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## The Paradox of South Korean Development



South Korea's rapid economic development since the 1960s, based on export-oriented industrialization, has been hailed as one of the Third World's most successful such cases. Its development has been one of the fastest in the world, with an average annual growth rate of gross national product (GNP) per capita of 7.1 percent between 1965 and 1990 (World Bank 1992).

Before 1961, South Korea was a poor, agrarian society. Sixty-six percent of the labor force worked in the agricultural sector and only 9 percent in the industrial sector. The GNP per capita in 1961 was \$82 (Bank of Korea 1984). South Korea was barely recovering from the ruins of the Korean War, which had left 45 percent of the factories substantially damaged (Jones & Sakong 1980). Every spring, there was a famine in the countryside in the period after the rice harvested the previous fall had run out and before the barley could be harvested. Families were often further impoverished when, in order to send an oldest son to school in Seoul, they would sell their only oxen or farmland in March (the start of the new school year). Politicians and rich *chaebol* owners did not seem to care, since they were enjoying a luxurious life, not dissimilar to the lifestyle of the elites in the

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First World. The cycle of poverty appeared to be unbreakable, since the poor farmers did not have resources and those who had power to change things seemed uninterested in doing so.

May 16, 1961, marked a turning point in South Korea's modern history. On that day, General Park Chung Hee [Pak Chŏng Hŭi]<sup>1</sup> led a military coup to bring an end to a corrupt and inept government and to achieve economic development. "The Road Toward Economic Self-Sufficiency and Prosperity" became the stated national theme of this military regime (Ministry of Public Information 1965). What followed the coup were a series of changes in the state, in the relationship between the state and the private sector, and in the private sector. These changes, and the favorable international economy of the 1960s and 1970s, helped produce one of the most successful economic development stories of the twentieth century.

Documentaries about South Korea's economic development often refer to it as "The Miracle on the Han River," evoking images of "The Miracle on the Rhine." In these documentaries, the colorful images of the ultramodern city of Seoul are often juxtaposed with the black-and-white film footage of the Korean War (1950–53), which shows masses of people fleeing Seoul on foot, crying babies still wrapped in their blankets. The messages are clear: South Korea has come a long way in a very short time. And, its economic development has been a tremendous success.

There are, however, images that remind me of another side of South Korea's miracle economy. On August 20–23, 1969, President Park Chung Hee visited the United States upon an invitation from President Richard Nixon. They discussed South Korean security, settlement of the Vietnam War, and a proposal for a gradual withdrawal of U.S. troops from South Korea (C. H. Park 1971:144–46). The South Korean media reported endless stories of how President Park was being greeted with open arms in the United States. However, in a stark contrast, the American Forces Korean Network (AFKN) television news showed how President Park was being booed at and pelted with stones. As a young child who both admired her president and still had fond memories of living in Chicago just a year before, these images left a lasting impression.

The implications of the two different portrayals of President Park's visit to the United States are not as rosy as the more widely claimed view of South Korea's economic success. First, behind South Korea's glittering economic miracle lies censorship, a feature common to authoritarian regimes. Censorship represents a more widespread phenomenon of political repression and a failure to promote democracy during the early years of South Korean development. It seems odd to pair curtailment of civil liberties with rapid economic development. The questions loom large: Why did the South Korean government engage in a cover-up when its economy was boasting remarkable growth? What was the government trying to conceal, and who was it trying to control? Second, these images remind us that international actors and international geopolitical context are important for South Korea. Domestic state-society relations are inexorably tied to the changing international conditions and, in particular, South Korea's relations with its powerful neighbors—i.e., the United States and Japan.

Together these issues point to the tension and strain embedded in the South Korean miracle. Understanding that South Korea's economic growth is closely linked to its lack of political democratization, and that South Korea's fate is closely tied to the international geopolitical and economic contexts, is important in the analysis of South Korean development.

With these issues in mind, this book focuses on the two main institutions of South Korea's economic development: the state, and the *chaebol*. These two domestic institutions shaped South Korea's industrialization and economic development, especially during the 1960s and 1970s. During the early 1960s, the Park regime's Economic Planning Board (EPB) played a central role by charting out the pace and method of industrialization and by coercing and courting the *chaebol* (the large, family-owned and family-managed business groups) in order to enlist their support. Big business groups played an increasingly greater role over time as not only the implementers of the EPB's industrial policies but as entrepreneurs who took advantage of both political and market incentives.

The state and businesses worked together, in large part, at the exclusion of labor. This does not mean that labor and labor

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movement were nonexistent or unimportant in South Korea's economic development. It means that economic policies were made without any input from labor. Labor was severely repressed by the Park regime, and the labor movement was not as well organized as the state or businesses. In spite of repression toward labor from both the state and businesses, labor unions grew and the labor movement expanded during the 1970s and 1980s (both underground and legally). Labor became a formidable voice for democratization and social change by the 1980s. In this book, partly as a result of labor's changing and ascending role in South Korean economic development, labor is dealt with prominently in chapter 6 (the 1980s) and less so in earlier chapters (chapter 4 on the 1960s and chapter 5 on the 1970s).

A central assumption in the analysis of the state and the *chaebol* in the book is that these institutions changed in their internal structure and in the relations between the two institutions as economic development proceeded. The latter point regarding relations refers to the balance of power between the state and the *chaebol*, which shapes the content of economic policies and the ways in which economic policies are constructed and implemented.

The changes in the state and the *chaebol*, and the relations between them, are analyzed in the context of the world economy and geopolitics of the cold war. As a latecomer, South Korea's ability to enter, and to profit from, the international economy is circumscribed by the condition of the international economy and the receptivity of foreign capitalists as providers of needed capital and technology. However, it is important to note that Third World actors and institutions are not completely helpless.

I offer four arguments in this book, which depart from either market- or state-centered studies by examining critically both the state and capitalists. First, South Korea's rapid economic development was attained initially by a tight alliance formed between a strong, developmental state and big businesses. This alliance repressed labor and excluded it from enjoying the fruits of economic growth. The coexistence of a strong state and big businesses goes against arguments made in

earlier state-centered studies (Johnson 1987; Koo 1987; Migdal 1988). These studies assume that a strong state exists on the basis of a weak society, which includes businesses. In other words, state and society are depicted in a zero-sum relationship with one group's interests at odds with the other's. However, the South Korean case demonstrates that a strong state is not necessarily antithetical to big businesses. Post-World War II Japan is another example of the coexistence and alliance between a strong state and big businesses (Johnson 1982).

Second, the relations between the state and capitalists changed in the course of successful economic development. The relationship is a dynamic one as suggested by Rueschemeyer and Evans (1985: 69–70). This argument opposes earlier studies, which assume that the relationship is constant over time. In South Korea, the power balance between the two institutions shifted from state dominance to symbiosis and later to competition. Conflict and tension, which are embedded in the relationship between the two institutions, intensified over time.

Third, the developmental state underwent significant transformations in the course of successful economic development, from a "comprehensive" to a "limited" developmental state. The concepts of "comprehensive" and "limited" developmental state are created to clearly distinguish the qualitatively different types of developmental states. The comprehensive developmental state is plan rational rather than market rational; its orientation is developmental rather than regulatory; and industrial policy takes priority over foreign policy (Johnson 1982: 17–20). A limited developmental state also focuses on development and economic development plans, but to a lesser degree, and it works to accommodate policy goals other than development: certain segments of the economy remain plan rational, while the rest become market rational; the orientation is developmental in certain segments, but in reduced degrees, while the regulatory function increases in sectors that have become market rational; and the primary policy objectives include development and other goals, such as foreign policy and welfare.

A comprehensive developmental state is a transitory form of state. Inherent limits within a comprehensive developmental

state make it inevitable that it reduce interventionist tendencies and become a limited developmental state. It will face pressures to transform, regardless of its success or failure in attaining its goal, that is, economic development. If it fails to deliver its goal, there will be pressures from within the state and from the public to change the state in order to bring about economic development. On the other hand, even if it is successful in attaining economic development, there will be pressures to transform. This is the paradox of the comprehensive developmental state, which is forced to abandon and change its very formula for success. The contradictions and limits inherent in this state type, I argue, compel the state to change its structure and goals. (See chapter 2 for definition and discussion of the contradictions.) In South Korea, this process was further hastened by the industrial policies of the state, which favored big businesses over small- and medium-sized enterprises and fostered heavy and chemical industrialization.

Fourth, the *chaebol* were not complacent rent-seekers in spite of generous state subsidies provided to them. The largest and most successful *chaebol* did not solely rely on state subsidies and protection. The successful business groups sought and cultivated new markets abroad, acquired technology and investments from multinational corporations (MNCs), and took advantage of the state's shifting economic policies.

The analysis of the *chaebol* in this book examines how foreign institutions have affected the organizational structure and interaction patterns of domestic institutions. In particular, I investigate how the South Korean *chaebol* borrowed from and modified the Japanese prototype, *zaibatsu*, which were present in Korea during Japanese colonial rule (1910–45). In chapter 3, I examine the broader historical and structural context of the *chaebol* to explain their birth and growth. I also provide a critical comparison among South Korea's *chaebol*, Japanese *zaibatsu*, and Taiwanese enterprises, in order to shed light on the debate about their similarities and differences. In addition, this comparison is presented as a way to challenge the claim made by Cumings (1987) and others that Japanese colonial rule played a decisive role in the East Asian newly industrializing countries' (NICs) growth. In the last chapter, I offer some comparisons between

South Korea and Japan in the context of the changing international economy. There are similarities, but the different historical structural context in which nations like South Korea and Taiwan interjected themselves in the international market, make it difficult to easily equate the experiences of these economies.

The interplay of the state and the *chaebol* in South Korea's economic development is presented inside a broader context of geopolitics and international economy. The significance of foreign capital and foreign states in the development of Third World nations is a controversial topic. Modernization scholars tend to see foreign influence as positive, and even necessary, for underdeveloped nations to modernize. Foreign culture and institutions are important conveyers of modernity (Eisenstadt 1964; Inkeles & Smith 1974). On the other hand, earlier dependency scholars view foreign capital and foreign states as inimical influences on Third World nations (Dos Santos 1970; Frank 1967). Foreign capitalists obstruct long-term economic growth and create and exacerbate income inequality in the Third World. In both sets of studies, foreign capital is seen as having omnipotent power over domestic actors. My argument in this book is that although the Third World nations cannot effectively influence and alter foreign capital, foreign states, international geopolitical conditions, and international markets, the Third World nations are not completely at their mercy either. Third World states and businesses *can take advantage of*, and in some cases *change*, the international context.<sup>2</sup> As demonstrated by Mardon (1990), Third World states are capable of controlling the type, amount, and share of ownership of foreign capital investments. Mardon (Ibid.:138) also points out that studies on South Korea should not focus so much on whether foreign capital is "beneficial" or "detrimental" to the host nation's economic growth but "on the structures and strategies that can be developed by the state in order to induce necessary inputs in a manner that will maximize the benefits to the domestic economy."

As Haggard (1990) noted, favorable international geopolitical and market conditions were present in many nations throughout Asia, however, they produced varying degrees of

economic success. While this region contains some of the very prosperous nations in the world—e.g., Japan and the Gang of Four<sup>3</sup> (South Korea, Taiwan, Hong Kong, and Singapore)—, it also includes the Philippines, which has been an economic failure. The implication is that at least when regional geopolitical and economic contexts are similarly presented to developing nations, the domestic actors in the developing nations are important in bringing about different outcomes for the nation's economic development. The *differential ability* to utilize the international context is one important reason why some Third World nations are able to develop while others languish, even when similar international conditions are presented to them. This by no means suggests that powerful international actors—e.g., foreign states as well as foreign capitalists—are at the mercy of Third World states and capitalists. Quite the contrary, the argument here is that *even* Third World nations can utilize the international context to their advantage, albeit with great difficulty and low probability of success. South Korea is one of only a handful of Third World nations that were successful in taking advantage of, and overcoming structural obstacles presented by, international actors and contexts. South Korea's lessons for other Third World nations are presented in the concluding chapter of this book.

### **Studies on South Korean Development**

This study relies on several bodies of work about South Korean development. Most notably, the market-centered studies and state-centered studies are utilized in this study. The analysis of South Korea's *chaebol* also benefits from the organizational sociology literature, in particular from studies about the relations between the organization and its environment.

#### ***Market-Centered Studies***

The market-centered, neoclassical economics approach produced a wealth of studies on East Asian development. The endorsements of East Asian development as based on market principles came from international economic organizations,



including the International Monetary Fund (IMF) and the World Bank. In a 1990 report, the World Bank argued that South Korea's economic growth was due to the provision of incentives for investments and the manipulation of exchange rates, interest rates, and domestic prices (World Bank 1990). The report concluded that South Korea's success was "broadly in line with market based outcomes" (Ibid.:299). The argument is that South Korea did not use a significantly different strategy to attain economic development compared to its counterparts in Western Europe and the United States. The market was primarily responsible for South Korea's remarkable growth, and the state played only a supplementary and complementary role to the market, fine-tuning certain rates to ensure that the market would perform at its optimum.

The IMF and the World Bank have taken this model to other Third World nations and recommended strongly that the recipient nations conduct market reforms as a condition for economic development loans. However, this type of market-centered approach ignores the fact that the state played a greater role in the economies, including South Korea's. In some cases, the state *created* new markets, even when the private sector objected to it. As Amsden (1989) and Wade (1990) argue, the state did not correct the prices but in fact "distorted" and deliberately set the prices "wrong."

A more recent study by the World Bank (1993) departs from its earlier studies' findings and recognizes a significant role played by the state in East Asian miracle economies. However, as pointed out by Amsden (1994b) and others (Kwon 1994; Lall 1994; Perkins 1994; Yanagihara 1994) in a 1994 issue of *World Development*, the World Bank goes only so far as to acknowledge the state's role in East Asian development as getting "the basics" right. Amsden (1994b) criticized the World Bank for not portraying the findings as supportive of a stronger endorsement of the developmental state's role in East Asian nations, due to the Bank's free market ideology and internal politics. The main arguments in *The East Asian Miracle* by the World Bank (1993) with only mild support for the role of the developmental state and stronger endorsement of basic liberal market reforms, are consistent with the Bank's insistence in many

Eastern European nations after 1989 that the latter adopt liberal market reforms without any role provided to a developmental state (Amsden, Kochanowicz & Taylor 1994).

A series of books published jointly by Harvard University and the Korean Development Institute, a government-sponsored research institute in South Korea, took a more conciliatory approach to the role played by the market and the state (Ban, Moon & Perkins 1978; Jones & Sakong 1980; Kim & Roemer 1979; Krueger 1979; Mason et al. 1980). According to these studies, the government led the economy toward rapid development through market augmentation. These books, however, did not analyze the government's role beyond simple market augmentation, and they did not explain state behavior in creating markets and in getting the prices wrong. Many studies from the market-centered approach did not adequately consider the roles played by nonmarket actors, most importantly the state.

Responding to criticisms on earlier market-centered studies that they under-emphasized nonmarket factors, Song (1990) incorporated neoclassical economics with cultural arguments. He provided an eclectic mix of Simon Kuznets's (1973) theory of modern economic growth and Walter W. Rostow's five stages of economic growth with Wei-Ming Tu's (1984) "new Confucian ethic," as a way of explaining South Korean development. He argued that South Korea's economic development based on exports was primarily due to private enterprises and noted that Confucian ethics helped to provide a moral and social foundation for economic growth. However, the state's ability to create markets and distort prices is not dealt with. Furthermore, Song is unable to explain why Confucianism took several hundred years to finally produce economic growth after its introduction to Korea. And like many other studies that focus on Confucianism as a major explanatory variable for economic growth, Song is unable to explain why some Confucian nations have achieved remarkable economic development while other Confucian nations still struggle to eradicate poverty. It is too simplistic to assume that certain religions, values, or culture could bring economic development. The study also underestimates the domestic and external structural obstacles to economic development. In sum, Song's (1990) eclectic mix of different theoretical

approaches fell short of providing a logically coherent or persuasive study about South Korea's economic development.

The market-centered, neoclassical economics approach had three shortcomings: (1) it neglected the role of the state as having an independent and leading role in the economy; (2) it assumed the private sector in South Korea to be not very different from the "rational," "free" enterprises found in the West, which tend to work in relatively freer markets; and (3) it ignored structural obstacles that may hinder economic development, such as unreceptive international market and MNCs, and destruction of economy caused by war, and so on.

This study will help overcome the shortcomings of the market-centered approach. In particular, the role of the developmental state, which sometimes creates markets based on political signals and against market signals, will be analyzed. The examination of the *chaebol* in South Korea will reveal how their organizational structure is also, in part, a creative adaptation to the developmental state. Thus, the state plays an important role in creating markets and in influencing the organizational structure of businesses. These are roles that have not been analyzed in market-centered studies.

### ***State-Centered Studies***

The state-centered approach challenged the studies by neoclassical economists by focusing on the active role played by the state in leading the process of economic development among latecomer developing nations. Amsden (1989) and Wade (1990) provided detailed critiques of the market-centered approach to South Korea's and Taiwan's success, respectively. Koo (1987) summarizes what many state-centered studies have argued as the main cause of South Korea's economic development:

The South Korean economy is one of the capitalist world's most tightly supervised economies, with the government initiating almost every major investment by the private sector. South Korean development is thus often defined as state-led industrialization (Koo 1987:173).

Within the state-centered approach, there are two different schools of thought. One group has been influenced by the Weberian notion of the state, which emphasizes the institution(s) of the state. Johnson's (1982) seminal work on the role played by Japan's Ministry of International Trade and Industry in that country's economic development is an example. Other studies in this tradition include Okimoto's (1989) and Samuels's (1987) studies of Japanese bureaucracy that provided revisions to the earlier work by Johnson (1982) and B. K. Kim's comparative study of the economic ministries in South Korea and Mexico (1987). These studies provided important insights into the inner workings of the developmental state. However, they showed the following weaknesses: they viewed the state as a homogeneous institution lacking internal conflict and tension; they equated the existence of a developmental state with economic growth without clearly demonstrating causality; and they highlighted harmony between the state and society (Lie 1990a).

Another group of state-centered studies comes from the neo-Marxist perspective. Although most studies in this group are not economic determinist, they have nonetheless focused on the relationship between classes—in particular between the state and society—as a way of understanding how capitalist development is attained. Many studies in this tradition were influenced by the dependent development perspective, originally devised to explain the rapidly growing NICs in Latin America. Despite some critical differences between the two regions, this approach has helped to shape the basic thinking on East Asian development. Grounds for applying the lessons of Latin American NICs to the East Asian situation are threefold: first, the East Asian nations were also trying to break into the international economy, which was already dominated by advanced industrialized nations in Western Europe, the United States, and Japan; second, they had to rely on foreign capital and technology for development; and third, each nation had a relatively strong state apparatus.

However, studies that used the dependent development perspective to explain the growth of East Asian NICs proved to be only partially right. While they did show that East Asian NICs were dependent on the advanced industrialized nations, espe-

cially the United States and Japan, they failed to note that these nations did not endure the costs of dependence—that is, the lack of sustained long-term development and the extremely unequal distribution of income. Barrett and Whyte (1982) cited these critical differences to argue that the dependency perspective cannot adequately explain the East Asian cases of development.

More recent studies on East Asian development have focused on the strong developmental state (as a key difference compared to Latin America) to explain why economic growth was achieved at unprecedented speed without serious negative side effects (Amsden 1989; Evans 1987; Gold 1986; Johnson 1987; Koo 1987; Lim 1987; Mardon 1990; Woo 1990). The questions asked in these studies were shaped by the experiences of the Latin American NICs, and those conducting the studies often approached the developmental state with the awe of one approaching a “rain man” or other such miracle maker.

Among the state-centered studies based on South Korea, Amsden’s (1989) and Woo’s (1990) books provided solid contributions. Wade (1990) also provided a fine comparative analysis of Taiwan and South Korea. It is noteworthy that Amsden (1989) and Wade (1990) provided a convincing account of the role of the state in governing and leading the process of economic development, using a wealth of empirical evidence to counter key arguments made by neoclassical economists.

Amsden’s (1989) book on South Korean industrialization stands out as an important contribution on its development, providing a rich theoretical analysis based on detailed empirical evidence. Amsden (Ibid.) provides a critical analysis of the mechanisms of the state—e.g., discipline and punishment—that enable effective execution of economic development plans without corruption, as well as an analysis of how large business groups work under the guidance and control of a strong developmental state. She hints that the balance of power between the state and businesses began to change in the 1980s. However, because the book focuses on the state’s achievements and takes us only to the mid-1980s, Amsden’s book does not deal adequately with the declining state and with the *chaebol* as an emerging social class. Furthermore, she underplays the problems and abuses of the state and businesses.

Woo's (1990) study focuses on the role of financial institutions in shaping South Korea's economic development. She argues that the Japanese colonial period institutions of the state and the banks provided an important foundation from which more recent economic growth has been based. Woo's (1990) study, however, stops before the 1980s, during which time the power balance between the state and capitalist changes significantly. Thus, she gives the impression that the control the state and state-owned financial institutions have over businesses remains constant over time. And similar to the studies by Amsden (1989) and Wade (1990), Woo (1990) does not adequately deal with abuses and problems resulting from state-led development.

Wade (1990) provides a compelling counterargument to the neoclassical economists' assertion that Taiwan's economic development is a prime example of market principles at work. He provides ample evidence that the role of the state in Taiwan's development has been to govern the market, rather than to simulate the free market. However, since his book focuses on the role of the state in attaining economic development, he does not deal with the political challenges facing the Taiwanese state, which have come from the middle class and workers in recent years.

Although state-centered studies have provided us with critical insights into the role of the developmental state in economic development in East Asia, they are nevertheless limited in several ways. First, they tend to promote a static understanding of the state and of development by assuming that if a state becomes strong and developmental, it will necessarily remain that way.<sup>4</sup>

Another related issue is that due to these studies' static appraisal of state power in absolute terms, they do not examine how the balance of power between the state *vis à vis* other actors in society may change as a result of economic development. Furthermore, such an appraisal of state power is based on an assumption that the state and society are locked in a zero-sum relationship. States are depicted in dichotomous terms such as "strong" and "weak," which are often juxtaposed against "weak" and "strong" societies, respectively (Johnson 1987; Koo

1987; Migdal 1988). The South Korean case illustrates that the state's power (both in relative and absolute terms) changes over time and that the state is not necessarily locked in a zero-sum relationship with businesses—e.g., a strong state can coexist with big businesses, and conversely, a weak state and can coexist with weak businesses.

Second, actors other than the state in the developmental drama are treated lightly. The private sector is often seen as a mere follower of the state's initiatives and therefore not much different from public enterprise. It is an irony that many studies on South Korean development written from the state-centered perspective often examine only nonmarket factors, such as the state and the geopolitical context. In these studies, the private sector is seen as merely "puppets" of the state—i.e., taking orders from the state and implementing them. The logic is clear: in order to understand the activities of the puppets (the businesses), one must look at the hands (the state) that are moving the puppets and not the puppets. The puppets cannot make decisions or move on their own. Thus, private businesses are often portrayed as *created, maintained, and managed* by the state, which are not very different from public enterprises (Hamilton & Biggart 1988; Koo 1987). Although the state may have a relatively strong hold on the *chaebol*, the latter are ultimately private enterprises that make decisions and take risks. Therefore, it is important that they be studied apart from the state policies. The studies by DiMaggio and Powell (1983), Powell and DiMaggio (1991), and other institutional analyses of organizations are utilized in this book to provide an analysis of the emergence of different types of industrial organizations in response to the external environment, in which the state is a major actor. Evans's new book, *Embedded Autonomy: States & Industrial Transformation* (1995), provides important insights in explicating how an autonomous state is able to intervene in the market effectively, yet able to resist societal pressures. His analysis provides a clear way in which the South Korean state intervened effectively, unlike its counterparts in Brazil and India. His conceptualization and analysis informs this study in important ways.

Third, since the state-centered approach is intended to explain the remarkable achievements of the state, it tends to

ignore the social costs and abuses that also result from development.<sup>5</sup> Both the market- and state-centered studies have been fascinated with the remarkable achievements of the South Korean case, and thus neither has provided a critical analysis of the social/political/economic costs of rapid economic development. Finally, while this approach provides a good explanation of how the developmental state is created and gains power, it does not deal adequately with the weakening of the developmental state.

The present study revises and improves upon the one-sided analysis of either the market- or state-centered studies by incorporating both the state and the capitalists into the analysis. The two institutions are examined since they formed an alliance to attain rapid economic development. However, this alliance was neither an egalitarian or a static one. As noted earlier, the power balance shifted from state dominance to symbiosis and later to competition. This argument departs from earlier studies, which tend to assume that the institution in control (whether it is the state or the capitalists) will retain its power over time.

By examining the alliance formed between the state and the *chaebol*, this study illuminates the repression of labor. Relatively low-paid female and male workers provided the competitive edge in terms of prices for South Korean-made products in the international market. Yet, these workers did not enjoy the fruits of their labor, neither in the forms of wage increases, improvement in working conditions, or enhancement of labor rights. This study examines social costs that resulted from economic development based on a tight state-capital alliance.

In sum, this study rejects the one-sided and static understandings of both the market- and state-centered approaches, and offers an integrated analysis of the state and capitalists in economic development. This study begins with an assumption that the alliance formed between the two institutions is a dynamic one, in which the power balance shifts. The study also argues that the relationship between the state and the capitalists is not necessarily a harmonious one and examines the sources of tension and conflict embedded in the relationship.



Finally, this study is more about social change, in which institutions and organizations change in the process of rapid economic development, than about how rapid economic development is attained.

### **Toward an Analysis of State and Business in a Dialectical Process of Social Change**

*In this book, development is understood as a dialectic<sup>6</sup> process of social change in which the state and big businesses work together to attain economic development; and in the process, the state and businesses are fundamentally transformed and the relations between the state and businesses are altered.*

The analysis in the book covers the period from 1960 to 1990, during which time South Korea experienced dramatic social, economic, and political changes. The collaboration and conflict between the two domestic institutions of the developmental state and the *chaebol* are analyzed during three periods: the state and the remaking of the *chaebol* (1960s); the state-*chaebol* alliance for development (1970s); and the decline of the developmental state, the rise of the *chaebol*, and the growing labor movement (1980s). An in-depth examination of labor is not presented until the chapter on the 1980s, since it was prevented from having a voice to determine South Korea's economic development and industrialization during the earlier decades. The conclusion summarizes the South Korean model, provides lessons for Third World nations, and discusses future prospects for South Korea.

The first part of the book deals with theoretical analyses of the two main institutions. The concept of the developmental state, which was first developed by Johnson (1982), is further refined. First, the concept is modified to include two different phases of the developmental state: comprehensive and limited. Unlike earlier studies, which tend to focus on the state's ability to transform society and to bring about economic growth, attention is paid to how the state changes as a result of societal changes and economic growth. Emphasis is on the fact that the developmental state's internal structure and its relations to the capitalists and labor change as a result of its success in attaining

economic development. Thus, the comprehensive developmental state refers to the stage prior to state transformation, while the limited developmental state refers to the stage after the transformation. The underlying assumption is that these two types of the developmental state are qualitatively different and merit a separate analytical treatment.

Second, the comprehensive developmental state is presented as an inherently unstable and transitory form of state structure, since it has limits embedded in its construct. The notion that the state must rely on a certain degree of autonomy from the capitalists at the beginning of economic development is one of the reasons why the state will have difficulty retaining its supremacy over the businesses. This is because capitalist economic development will inevitably result in the growth of the capitalists, who can then threaten the autonomy of the state. Another source of instability stems from the goal of the state—i.e., economic development—and policies and services provided by the state to attain this goal (e.g., long-term economic development plans and forecasting, capital and technology, and marketing know-how). These services are not usually provided by the state in other advanced industrialized nations. In such nations, these services are often provided by the private sector. What this implies is that although the comprehensive developmental state may have an independent domain of services when the private sector is in its infancy, the comprehensive developmental state will increasingly face competition from the private sector as capitalist economic development progresses. These limitations on the state's autonomy and institutions are important factors in explaining why the comprehensive developmental state will be forced to change, despite its built-in inertia against drastic changes.

In addition to providing an analysis of the developmental state, this book examines the historical structural context, industrial organization, and tremendous growth of the *chaebol*. A conservative alliance between a strong state and domestic big businesses is not as easily found among developing nations as we may expect. In many Latin American nations, MNCs were brought in to assist with economic development (Cardoso & Faletto 1979; Evans 1979). In Taiwan, the three largest enter-

prises are state-owned (Gereffi 1990). Even in pre-World War II Japan, when large family-owned business groups proliferated, the state provided less direct incentives to the business groups than the South Korean government. Thus, an understanding of this group of capitalists, whose growth was supported extensively by the state in the earlier phase of development but that later grew to challenge the state, is important for the analysis of South Korean development.

In order to understand how the *chaebol* were created and became dominant in the domestic economy, we incorporate the broader context in which the industrial organizations exist and then link the broader context to the internal organizational structure. This is because the internal structure is not merely a reflection of the environment, as the state-centered studies tend to assume, nor is it completely neutral, as the neoclassical economic studies argue. As Hamilton and Biggart state, "enterprise structure represents situational adaptations of preexisting organizational forms to specific political and economic conditions" (1988:s87). Studying the broader context is particularly important when we examine industrial organizations in developing nations. The broader context or the environment of the developing nations is not only qualitatively different from that of the advanced industrial nations when they began to industrialize (Kiggundu, Jorgensen & Hafsi 1983), but it also has a much greater impact on its organizations.

In this book, an analysis of the *chaebol* is produced by incorporating the organizational theory offered by DiMaggio and Powell (1983), which can explain how the *chaebol* as an industrial organization flourished in South Korea, and the more macroanalyses provided by development studies and the political economy perspective. The latter will provide historical insights into the process of how certain institutions and organizations gain power and resources to become the origin of isomorphic change (rather than the receptor of such change). The state, colonialism, and internationalization are the three focal points in the analysis of the historical structural context of the *chaebol*.

Here, the *chaebol* is analyzed as both an industrial organization with attributes that help explain its phenomenal growth

and as a newly emerging capitalist class of *chaebol* owners, high-ranking managers, and their families, whose relationship with the state changes with development. The *chaebol* is a family-owned and family-managed, extremely diversified business conglomerate. It is based on a unique blend of the Confucian ideology of filial piety and loyalty to family and the West's notion of free enterprise. The industrial organization and growth of the *chaebol* are examined utilizing a data set I have compiled that contains firm-level information on the *chaebol*.

In the course of successful economic development, the developmental state and the *chaebol* have faced challenges to transform themselves. In a way, the demands faced by the state are far more critical than those faced by the businesses. The state faces challenges to alter its *raison d'être* and institutions, since its primary goal—economic development—has been attained; while business faces less drastic challenges, since its goal—profit maximization—is one without a finite end point. The developmental state's transformation has been brought about in part by the inherent contradictions and limits of a comprehensive developmental state, as well as by the state's industrial policies of favoring big businesses and heavy industrialization, which have fostered the growth of the *chaebol* and a militant labor force. Furthermore, the restructuring of the developmental state faced further difficulties as the state became subsumed within the more dramatic breakdown of the authoritarian regime and democratization surrounding the Declaration for Democracy on June 29, 1987.

A cheap, abundant, and well-disciplined labor force has been a mainstay of the success of export-oriented industrialization in the East Asian NICs. In many cases, wages have been suppressed and labor rights have been repressed. Since the voice of organized labor was relatively small during the early phase of development, outsiders tended to assume that labor was content for the reason that jobs, albeit low-paying ones, are better than none at all. However, we know now that the labor force in Asian NICs is not content with its wages and working conditions. The voice of discontent has been loudest in South Korea. In 1989, there were 1,616 strikes and lockouts in South Korea, compared to seven in Hong Kong, 1,458 in Taiwan

(1986 figures), and ten in Thailand (1987 figures) (International Labour Office 1990). Increased labor movements in South Korea developed in spite of one of the most repressive labor regimes among the Asian NICs (Bello & Rosenfeld 1990; Deyo 1987b, 1989; Ogle 1990). Labor, as an important social group that demanded changes in the comprehensive developmental state as well as the authoritarian state, is analyzed in chapter 6.

### *Data and Sources*

This study is based on interviews and secondary data I obtained during a nine-month field study in South Korea between 1986 and 1989, with financial assistance from an International Doctoral Research Fellowship by the Social Science Research Council (1986–87) and a Faculty Research and Innovation Fund by the University of Southern California (1988–89). Many shorter visits to Seoul between 1991 and 1994, which often lasted from two to four weeks, allowed me to conduct more interviews and to collect up-to-date information and publications. In South Korea, I interviewed both past and present government officials from the three economic ministries (the Economic Planning Board, the Ministry of Finance, and the Ministry of Trade and Industry), business executives, bank executives (Bank of Korea and Korea Development Bank), newspaper editors, and academics.<sup>7</sup> Over the years, I interviewed over fifty individuals. Each interview lasted one to two hours. The interviewees were selected with the help of my colleagues in South Korea, and they were chosen because of their first-hand experience and knowledge of the issues I was researching for this book. I spoke with many others, both in the United States and in South Korea, and they provided valuable insights on the inner workings of the state and businesses in South Korea.

The research on the *chaebol* was based in part on a data set I compiled for the ten largest *chaebol*. The ten largest *chaebol* were selected to be included in the data set, because this was one of the two places in which a natural break in terms of total assets and sales occurred. The other was after the four largest. Since financial data on the *chaebol* as a unit of analysis was not

available until the mid-1980s, I created this data set based on financial statistics of individual firms compiled from business directories published in South Korea. Two business directories were used for this purpose: Maeil Kyŏngje Shinmun's *Maekyung: Annual Corporation Reports* (1971–84) and Korea Productivity Center's *Korean Company Handbook* (1973–82). These business directories were not published prior to 1971, and therefore all information is from 1970 (which the 1971 volume contained). Information on the firms included the foundation date, total assets, total debt, capital, sales, major products, export, and industry from 1970 to 1983. Information was put in the computer using SPSS-X. The data on individual firms were then polled for each of the ten largest *chaebol*. The statistical information on the *chaebol* as the unit of analysis has been available since the mid-1980s from several sources including the Management Efficiency Research Institute (1988–92) and Bankers Trust (1989). I relied on these new publications to complement the data set I compiled for the analysis of the *chaebol*. No such longitudinal analysis of the *chaebol* based on firm-level data has yet been published either in English or in Korean.

I conducted archival research in the libraries at Ewha Womans University, Seoul National University, and the Korea Development Institute. I also obtained important and often classified documents from government offices: these documents included statistical information on South Korea's economy, data on foreign and domestic capital, and internal government reports on policies. I also secured South Korean bank documents, business directories, newspaper articles, papers from research institutions, and various other published articles and books.

### Organization of the Book

The book is organized into two parts, in addition to an introduction (chapter 1) and a conclusion (chapter 7). Part I (chapters 2 and 3) discusses the state and the *chaebol* as two key institutions that brought about rapid economic development through alliance and competition. The discussions in this

section are centered on the theoretical analyses of the two institutions. Part II (chapters 4–6) is an in-depth analysis of the changes of the state and the *chaebol* in the three decades of dynamic economic growth.

Chapter 2 focuses on the state, and the concepts of the authoritarian and developmental states are developed. The contradictions inherent to the comprehensive developmental state are presented. These contradictions help explain how and why the comprehensive developmental state undergoes a transformation to a limited developmental state, even when it is successful in attaining its goal of economic development.

Chapter 3 analyzes the *chaebol*, focusing on their unique industrial organization relative to their Japanese prototype, the *zaibatsu* (the pre-World War II Japanese business conglomerates), and to Western enterprises. The broader historical context of the *chaebol*, which helps explain how they were established and flourished, is analyzed.

Chapters 4 and 5 trace South Korea's industrialization during the 1960s and 1970s. South Korea's journey toward rapid industrialization based on exports is analyzed in terms of the alliance that was formed between the state and big businesses. The changing nature of the state-business relationship was as important as the changes in the institutional makeup of the state that occurred with the 1961 military coup led by Park Chung Hee.

Chapter 6 explores the challenges presented to the comprehensive developmental state by the *chaebol* and labor in the 1980s. The restructuring of the developmental state, which began in 1979, was overshadowed by the more dramatic breakdown of the authoritarian Chun regime. The dramatic economic, social, and political changes that occurred in the 1980s attest to the dynamic nature of the South Korean development model.

In the last chapter, I address three issues. I summarize the key features of the South Korean model and contemplate in what ways the South Korean model is similar and different from the Japanese model. The second question is whether South Korea can serve as a model for other Third World nations, in view of the findings of this book. The discussion

includes the decline of the developmental state, the advantages and dangers of a development strategy based on a tight alliance between a strong state and big business, and the social problems of injustice and inequity stemming from such state-business alliance. The last issue is the future challenges facing the South Korean political economy. Future prospects for South Korea's economic development are presented in light of recent events, including heightened expectation for reunification with North Korea, the Kim Young Sam [Kim Yǒng Sam] regime whose presidency represented a first civilian regime in over three decades, and continued efforts for political democratization.