



# The Role of the State in Korean Economic Development: Implications for African Countries

Nov. 15, 2007

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# Introduction

- S.Korea's rapid economic transformation
  - ♣ Free-market, Free-trade policies?
  - ♣ The result of highly centralized & effective state planning, direction of economic activity, and the major players  
(presidency & bureaucratic expertise)

# Typical Problems of African Development

- key constraints for African development
  - ♣ external linkage
    - ◆ heavy influence of external forces
    - ◆ foreign exchange constraint
      - ◇ what to export, how much?
  - ♣ markets ( and civil society)
    - ◆ inability    ◆ reluctance
    - ◆ barriers of well-functioning

# Typical Problems of African Development

♣ the state

◆ political conflicts

◆ instability

▶ *major source of violent changes and fluctuations as well as the key constraints for sound and sustained development for African countries*

# The State & Economic Development

- ‘break the vicious circle’ is possible?
- hypothesis:
  - an autonomous and capable state is a necessary precondition for African development*
- ◆ creating & functioning markets for the mobilization & allocation of resources for development

# The State & Economic Development

- ▶ The role of the state in S. Korea has very important implication for the inevitable characteristics of African development.

# Overview: the state in S.Korean Economy

## ♣ State Intervention

### ◆ dramatic turn around:

per capita income of \$82 (1960. below Ghana, Senegal, Liberia, Zambia) → Within 20 years, the top third of all middle income countries

### ◆ enormity of economic achievement



## Overview: the state in S.Korean Economy

- ◇ rapid growth in industrial production (table 1)
- ◇ rapid employment shift into industry (table 2)
- ◇ urbanization of the population (table 3)
- ◇ composition of trade to manufactures (table 6)
- ◇ economic performance (table 7,8,9)

# Overview: the state in S.Korean Economy

- ♣ **state, rather than market forces, structured the economy & shaping growth**
- ♣ **state controlled virtually all economic activities**
  - ◆ **government approved all bank loans**
  - ◆ **granted licenses for virtually all businesses**
  - ◆ **controlled many prices**

# the state in S.Korean Economy

## ♣ Export promotion:

export producers were given priority in investment decisions, credit allocations, and other benefits

- ◆ strategy of forcing domestic consumers to subsidize exports
- ◆ Korea Traders Association (KOTRA)



# Chaebol

♣ Park nationalized all the Korean banks  
reinforced the system of chaebol

◆ a few specially selected large companies

◆ encouraged to tailor their growth and  
production targets to meet government  
objectives:

heavy chemical industrialization, automobile,  
shipbuilding, computers, steel, etc.

# Chaebol

- ◆ dependent on those state-owned banks for the credit they needed to operate and grow
- ♣ State supported the rapid growth of the chaebol through a highly interventionist labor policy

# Chaebol



- ♣ A conglomerate of many companies
- ♣ companies hold shares in each other
- ♣ concentration of national economy
- ♣ does not have own financial institution
- ♣ spreads across industries
- ♣ has centralized structure and control
- ♣ tends to be family-based



# POSCO: a chaebol



- ♣ Pushing Iron and Steel Company
- ♣ state-owned company established in 1968
- ♣ opposed by World Bank
  - South Korea has no iron ore deposit
- ♣ POSCO is now one of the lowest cost steel producers in the world

# State Planning: planning network

## ♣ Economic Planning Council (1961)

- ◆ renamed to Economic Planning Board (EPB)
- ◆ centralized economic information
- ◆ took over planning powers
  - from the former Ministry of Reconstruction
- ◆ took over responsibility for the budget
  - from the Ministry of Finance
- ◆ took over statistical collection
  - from the Ministry of Home Affairs



# Economic Planning Board



- ♣ Park's personal involvement
- ♣ Elaborate economic plans
  - ◆ five-year plan
  - ◆ annual economic management plan
- ♣ added more responsibilities
  - ◆ price policy
  - ◆ fair trade administration
  - ◆ reviews of projects

# planning network

- ♣ **Ministry of Trade and Industry**
  - later known as the Ministry of Trade and Industry, or MTI
- ♣ **the president's Economic Secretariat**
- ♣ **Ministry of Finance**
  - nationalization of the banks
  - centralization of the financial system
- ♣ **Ministry of Construction**

# The Major Players: President & Bureaucrats

- ♣ strong & competent bureaucratic dominance over the parochial interests of private actors
- ♣ **Park Chung Hee dominated both policy-making & the implementing process from the early 1970 until the end of 1978**



# President & Bureaucrats

♣ President Chun Doo Whan (1980-1987) explored ways to reinforce his political legitimacy through gaining stable economic growth and efficiency by means of reorganizing industrial and technological infrastructure



► In sum, economic bureaucrats and political leader have both played key roles in the development of Korea

# Conclusion: lessons

*positive and negative lessons for African countries.*

- ♣ only to affirm the effectiveness of social regulation of economic activity, not Korea's specific approach to economic development.
- ♣ Korean approach to development, based on brutal dictatorship and inequality, does not deserve promotion.

# Conclusion: lessons

*what is necessary to cope with and overcome typical problems of African development:*

- ♣ The autonomous and capable state is a necessary condition for sustained national development. The state has to choose and implement 'appropriate' economic strategies.

# Conclusion: lessons

- ♣ basic requirements of all the successful economic strategies:
  - ◆ maintenance of external balance.
  - ◆ competitive markets have to be developed and nurtured.
  - ◆ conducive to the maintenance of state autonomy and capacity

## Conclusion: lessons

- ▶ Development is at least compatible with, if not contingent upon, strong social regulation of economic activity

- Thank you -



# Table 1

table 1.

**Structure of Production:  
Distribution of Gross Domestic Product (by percent)**

	<i>Middle-income oil-importing economies</i>	<i>South Korea</i>
<i>Agriculture</i>		
1960	23	37
1980	15	16
<i>Industry</i>		
1960	32	20
1980	37	41
<i>Manufacturing</i>		
1960	23	14
1980	23	28
<i>Services</i>		
1960	45	43
1980	48	43

# Table 2

table 2

## Structure of Employment: Labor Force Distribution (by percent)

	<i>Middle-income oil-importing economies</i>	<i>South Korea</i>
<i>Agriculture</i>		
1960	59	66
1980	42	34
<i>Industry</i>		
1960	16	9
1980	22	29
<i>Services</i>		
1960	25	27
1980	36	37

# Table 3

Table 3

	Urbanization	
	<i>Middle-income oil-importing economies</i>	<i>South Korea</i>
<i>Urban population as percent of total population</i>		
1960	37	28
1980	50	55
<i>Average annual growth rate</i>		
1960-70	4.2	6.4
1970-80	3.8	4.7
<i>Percentage of urban population in biggest city</i>		
1960	28	35
1980	28	41
<i>Percentage of urban population in cities of over 500,000</i>		
1960	36	61
1980	48	77

# Table 4

table 4

**Growth of Merchandise Trade:  
Average Annual Growth Rate of Exports (by percent)**

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	<i>Middle-income oil-importing economies</i>	<i>South Korea</i>
1960-1970	7.1	34.1
1970-1980	4.1	23.0

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# Table 6

table 6

## Growth of Production: Average Annual Growth Rate (percent)

	<i>Middle-income economies</i>		<i>Upper-middle-income economies</i>		<i>South Korea</i>	
	1965-80	1980-87	1965-80	1980-87	1965-80	1980-87
GDP	6.2	2.8	6.7	3.4	9.5	8.6
Agriculture	3.4	2.5	3.4	2.6	3.0	4.4
Industry	6.0	2.9	5.8	3.7	16.5	10.8
Manufacturing	8.1	3.0	9.2	4.1	18.7	10.6
Services	7.3	3.1	8.2	3.8	9.3	7.7

# Table 8

table 8

## GNP Per Capita (in current U.S. dollars)

	1980	1983	1985	1987	1989
Argentina	2390	2070	2130	2390	2160
Brazil	2050	1880	1640	2020	2540
India	24	260	270	300	340
Mexico	2090	2240	2080	1830	2010
Middle-income economies	1580	1310	1290	1810	2040
South Korea	1520	2010	2150	2690	4400

source for tables 6-8: World Development Report, 1989

# Table 9

table 9

## Structural Change in Manufacturing (in percentage terms)

	<i>Gross output</i>				<i>Value added</i>				<i>Employment</i>			
	1970	1975	1980	1983	1970	1975	1980	1983	1970	1975	1983	1983
<i>Light industry</i>	28.4	29.5	24.7	22.1	12.8	14.5	13.7	13.6	9.2	13.5	13.8	13.0
Food, beverages, and tobacco	15.9	14.4	10.8	9.6	6.2	6.3	6.2	5.9	2.5	2.8	2.9	3.0
Textiles and leather	7.1	9.9	8.4	7.0	3.8	5.5	4.9	3.9	4.0	7.9	7.4	6.5
Lumber and wood products	1.4	1.2	1.0	0.9	0.7	0.5	0.4	0.4	0.6	0.6	0.7	0.6
Paper printing and publishing	1.4	1.4	1.6	1.8	1.1	1.3	1.4	1.4	0.6	0.7	0.9	0.9
Nonmetallic metal manufacturing	1.4	1.5	1.9	1.8	1.1	1.3	1.4	1.4	0.6	0.7	0.9	0.9
Miscellaneous manufacturing	1.2	1.1	1.0	1.0	1.0	0.9	0.8	0.8	0.9	0.7	1.1	1.1
<i>Heavy and chemical   products</i>	11.9	20.9	26.3	27.9	7.2	11.6	14.5	15.9	3.2	5.7	7.9	9.2
Chemical and chemical products	5.9	10.8	12.6	11.8	4.0	5.9	6.7	6.3	1.2	1.9	2.5	2.7
Primary metal manufacturing	2.0	3.4	5.1	5.0	0.7	1.0	1.7	1.8	0.4	0.5	0.7	0.9
Metal products and machinery	4.0	6.7	8.6	11.2	2.5	4.7	6.1	7.9	1.6	3.3	4.7	5.6

Source: World Bank, *Korea: Managing the Industrial Transition*, vol. 2, p. 3.

# Table 10

Table 10 Backgrounds of Economic Ministers and Vice-Ministers

Unit: %

	Minister				Vice-Minister			
	Macro-Issue Ministry (EPB, MOF)		Micro-Issue Ministry (MOC, MOT, MOCOM)		Macro-Issue Ministry (EPB, MOF)		Micro-Issue Ministry (MOC, MOT, MOCOM)	
	Experts (Bureaucrats)	Non-experts (Military)	Experts (Bureaucrats)	Non-experts (Military)	Experts (Bureaucrats)	Non-experts (Military)	Experts (Bureaucrats)	Non-experts (Military)
1950s (Aug. 1948–Apr. 1960)	93.3 (18.8)	6.8 (0.0)	31.3 (31.3)	68.7 (17.4)	94.3 (47.6)	5.7 (0.0)	47.0 (41.4)	53.0 (13.9)
1960s (Dec. 1963–Oct. 1972)	64.0 (21.3)	36.0 (5.5)	56.3 (40.3)	43.7 (36.2)	100.0 (78.2)	0.0 (0.0)	96.3 (86.8)	3.7 (3.7)
1970s (Oct. 1972–Oct. 1970)	70.6 (38.1)	29.4 (17.0)	15.9 (10.2)	84.1 (74.0)	100.0 (100.0)	0.0 (0.0)	82.9 (66.1)	17.1 (17.1)
1980s (Mar. 1981–Dec. 1987)	100.0 (15.3)	0.0 (0.0)	46.6 (46.6)	53.4 (36.3)	100.0 (97.2)	0.0 (0.0)	81.2 (56.3)	18.8 (18.8)

Note:

(1) The number indicates the proportion (in percentage) of time ministers or vice-ministers with each background spent.

Experts include bureaucrats and outsiders such as professor, economic analyst in a bank or research institute.

(2) Macro-Issue Ministry includes EPB and MOF, while Micro-Issue Ministry includes MOC, MOT and MOCOM.

Source: Chung, p.288