joon Chang, "The Political Economy of Industrial Policy in Korea," *Cambridge Journal of Economics* 17 (1993): 152, emphasis added. Despite the criticism that follows, I should note that Chang's is one of the very finest studies on the Korean

experience. See also Ha-Joon Chang, *The Political Economy of Industrial Policy* (London: Macmillan, 1994), where he embeds his account of Korea in a wider discussion of its implications for neoclassical economics.

34. I would like to thank Robert Brenner and the editorial board of *Politics & Society* for their strenuous reading of this section of the paper.

35. "As long as they could obtain the necessary capital inputs, both national firms and multinational subsidiaries had clear preferences for operating within the context of protected home markets—rather than assuming the risks of entering new markets and/or competing with subsidiaries established elsewhere"; Robert Kaufman, "How Societies Change Developmental Models or Keep Them: Reflections on the Latin American Experience in the 1930's and the Postwar World," in Gary Gereffi and Donald Wyman, eds., *Manufacturing Miracles* (Princeton, NJ: Princeton University Press, 1990), 129.

36. Alan Richards and John Waterbury, *The Political Economy of the Middle East* (Boulder, CO: Westview, 1990), 196; see also Abla M. Abdel-Latif, "The Non-Price Determinants of Export Success or Failure: The Egyptian Ready-Made Garment Industry, 1975-89," *World Development* 21, no. 10 (1993): 1677-84.

37. *Biweekly Economic Review*, no. 10, 895B.00/5-1961, RG 59, DSR.

38. Green to Secretary of State, 5/24/61, 895B.00/5-2461; "Developments on the Illicit Accumulators Front," in *Biweekly Economic Review*, no. 14, 895B.00/7-1461, RG 59, DSR; for quote, see Berger to Secretary of State, 6/28/61, 895B.054/6-2861, RG 59, DSR.

39. Berger to Secretary of State, 8/1/61, 895B.00/8161, RG 59, DSR.

40. Berger to Secretary of State, 9/29/61, 895B.00/92961, RG 59, DSR.

41. *Biweekly Economic Review*, no. 14, 895B.00/7-1461, RG 59, DSR.

42. *Biweekly Economic Review*, no. 9, 895B.00/5-462, RG 59, DSR. See also Lim, "Competition, Markets, and the Politics of Development in South Korea," 251-60, and Yoo, "A New Political Economy of Economic Policy Change in South Korea," 184-87.

43. The most detailed study of the initial plan as it related to farmers and small business is Yoo, "A New Political Economy of Economic Policy Change in South Korea," 94-120. See also Lim, "Competition, Markets, and the Politics of Development in South Korea," 104-6; Inwon Choue, "The Politics of Industrial Restructuring: South Korea's Turn toward Export-Led Heavy and Chemical Industrialization, 1961-1974" (Ph.D. diss., University of Pennsylvania, 1988), 155-66.

44. Lim, "Competition, Markets, and the Politics of Development in South Korea," 105.

45. See Haggard, *Pathways from the Periphery*, 68.

46. David Cole and Young Woo Nam, "The Pattern and Significance of Economic Planning in Korea," in Irma Edelman, ed., *Practical Approaches to Development Planning: Korea's Second Five-Year Plan* (Baltimore, MD: Johns Hopkins University Press), 18.

47. Choue, "The Politics of Industrial Restructuring," 161. In fact, Park admitted, as did Kim Jong Pil in later years, that junta had little understanding of the plan's operational coherence. See Satterwhite, "The Politics of Economic Development," 358-64.

48. The most detailed study of this chain of events is Yoo, "A New Political Economy of Economic Policy Change in South Korea, 1961-1963." The crisis was closely followed and ably reported by the *Far Eastern Economic Review* (henceforth *FEER*). See in particular the issues of 3/7/63, 8/22/63, and 9/19/63.

49. *FEER*, 9/19/63, 737.

50. David Cole and Princeton Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge, MA: Harvard University Press, 1971), 218. The authors, who

were present in Korea at the time as advisers, recall that “planning as such was definitely not a well-established or influential process” as late as 1964.

51. Choue, “The Politics of Industrial Restructuring,” 161-63; Byong-Kook Kim, *Bringing and Managing Socioeconomic Change*, 261-63.

52. *Biweekly Economic Review*, no. 3, 2/10/64, E 2-2 KOR S, Box #735, Subject-Numeric Files, RG 59, DSR; Haggard, Kim, and Moon, “The Transition to Export-Led Growth in South Korea, 1954-1966,” 865-66.

53. While some scholars have pointed to the importance of Vietnam as a market for Korean goods after the mid-1960s, its role in the early years of the Park regime is less widely appreciated. Vietnam was the major destination for many iron and steel products, which were the most lucrative category for exports in 1963, bringing in \$12.1 million, as against just \$600,000 in 1962. In comparison, textiles and related products only garnered \$7.8 million in 1963. This also points to the precarious moorings of export success in the early years of the regime. For the statistics cited, see *Quarterly Economic Summary*—October-December 1963, 3/3/64, E 2-3 KOR S, Box #735, Subject-Numeric Files, 1964-1966, RG 59, DSR.

54. For the impending cutback on U.S. aid, see Ahn, *The Political Economy of Foreign Aid*, chap. 6, and Woo, *Race to the Swift*, 72-80. The American insistence on devaluation and export promotion was detailed in the so-called “Dillon letter,” which embedded these demands in a larger stabilization program. This was first presented by advisers during the Chang Myon regime and continued to be the core set of proposals for subsequent U.S. pressure. On the Dillon letter, see Satterwhite, “The Politics of Economic Development,” 318-30. For American pressure more generally, see Woo, *Race to the Swift*, 76-79 and Amsden, *Asia’s Next Giant*, 67.

55. This distinction appears to have been proposed by Gustav Ranis and is noted by James Cypher and James Dietz in their excellent textbook on the subject, *The Process of Economic Development* (London: Routledge Kegan Paul, 1997), 319.

56. It may, however, require autonomy from and power over agrarian elites if the move is to promote manufacturing exports in a country with a history of exporting primary products.

57. Song, *The Rise of the Korean Economy*, 90-92; John Lie, *Han Unbound: The Political Economy of South Korea* (Stanford, CA: Stanford University Press, 1998), 96-98; Martin Hart-Landsberg, *The Rush to Development* (New York: Monthly Review Press, 1993), 59; Alice Amsden and Takashi Hikino, “Staying Behind, Stumbling Back, Sneaking Up, Soaring Ahead: Late Industrialization in Historical Perspective,” in William J. Baumol, Richard R. Nelson, and Edward N. Wolff, eds., *Convergence of Productivity: Cross-National Studies and Historical Evidence* (Oxford, UK: Oxford University Press, 1994), 295. For an example of Park’s punishment of a firm that refused to abide by export targets, see Mark Clifford, *Troubled Tiger: Businessmen, Bureaucrats, and Generals in South Korea* (New York: M. E. Sharpe, 1994), 55-56.

58. Papano to Dept. of State, 5/31/62, 895B.00/5-3162, RG 59, DSR.

59. Doherty to Dept. of State, 4/10/62, 494.95B41/4-1062, RG 59, DSR.

60. *Biweekly Economic Report*, no. 9, 9/18/64, E2-2 KOR S, Box #735, Subject-Numeric Files 1964-1966, RG 59, DSR.

61. *Quarterly Economic Summary*, 12/17/64, E2-3 KOR S, Box#735, Subject-Numeric Files 1964-1966, RG 59, DSR.

62. Berger to Secretary of State, 1/8/63, 394.41/1-863, RG 59, DSR.

63. The argument offered here also implies that the success of Korean exports over time was not a simple outcome of the subsidies that the state offered to exporters. It is not uncommon to find commentators pointing to state subsidization of exports as the source of

the enthusiasm that business displayed for ELI. But as Dani Rodrik has pointed out, this argument fails on two counts: first, the subsidies had been in place since around 1958, while exports really began to take off after 1962; second, and more important, the extent of subsidies in Korea was in fact lower than in several other developing countries that were far less successful in making a switch to exports. In other words, subsidies might have encouraged Korean firms to export, but the fact that the latter not only tried the strategy but remained committed to it cannot be explained by the attraction of the former. See especially Rodrik, "The 'Paradoxes' of the Successful State," 421-22. See also Mason et al., *The Economic and Social Modernization of the Republic of Korea*, 134, 266.

64. This strategic relocation to neighboring countries and the use of the latter as export platforms came to be rationalized by Japanese scholars and politicians as the "flying geese" theory of development, which bears some resemblance to Raymond Vernon's well-known product-cycle theory. In the flying geese theory, the establishment of export processing in backward countries was supposed to be the first step toward mature industrialization for them, as they rode the coattails of the more developed country into export markets. While I do agree with the importance of Japan as an initial conduit to export markets, this should not be taken as an endorsement of the theory just alluded to. In particular, my account stresses the contingency of the ultimate outcome, which turns crucially on the presence of a state with sufficient capacity and autonomy to discipline capital—local, but also international. In the absence of such a state, there is no reason to assume that the requisite transfer of technology, productivity, and investment patterns will be generated. Export orientation on its own can just as well lead to enclave economies, wildly uneven development, and financial fragility. For recent criticisms of the "flying geese" theory in the East Asian context, see Martin Hart-Landsberg and Paul Burkett, "Contradictions of Capitalist Industrialization in East Asia: A Critique of 'Flying Geese' Theories of Development," *Economic Geography* 74, no. 2 (1998); more generally, see Michael Mortimore, "Flying Geese or Sitting Ducks? Transnationals and Industry in Developing Countries," *CEPAL Review* 51 (1993).

65. The most notable exception to this is the fine work of Robert Castley, *Korea's Economic Miracle: The Crucial Role of Japan* (London: Macmillan Press, 1997), to which I am greatly indebted. But more recently, John Lie has also drawn attention to the importance of the Japanese as a conduit to American markets. Though he does not spend a great deal of time examining its significance for the rise of the developmental state, Lie's analysis is, in important respects, quite close to the one developed here. See Lie, *Han Unbound*, especially pp. 86, 129.

66. Sanjaya Lall, "Marketing Barriers Facing Developing Country Manufactured Exporters: A Conceptual Note," *Journal of Development Studies* 27, no. 4 (1991); Robert Castley, *Korea's Economic Miracle*.

67. Gary Gereffi has analyzed markets for such goods as "buyer-driven" commodity chains, as against "producer-driven" chains, exemplified most clearly by the automobile industry. See Gereffi, "Global Commodity Chains: New Forms of Coordination and Control among Nations and Firms in International Industries," *Competition and Change* 4 (1996): 427-29; Gary Gereffi, "Commodity Chains and Regional Divisions of Labor in East Asia," *Journal of Asian Business* 12, no. 1 (1996).

68. MacArthur to Secretary of State, 12/10/60, 494.95B41/12-1060; see also his telegrams of 1/2/61 and 1/24/61, in 494.95B41/1-261 and 494.95B41/1-2461, respectively, all in RG 59, DSR.

69. McConaughy to Secretary of State, 1/26/61, 494.95B41/1-2661, RG 59, DSR.

70. Reischauer to Secretary of State, 11/20/61, 895B.05194/11-2061, RG 59, DSR; Berger to Secretary of State, 12/13/61, 895B.05194/12-1361, RG 59, DSR. Note that

Park's assent suggests that he was already committed to normalization just a few months after taking power, although it took another four years to achieve it. More on this anon.

71. Reischauer to Secretary of State, 494.95B41/12-1361, RG 59, DSR; Reischauer to SS, 494.95B41/2-1662, RG 59, DSR.

72. Reischauer to SS, 895B.05194/3-2662, RG 59, DSR; Reischauer to SS, 895B.05194/2-2162, RG 59, DSR.

73. *Oriental Economist*, March 1963, 146-49.

74. *Biweekly Economic Review*, no. 9, 5/4/64, E2-2, KOR S, Box# 735, Subject Numeric Files, 1964-1966, RG 59, DSR.

75. *FEER*, 1/3/63, 11; "Textile Industry Report," 6/13/65, INCO-FIBERS, KOR S, Box #1141, Subject-Numeric Files, 1964-1966, RG 59, DSR.

76. Pappano to Department of State, 4/23/62, 895B.00/4-2362.

77. Berger to Secretary of State, 1/2/63, 394.41/1-263, RG 59, DSR.

78. Reischauer to Department of State, 2/21/62, 895B.05194/2-2162, RG 59, DSR.

79. Quick to Department of State, 5/23/62, 895B.35/5-2362, RG 59, DSR.

80. *Quarterly Economic Summary* (July-September), 1964, E2-3 KOR S, Box #735, Subject-Numeric Files, 1964-1966, RG 59, DSR.

81. "Textile Industry Report," 6/13/65, INCO-FIBRES, KOR S, Box #1141, Subject-Numeric Files, 1964-1966, RG 59, DSR.

82. *Quarterly Economic Summary*, 8/17/64, E2-3, KOR S, Box #735, Subject Numeric Files, 1964-1966, RG 59, DSR.

83. Byoung Doo Lee, "The Politics of Industrialization: The Textiles Industry in South Korea and the Philippines" (Ph.D. diss., Northwestern University, 1990), 353; see also Castley, *Korea's Economic Miracle*, 235-36.

84. Castley, *Korea's Economic Miracle*, Table 8.25, p. 241.

85. Byoung Doo Lee, "The Politics of Industrialization," 293-96, 307-8.

86. Barbara Stallings conjectured on the likely importance of foreign capital for Korean export success, particularly of the availability of marketing facilities, in "The Role of Foreign Capital in Economic Development," in Gary Gereffi and Donald Wyman, eds., *Manufacturing Miracles*, 76. In a perceptive passage, she notes that while U.S. advisers may have been important in applying pressure for a turn toward exports, "it was clear that foreign capital had to participate *in order to make it a success*" (emphasis added), *ibid.* This distinction between proposing a strategy and sustaining it over time is elided by the statist.

87. Other commentators have drawn attention to the importance of the Normalization Treaty of 1965: see Woo, *Race to the Swift*; Martin Hart-Landsberg, *The Rush to Development* (New York: Monthly Review Press, 1993); Stephan Haggard, *Pathways from the Periphery*; and Haggard, Kim, and Moon, "The Transition to Export-Led Growth in South Korea, 1954-1966." But in these accounts, the treaty is seen as a means of securing development loans from Japan, which eased the financial burden on the state, especially since the United States was scaling down its loan commitments. Its consequences for trade are noted but not emphasized, and its link to the growing ties between the business classes from the two countries is rarely even noted. That said, I should mention that it is not clear how important Haggard regards the treaty, even on his more limited grounds. While he gives it some prominence for export success by Haggard in *Pathways from the Periphery*, it recedes in importance in Haggard, Kim, and Moon's article referred to above. Similarly, while Woo includes the business pressure for the treaty in her account of the early Park years, the significance that she attaches to it is not clear. As I mentioned earlier, it is the work of Castley and Lie that is closest to the analysis presented here.

88. In Young Kim, "The Political Economy of a Chaebol's capital Accumulation in South Korea: The Case of Samsung, 1938-1987" (Ph.D. diss., University of Hawaii, 1996), 209-10. Chol, like Park himself, had been educated in Japan; *ibid.*, 205-7.

89. Kwan Bong Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System* (New York: Praeger, 1971), 87-90. See also Haggard, *Pathways from the Periphery*, 73-74.

90. Kwan Bong Kim, *The Korea-Japan Treaty Crisis*, 88.

91. Woo, *Race to the Swift*, 86.

92. Castley, *Korea's Economic Miracle*, 136.

93. *Ibid.*, 137.

94. *Ibid.*, 140-41.

95. Chung H. Lee, "United States and Japanese Direct Investment in Korea: A Comparative Study," *Hitosubashi Journal of Economics* 20, no. 2 (1980): 39. This article is an excellent study of the Japanese connection during Park's rule.

96. Lee, "United States and Japanese Direct Investment in Korea," 33.

97. Castley, *Korea's Economic Miracle*, 143.

98. *Ibid.*, 144. But see also 141-45. The importance of trading companies for access to markets is also pointed out by Mason et al., *The Economic and Social Modernization of the Republic of Korea*, 139.

99. See above, note 70.

100. Castley, *Korea's Economic Miracle*, 119-30.