How and why did South Korea transition to an economic model of export-led industrialization?

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Abstract

Taking as its motivating puzzle South Korea’s remarkable economic development over the past half-century, this paper examines the logic of South Korea’s transition to an economic model of export-led industrialization. I propose a theory of the origins of the transition to export-led industrialization that differs from the dominant arguments in the existing literature. I argue that the willingness of foreign capital to make substantial investments of capital and technology can play a large role in a country’s decision to shift to an economic model of export-led industrialization. This, in turn, requires a strong state to mediate the relationship between foreign and domestic capital. I then map the experience of South Korea onto my theory. South Korea had substantial economic growth in the early years of the Park era in large part because of the willingness of Japanese business to make investments of capital and technology. Furthermore, the developmental state in South Korea emerged because these initial relationships between Japanese and Korean capital required mediation by the South Korean state.
I. Introduction & Hypothesis

The outcome, if not the explanation itself, is clear. Today, South Korea ranks highly on multiple measures of economic and social wellbeing, and it is one of Asia’s strongest democracies. It has a GDP per capita of over US $25,000 and has the second-highest Human Development Index score in Asia, second only to Japan. Fifty years ago, however, South Korea’s present situation would have seemed incredibly improbable, if not impossible. In 1960, its GDP per capita was less than two hundred dollars; by that measure, even the Philippines had a stronger economy than South Korea did. In the course of fifty years, South Korea has managed to transform itself from a country that relied almost exclusively on foreign aid to sustain its economy to a member country of OECD’s Development Assistance Committee. Of the twenty-nine current members of the Committee, it was by far the poorest in 1960. Indeed, by almost every metric of economic performance, South Korea in 1960 was among the worst performing countries in the world. This, then, is a major puzzle to which my paper offers a small answer. How did South Korea achieve such amazing growth over the past half-century? How did it succeed, and succeed so dramatically, where other countries failed?

The present paper answers these questions modestly. I build off of – and assume as correct – the empirical work done by several scholars on the importance of export-led growth and the developmental state in fueling South Korea’s economic growth. Instead of analyzing the entire trajectory of South Korea’s development since 1960, I answer the question: How and why did South Korea transition to an economic model of export-led industrialization? I examine and attempt to explain the logic behind South Korea’s transition, beginning in the 1960s, to an economic model of export-led industrialization. In doing so, my argument both complements existing theories about South Korea’s growth as well as slightly modifies them. I assert that
South Korea’s export-led growth was due at least in part to Japan’s willingness to invest in and support the South Korean economy with flows of technology and capital. This encouraged South Korean businesses to rely on the state to mediate an export-driven economy and enabled the state to establish and expand its authority and power over South Korean business.

To be sure, my explanation neither dismisses nor discounts the important role of domestic institutions and capital in fueling the Miracle on the Han River. I wish to stress that the processes and interactions I describe in this paper were dynamic and complex. Even if Japanese capital had wished to invest in Korea, its investments would not have borne fruit without sufficiently strong domestic political institutions. Additionally, my paper draws attention to the political and economic dimensions of the relationship between South Korea and Japan in the post-war period, a relationship that in recent years has suffered relative scholarly neglect. Recent scholarship has focused attention on the development of domestic political institutions in fostering growth; I wish to restore to our attention the multiple dimensions of the bilateral relationship between South Korea and Japan. The argument I advance also offers material of interest to those interested in modern Korean and Japanese histories as well as East Asian regional relations.

The paper proceeds as follows. Section II reviews some of the salient literature on the East Asian Miracle, with special reference to South Korea. Section III describes the theory. Section IV gives a brief historical sketch of South Korea and offers an empirical test of the theory using the South Korean case. Section V briefly describes some potential concerns about the arguments presented in this paper. Section VII concludes and contemplates future areas of inquiry that could build on the arguments advanced in this essay.
II. Literature Review

The literature on the East Asian Miracle and South Korea’s economic development in particular is extensive; I give here an overview of the seminal texts, highlighting the arguments most salient for the present paper. In particular, I emphasize the two poles of explanations for the East Asian Miracle – the neo-classical view and the developmental statist view.

The World Bank’s 1993 eponymous report on the East Asian Miracle offers a neoclassical explanation of the East Asian Miracle. The constituent countries of the East Asian Miracle succeeded, the World Bank claims, because “rapid growth in each economy was primarily due to the application of a set of common, market-friendly economic policies, leading to both higher accumulation and better allocation of resources,” or, more succinctly, these countries “[got] the basics right” (World Bank 1993). The report offers a litany of explanatory policies, among them: large amounts of private domestic investment and savings; a stable macroeconomic policy and a reliable legal framework; and substantial investments in human capital. Once these countries solidified the basics, growth naturally followed. Notably, the report acknowledges the role of government interventions in helping foster growth, although it rejects the view of what the report terms the revisionist (i.e., developmental statist) scholars – namely, that the government often made policy decisions that benefited the economy. Which government interventions succeeded and failed remains a topic contested in the literature today.

Against the claims of the neoclassical scholars, which the World Bank report both summarizes and typifies, stand the arguments of the developmental state literature. Chalmers Johnson’s *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (1982), is one of the central texts in the developmental state literature, and certainly is among the oldest. In the book, Johnson describes the role of the Japanese Ministry of International Trade and
Industry, arguably the single most powerful agency in the Japanese bureaucracy. MITI was the primary architect of industrial policy, targeting specific industries for growth and harnessing the power of the state to encourage development and investment in these desired industries. From the Japanese case, Johnson extrapolates a theory of what he terms the developmental state. The developmental state is a state that is first and foremost dedicated to economic development. Central to the developmental state is an elite bureaucracy that uses policy instruments to direct the economy within the limits of private property protection. This bureaucracy is kept relatively insulated from political pressures. Doing so allows that bureaucracy – MITI, in the case of Japan – to make long-term investments and planning decisions. Additionally, this bureaucracy maintains close informal ties with actors in the private sector; indeed, Johnson notes the prevalence of strong alumni networks of elite schools, such as the University of Tokyo, among bureaucratic and business elites. Indeed, there was a room in the Blue House in which Park and his advisers would meet with chaebol leaders; many of them either had similar military or educational backgrounds. We can imagine the developmental state on a linear spectrum of state involvement in markets – perhaps not as involved as in a planned socialist economy, for instance, but certainly not so detached to surrender decisions about encouraging growth to the invisible hand of the free market.

In Asia’s Next Giant: Late Industrialization in South Korea, Amsden (1989) takes Johnson’s concept of the developmental state and adapts it to interpret South Korea’s growth experience. Her work is also worth discussing at length, since much of my argumentation depends on understanding her claims. In a richly detailed study, she makes a number of arguments about the South Korean growth experience; I identify three of the most salient here. First, the goal of the government was rapid industrialization, as opposed to exploiting existing
comparative advantage to maximize profits. This was obviously not a concern for Japan in the same way it was for South Korea. Second, the South Korean state offered a stable political environment that did not discourage South Korean businesses from risk-taking. Third, government interventions were designed to “get the prices wrong” in order to encourage investment in strategically important industries. Finally, and perhaps most importantly, performance was subsidized, and criteria were established in exchange for these subsidies. Firms that performed well would receive subsidies; first that did not perform up to the standards of pre-determined criteria would not receive subsidies, and would sometimes be punished, or otherwise be allowed to fail, in some cases. Subsidies and assistance most often occurred through the lever of finance, over which the state had complete control.

The mechanisms through which the South Korean state exerted control over domestic business are clear; how developmental states emerged less so. Haggard’s *Pathways from the Periphery* (1990) offers an explanation of the political decision-making behind various development strategies. Haggard identifies four key variables that explain development strategy outcomes: the international system, domestic coalitions, domestic institutions, and ideology. Haggard asserts that the international system is the most important of these because of the constraints it places on state choice through market and political pressures. He cites various external political changes, such Korea’s absorption into the Japanese Empire and then the Korean War, as shaping the development of East Asian states. International pressures, however, he finds are insufficient to explain the “coherence of policy and the instruments through which it is pursued” (43). Instead, Haggard finds that state-society relationships that limited the level of independent organization of interests was also important to explaining transitions to export policies in East Asia.
Doner et al. (2004) argues that broad geopolitical security concerns and resource constraints explains the emergence of developmental states. State capacity allegedly diverges in Northeast and Southeast Asia (excluding Singapore) because states in the former faced constrained political environments. Elites, they claim, only work toward building developmental states when facing three threats, which they collectively assign the phrase “systemic vulnerability.” First, the credible threat that decreases in living standards will trigger destabilizing mass unrest; second, that geopolitical vulnerability increases the need for foreign exchange and war materiel; and third, hard budget constraints that emerge from few reliable revenue sources of sufficient volume. As we will see, the role of security concerns is not unfounded. Indeed, American pressure played a crucial role in stimulating political and economic change in Taiwan and South Korea. In this regard, my argument does not seek to overturn the existing literature, but propose an alternative explanation that complements existing ones.

Finally, Haggard, Kim, and Moon (1992) draw attention to incentives facing political actors in understanding South Korea’s transition to an export-led industrialization model. They pay attention to the empirical record in South Korea to address the theoretical tension between neoclassical and developmental statist explanations for the transition. They highlight the importance of incentives for various political actors, including technocratic elites, in driving the change to an export-led model. In their telling, these incentives were changed in the 1960s principally because of the exogenous intervention of two actors: America, which began to use its aid to push for policy reform in the early 1960s; and the military, which launched institutional reforms that centralized economic decision-making and enabled long-term planning.
Nonetheless, the authors devote substantial time to discussing typical developmental state arguments.

The respective manners in which either literature interprets the South Korean growth experience both have concerns. The neo-classical view downplays the role of the state in fostering economic growth. The empirical evidence makes clear the power of domestic political institutions in altering regulations and mobilizing domestic capital. For its part, the developmental statist interpretation swings too far in the degree of power it ascribes to the state. I propose a different perspective that finds more power in Korean business and offers a complementary explanation for the origins of the Korean developmental state. Furthermore, my analysis also differs from that of Haggard, Kim, and Moon by emphasizing the role of Japan, which does not figure in their arguments.

III. Theory

Thus far, I have laid out some of the most important arguments in the extant literature on the East Asian Miracle with particular reference to South Korea. In this section, I integrate the preceding two sections on the existing literature and propose an alternative theory. In short, the existing developmental state literature, including that specific to South Korea, argues that the developmental state causes economic growth through inducing and encouraging export-led industrialization. I reverse the order of the links in that theoretical chain. The developmental state does not give rise to export-led growth. In fact, the inception of the export-led growth strategy gives rise to the developmental state, which itself emerges as a necessity of shepherding export-led growth. This is a slightly different argument than the positions asserted in both the neoclassical literature and the developmental state literature. Though the developmental state
literature proposes mechanisms of the developmental state, that literature does not account for the role of an investor of capital and technology in enabling export-led industrialization (ELI) – Japan, in the case of South Korea. Moreover, in that literature, growth allegedly follows from state actions, not the other way around. This is largely true, but the promise of economic growth, as well as credible commitments that ELI had a chance of success, are also important in explaining the origins of the developmental state. Additionally, my argument ascribes more power to domestic capital than does the developmental state literature, which asserts that capital is at the mercy of, and almost completely subject to, the state.

Intuitively, countries that adopt ELI strategies need markets to which they can export. Import substitution industrialization, which focuses on domestic industrial production, does not emphasize the creation of goods for the international market. By contrast, countries that follow an export-led industrialization strategy, by the very nature of ELI, must find markets to which they can export their goods. In the absence of sufficient demand, ELI strategies fail. Rephrased positively, ELI strategies require sufficient demand for the goods of the producing country. Where, then, does demand come from? This is a particularly vexing problem. Developing countries would not immediately produce goods of sufficient quality that external developed markets would then demand. Moreover, only developed markets would be worthwhile targets for exports; exports to other developing markets would not provide sufficient flows of capital to fuel the transformation into a developed country. In other words, embarking upon an ELI strategy is a fundamental catch-22. One solution to this problem of demand is the presence of not only a willing market for the developing country’s goods, but also of a market willing to make investments of capital and technology into that developing country. Doing so would enable
domestic firms to develop their industry to levels of quality and quantity sufficient for export to
foreign markets.

Such domestic industrial development of capital and technology requires credible
commitments from foreign investors that those investments in capital and technology will occur.
Only once foreign investors establish credible commitments will businesses in the developing
country express willingness to transition from ISI to ELI. Though ELI has the potential to
expand growth far beyond what domestically focused ISI does, its potential failure leaves a
country in worse economic straits than an ISI policy, since ISI guarantees a certain level of
demand; ELI offers no such guarantees.

These commitments to investments in capital and technology – and exchanges between
domestic and foreign businesses more broadly – are necessarily mediated by the state. Domestic
business relies on the state to mediate the relationship; the state has the capacity to provide
guaranteed insurance to foreign businesses – e.g., on loans – that weak domestic businesses
cannot credibly make. This scenario presumes that states themselves possess politically stable
institutions that can make credible guarantees to foreign capital. Additionally, domestic firms
rely on the state (which has a vested interest in the success of its domestic firms) to ensure that
foreign businesses assist them on favorable terms. In exchange for the promise of strong firm
performance, businesses acquiesce to the state and the state acquires power over business. This
acquiescence of domestic business to the state, then, both enables and gives rise to the
developmental state.

This is not, however, a unidirectional relationship. Though I reverse the causal arrow, one
intuits that endogeneity sets in early. That is, soon after the opening of export-led growth that
leads to capital’s acquiescence of power to the state, the state initiates a range of policies
intended to accelerate export-led industrialization, resulting in a mutually reinforcing relationship. In this fashion, there is at least initially a degree of mutual interdependence between domestic business and the state and not a lopsided tilt of power toward the government, as the developmental statist literature implies.

IV. Empirical Test – South Korea

In this section I describe the case of South Korea. I begin with a historical overview and then transition to a discussion of how the South Korean case maps onto the theory I offered in the preceding section.

In 1960, South Korea was still recovering from the Korean War, which had devastated its economy and infrastructure. In 1961, after the forced exile of Syngman Rhee and the brief government of Chang Myon, a provisional military junta led by the military leader Park Chung Hee came to power. In 1963, Park Chung Hee established the Third Republic, marking an end to the provisional government and ushering in an ostensibly more politically stable form of government. During the Third Republic, South Korea normalized diplomatic relations with Japan. The Third Republic evolved into the Fourth Republic in 1972 during the Yushin Revolution, in which Park Chung Hee assumed even more power. Park ruled the country from 1972 until his assassination in 1979 as a *de facto*, if not *de jure*, dictator.

It was during the Park government that South Korea began its vaunted economic growth, in stark contrast to the preceding Rhee government; indeed, the Rhee government had been unable to spur any meaningful economic growth. This was in part because of the Rhee government’s use of import-substitution industrialization policies. In addition, the Rhee government had widespread corruption. Rhee dramatically modified the bureaucratic structures that his
government inherited from the Japanese, making the government and bureaucracy much more clientelistic than they had been under colonial rule (Byung-kook Kim, 1988). Additionally, the *chaebol* regularly engaged in rent-seeking practices. Consequently, long-term investments and economic planning were sidelined in favor of immediate growth. When Park took office in 1961, he emphasized the economic development of South Korea as his most important domestic priority. As a consequence of the policies begun during Park’s tenure, South Korea eventually became one of the Four Asian Tigers and one of the core countries of the East Asian Miracle.

Almost immediately after gaining power, Park set about cleaning the bureaucracy of its most corrupt factions, paring down and even eliminating entire bureaus. Park signaled early in his tenure that political corruption within the bureaucracy would only be tolerated if it furthered the goals of economic modernization (Kang 2002). In terms of bureaucracy and corruption, Park’s rule provided a marked political contrast to the First Republic under Syngman Rhee. This was also necessitated by the eventual turn to ELI; corruption that weakened or undermined long-term investment would have led to decreases in quality, making exports undesirable in world markets and destroying ELI before it even began.

But how did export-led industrialization emerge in South Korea? In the early 1960s, South Korea was mired in import-substitution industrialization policies, and had been since roughly the beginning of the Syngman Rhee regime. Moreover, contrary to common understanding, ELI did not develop as a strategy at the beginning of Park’s provisional government in 1961, nor at the beginning of his Third Republic in 1963. In point of fact, the new regime’s first five-year plan in 1961 continued to use ISI as an economic policy; comparatively little attention was given to exports, which were primarily intended as a secondary economic strategy designed to finance ISI – key export sectors were fishing, farming, and mining, hardly the industrial exports we
associated with chaebol-led ELI (Lim 1996, in Chibber 1999). Eventually, the regime’s new economic policies led to a crisis, and the resulting substantial decreases in investment would lead the regime to call its first five-year plan a failure a mere two years after it was introduced. ISI no longer appeared a tenable model of development.

Certain factors cited previously in the literature are critical for our understanding. First, exports had done well in the first five-year plan compared to the bulk of the ISI measures. Second, U.S. pressure was also an important influence. America had signaled to Korea that it was unwilling to continue providing the volume of aid it had previously been sending Korea, meaning that Korea needed to find a new source of foreign currency reserves. Moreover, American advisers had also begun to encourage Korea to expand its export capacity in part because of America’s growing military involvement in Vietnam; a more industrialized Korea meant a more efficient supply chain.

But these factors only partially explain the decision to transition to export-led growth, which is quite different from export-promotion growth. Recall that the initial South Korean ISI plans already had export promotion policies; it is therefore not impossible to imagine a scenario in which the proportion of ELI in the next five-year plan had increased vis-à-vis ISI policies. This would have been in line with a more stable and cautious approach that satisfied the demands of American policymakers and promised greater potential for growth. What happened was quite different; in mid-1964, the regime announced that exports would become the central pillar of economic planning (Chibber 1999). Moreover, as Amsden critically noted, firms would eventually be rewarded if they performed well – and punished if they underperformed. Such conditions of economic performance that the Park regime attached to firms was striking; firms
were being required to prepare exports for markets worldwide – markets which Korean firms had little understanding of and arguably even less preparation for.

How, then, was Park and his team of economic planners able to convince the leaders of Korean companies to accede to the new export-led industrialization model? Implicit in this question is an assumption that Park had sufficient political levers to convince Korean companies to do as he wanted. Though the state had control over finance, this control did not constitute a lever strong enough to singlehandedly force a shift in the country’s economic model to ELI.

Undoubtedly, business maintained a degree of autonomy from the Blue House even after the onset of the Park regime and the state’s nationalization of finance. Early in his rule, Park knew that he could not afford to alienate Korean business. Park attempted a number of compromises with Korean business early in his tenure; for instance, Park privately pledged to business leaders that corruption among firms would not be punished nearly as severely as corruption within the state bureaucracy (Kang 2002). Additionally, the currency crisis that confronted the regime as a result of its first five-year model also indicates a substantial degree of business autonomy. Had the amount of state control been as large as some of the developmental state literature implies, the state could merely have coerced business to increase its investments and stave off some of the worst impacts of the crisis. The state’s inability to change domestic business’s decision not to invest indicates perhaps a more balanced power relationship. In fact, the state had to convince Korean business that export-led industrialization was a viable strategy, and Korean business had to be willing to commit. At that point, then, would Korean business acquiesce to state-led ELI.

Yet, not only was Korean business willing to commit to ELI, it had in fact signaled to the regime that it was highly interested in pursuing more growth in exports. This was due primarily to the communicated interest of Japanese capital in investing in Korean business. In particular,
Japanese capital explicitly expressed to Korean businesses that they were interested in offloading certain industries, like textiles, to Korea. This interest on the part of the Japanese was borne out of economic necessity. Japan underwent rapid growth in the late 1950s and early 1960s, and it faced similar problems as later countries would when undergoing economic growth. Substantial increases in investment had changed an economy with a labor surplus into one with a smaller available pool of labor and, thus, higher wages. In addition to rising labor costs, increasing the cost of their exports, Japanese businesses also confronted American protectionism against Japanese exports in labor-intensive industries, like textiles. Consequently, Japanese businesses sought a new location for the labor-intensive industries that they found increasingly impossible to sustain domestically.

Japanese capital found such a location in Korea. Finding receptivity from Korean capital, Japanese businesses began relocating their light manufacturing (like textiles) to Korea, where labor costs were lower, enabling Japanese business to focus on less labor-intensive and more capital-intensive industries, like heavy industry. Additionally, these business partnerships enabled Japanese capital to sidestep some of the more onerous protectionist measures that America had imposed against its exports. These original forays into the Korean market were conducted primarily through direct investment and joint ventures; later investments would take the form of trading companies. Both sides benefited from increasing Japanese investments into Korea. Japan offloaded important, but domestically unsustainable, industries to Korea, and Korea received investments of capital and technology from Japan in its domestic industries (Chung 1980).

Korea’s receipt of Japanese investments of capital and technology are critical to Korea’s story of economic development. In the absence of new technology, its exports would easily have
remained poor quality and unsuitable for introduction to global trade markets; or, at the very least, its growth would have taken much longer in the absence of such assistance and investment from Japan. Japanese technology allowed Korea to improve the quality of its light-manufacturing exports to levels necessary for competitiveness in world markets, as well as other, longer-term investments in heavy industry technology. This was particularly the case in joint ventures between the two countries, which enabled easier transfers of technology and marketing techniques. The latter was also of particular importance to Korean business. Exports required not only products of acceptable quality; they also needed effective marketing in order to generate demand. South Korea possessed almost no experience on the world market – not only in trading its products, but also in engaging in the sales and marketing that its products required. For this, Japanese companies also offered Korean companies assistance.

How, then, to ensure that Japanese capital would engage in investments and business relationships that were favorable to Korean business? Here enters the South Korean state. South Korean business ultimately relied upon the state to mediate the relationship between them and their Japanese counterparts. It was, for instance, the state that ultimately shepherded the normalization of diplomatic relations in 1965 (though there was pressure from Korean capital that pushed for normalization). The normalization of relations enabled the building of structures and institutions that governed trade, investment, and information transfer between the two countries; these structures and institutions were critical to South Korea’s success. We can see in Figure 1 a clear and dramatic spike in logged GDP per capita after the normalization of relations, suggesting a correlation between the onset of normalization and economic growth.
But the state’s role in shaping the relationship between domestic and Japanese capital did not end after normalization. Korean capital relied on the state in order to secure favorable terms for itself. It did so primarily in two ways. First, Korean capital relied on the state to act as a guardian against far larger and more powerful Japanese companies. Were interactions between Japanese and Korean companies left unsupervised, it was quite possible that the former would have overwhelmed the latter. In a worst-case scenario for Korean business, Japanese companies could possibly have merely used excess capacity in Korean factories and not made long-term
investments. Here, the South Korean state was able to intervene, only allowing companies that had made prior arrangements to enter; moreover, the South Korean state also kept watch to ensure that prior agreements were followed. Additionally, the state provided served as a guarantor for domestic firms’ foreign loans; Korean companies, untried on the international market, had not had any success, and therefore loans that were lent to them appeared riskier. Thus, the state acting as guarantor was needed for Korean firms to acquire necessary loans. Ultimately, with Japanese support, Korean businesses rapidly entered the global market, with great success. Table 1 offers evidence that either Korean or joint Japanese-Korean businesses filled in the space in the American market that Japan had once filled. As Japanese exports in those industries left, Korean exports entered.

Table 1. Japanese and Korean Shares of U.S. Market, 1966 and 1971 (in percentages)

<table>
<thead>
<tr>
<th></th>
<th>From Japan 1966</th>
<th>From Korea 1966</th>
<th>From Japan 1971</th>
<th>From Korea 1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing/textiles</td>
<td>36</td>
<td>3</td>
<td>22</td>
<td>13</td>
</tr>
<tr>
<td>Clothing</td>
<td>20</td>
<td>2</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Plywood</td>
<td>37</td>
<td>17</td>
<td>21</td>
<td>37</td>
</tr>
<tr>
<td>Footwear</td>
<td>26</td>
<td>3</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>21</td>
<td>7</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

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

Ultimately, then, the success and continued expansion of Korean exports, then, enabled the rise of the developmental state in Korea. We return to Amsden’s observation that the state required a standard of performance from firms in exchange for rewards and incentives; most often, this was by providing financial rewards via the state’s control of the financial system. This
also gave rise to state leverage over directing how firms should direct economic activity. For instance, after Park announced a security crisis and eventually launched his dictatorship in 1972, he launched his heavy and chemical industry drive, which sought to bolster the state’s heavy industrial capacity in order to guard against foreign threats. To do so, he directed the state to use financial carrots and sticks in order to motivate them into ramping up their heavy industrial capacity. In short, as the potential for economic growth grew, so did the state’s power over firms, which stemmed from its role as gatekeeper and distributor of financial rewards and export assistance. Firms that chose not to work with the state would find themselves out-competed by those firms that acquiesced to state demands and received the rewards accordingly. Thus, then, the state consolidated its power and emerged as what we now call a developmental state. At its root, though, such export success, and the willingness of Korean business to submit to state demand, was initially a product of involvement and co-operation between Japanese and Korean firms.

V. Concerns

This section briefly highlights some possible concerns about my theory and hypothesis. I mention two here: first, endogeneity between export-led industrialization and the state; and second, differences in pre-conditions. The account I presented in this paper argued that ELI gave rise to the developmental state, and not vice-versa. Perhaps a more useful observation is one I alluded to in passing in the section concerning theory. Though the causal arrow runs from ELI to the developmental state, endogeneity between the two develops early on. Particularly in the later years of the Park regime, the actions of the developmental state were critical not just in ensuring that growth was directed in long-term industries, but also to keep many firms afloat. The
relationship between the state and capital grows in complexity in the later years of the Park regime; the present paper does not address the later stages of this relationship. Additionally, one could argue that because of their strength and willingness to work with domestic and foreign firms toward long-term goals, the political institutions in South Korea might have done well even without Japanese involvement. Substantial answers to both of these concerns are outside the scope of this paper, but it seems at least initially plausible that in the absence of an external market that was willing to help with technical knowledge and assist in helping scale export industries up to global standards, South Korea would have faced much more difficult obstacles to successfully achieving ELI.

VI. Conclusion and Openings for Further Research

In this paper, I have offered an answer to the question: How and why did South Korea transition to an export-led industrialization model and, by extension, How did South Korea achieve its remarkable growth over the past half-century? I asserted that South Korea’s export-led growth was due in large part to Japan’s willingness to invest in and support the South Korean economy, through economic partnerships, with flows of capital and technology. These interactions between South Korean and Japanese capital had to be mediated by the South Korean state, eventually giving the state the leverage it needed to direct domestic firms as needed to carry out economic modernization – in sum, giving rise to a developmental state. It is through my explanation of the origins of the South Korean developmental state that this paper links into the South Korean growth literature more broadly.

Yet there remain some important questions that need more answers than this paper can address; moreover, these questions possess insufficient answers within the extant literature.
Chief among them is the origin of effective bureaucracies. An effective bureaucracy is central to the developmental state, and particularly so in the South Korean case. In the absence of an effective Economic Planning Board, it seems unlikely that South Korea’s exports would have grown in the later years of Park’s rule. Indeed, strong bureaucracies are a common feature across all of the East Asian Tigers; yet there exists almost no explanation in the existing literature for where precisely do effective bureaucracies come from. Kang (2002) and, more recently, Kim and Vogel (2011) explain the origins of South Korea’s bureaucracy through the lens of Park’s personal agency, but the literature has yet to explore structural explanations in depth.

The effect of colonial ties should also be explored more deeply in explaining the growth experiences of the East Asian Miracle countries. Acemoglu, Johnson, and Robinson, as well as Engerman and Sokoloff, established a theoretical foundation for the relationship between the colonizing power and the colony’s later economic performance. Yet, neither set of their theoretical arguments maps on well to explain the Japanese colonial experiences in either Korea or Taiwan. There have been attempts in the literature at establishing continuities between the developmental stages of these countries’ histories and their colonial histories, but scholars have largely left the idea behind because of the disruptive political discontinuities of the post-war period. Yet it is worth noting that despite some discontinuities in formal institutions, many informal institutions remained intact, especially in South Korea. Park Chung Hee himself was a member of the Imperial Japanese Army, and many of the elites in his regime had ties to the colonial regime as well. As the use of cliometric methods in political science continues to grow, colonial legacies in East Asia might well prove fertile ground for further research and explanation.
References


