

Park Chung-hee's Industrialization Policy and its Lessons for Developing Countries

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The era of Park Chung-hee is an important episode of Korean history. Historians sharply criticized his regime (1961--1979) as 'a harsh authoritarian system',¹ on the other hand during this time Korea emerged as one of the strongest industrialized countries. The government of Park Chung-hee has long been a subject of deep interest and wide debate for the general public, as well as also for the academicians. The eighteen years of Park period laid the economic foundation for the accelerated modernization of South Korea, as a result of which Korea has been transformed from a weak state in the periphery of East Asia.² During this period Korea achieved a level of industrialization unparalleled in

any other developing country. Historians have evaluated such an achievement in eloquent languages and termed it as a "miracle progress" in the economic history of mankind. In a survey in 1997 it was found that most Koreans approved Park Chung-hee as the "most effective President ever." The purpose of this research is not to rationalize the authoritarian aspects of the Park administration. Instead, it intends to identify such factors of industrialization which other developing countries also can pursue for their own ends in this regard.

Park Chung-hee Early Life and His Road to Military Revolution

Park Chông-húi was born on 14 November, 1917 in Sangmo-ri, in the province of North Kyôngsang-pukdo of Korea.³ He was the seventh child from a family of modest means. His father was Park Sung-bin and his mother was Baek Nam-hee. Park taught at the grammar school of Mungyng, a small town in Kyngsang-pukdo. He won admission to Taegu Teachers' College in 1932. As a colonial state-sponsored student, Park's primary task involved learning to become a thoroughly Japanized teacher in accordance with the colonial government's assimilation policy. Actually, the curriculum in this college represented an officially institutionalized course of Japanization and colonization. After five years of study he graduated in 1937 and afterward he began his career as a primary school teacher in the present North Korea area.. Park taught there for about three years and afterward resigned from that job to enter the military academy of Manchukuo. He completed graduation from the military academy in Tokyo in 1944 and was assigned to the Japanese army in Manchuria as a second lieutenant. He worked there until the Japanese surrender on September 2, 1945.

Park's experience with the Japanese government employee strongly affected his thinking when he ruled South Korea.⁴

After Park was discharged from the defeated army, he returned to his home village and spent here a year. Park entered the Korean Military Academy in September 1946 and there he earned the rank of captain. He was forced out of the army in 1948, over charges that he had collaborated with communists. Park was recalled when North Korea invaded the south in June of 1950. Park's career was marked by a steady rise through the ranks of the new army that was rapidly expanding - particularly during the Korean War. By 1953, the last year of the Korean War, Park had advanced to the rank of Brigadier General. Later on, Park was promoted to commanding general and held the position until 1957 when he was made the deputy commander of the entire Korean Second Army. Within a short time his reputation in the army was well established among young reformist officers for his strong leadership.

By the end of 1950s anti-government protest increased against the corrupt administration of Syngman Rhee. Against the back drop of student protests, Syngman Rhee government steps down in 1960. Chang Myon became the Prime Minister of the Second Republic of South Korea. During this time Korea had a parliamentary government with a Prime Minister. Chang Myon's government ended when Park Chung-hee led a successful *coup d'état* on May 16, 1961. He declared martial law and later on in the presidential election, Park Chung-hee was elected as the new President of South Korea in October 1961. Third Republic of Korea was officially established on Dec. 17, 1963. A Revolutionary Committee established and also the Supreme Council for National Reconstruction to exercise

all legislative and administrative powers. From the beginning of his regime Park Chung-hee pursued a strong pro-industrialization policy.

South Korean Economy and Park Chung-hee's Policy

South Korea followed a free-enterprise economy at the time of independence. In the 1950s South Korea was an underdeveloped, agrarian country that mainly depended on foreign aid. It was begun to industrialize after the Korean War (1950-1953) but the numbers of industries very insignificant and these were mainly served for its domestic market. Inflation was crippling, the price of necessary commodities was gradually increased. National productions were falling. The rate of unemployment lingered in high levels. A vicious circle of poverty had set in Korea. During the regime economic development had been vehemently neglected by the Rhee Government, rather its emphasis on the policy of unification of Korea.⁵ President Rhee was pursuing a unification policy known as "March north and unify Korea" ignoring construction of economic prosperity. The Many proposals to improve the economy had been rejected or sidetracked by Syngman Rhee and the country was turning into a bottomless pit for international assistance without which it could apparently not survive.⁶

Amidst this crucial economic situation Park Chung-hee took over the charge of the President of Korea and throughout the whole tenure of his regime it was backed by military administration. Park Chung-hee like prior ruler did not pay much emphasis on the unification of Korea; rather he declared that economic

progress of Korea was his primary goal.⁷ Park Chung-hee's mode of military junta rule was known as "administrative democracy," which stated objective was to weed out corruption, strengthen the autonomous ability of people and establish social justice and this administrative democracy helped Park Chung-hee to establish his prime goal. In his economic development program Park Chung-hee from the beginning planned to manage economic development through state-led intervention in industrial enterprises. According to Park, "Guided capitalism was system of economic management designed to create an economic order that would guarantee the equalization of income and public benefit from the economy."⁸ He upholds the idea of equality in distribution and free competition. He saw the government's role in the course of national development as that of an industry manager or a guardian so that equal opportunities for all can be guaranteed by free competition.⁹

The big challenge to Park in implementing his economic policy was to establish a new bureaucratic system. Park government recruited a new western educated elite officer. A large number of Professors also included with government new development programme. Simultaneously, a clean-up program was carried out and most of the all senior officers were dismissed from their job.

THE FIRST FIVE-YEAR PLAN: Park government initiated a draft of the first Five-Year Plan on July 22, 1961. Three young economists – Kim Songbom, Chong Soyong and Paek Yongch'an completed Comprehensive Economic Development Five-Year Plan this draft program within 80 days. The first Five-Year Plan (FYP) was a most important blueprint of Park's guided capitalism.¹⁰ In this plan Park established a Confucian military-style master-student relationship between the

government and the business community. Its target was to ensure effective distribution of resources and to achieve economic self-reliance through industrialization and pledged to create all major foundations required for industrialization during the period of 1962 through 1966. It announced that the nation would achieve 7.2% annual economic growth and would secure the basis of a self-supporting economy by boosting exports, fostering industries that could substitute for imports, and improving the balance of payments by increasing the influx of foreign currency.

The basic targets of the Five-Year Plan were as follows:

- a) Securing energy resources, including electricity and coal;
- b) Expansion of social overhead capital including railroads and ports;
- c) Construction of basic industries, such as cement, fertilizer and steel plants;
- d) Expansion of farm production;
- e) Improvement of the balance of foreign payments, and
- f) Promotion of technology.¹¹

No doubt it was an ambitious plan and one of the most serious problems was sufficient capital to build the requisite number of factories. In order to finance industrial investment Park government had to develop ambitious plan for providing long term capital to industry. In August 1961, the Medium Industry Bank (MIB) was established by government for providing loan to medium and small enterprises. The rapid expansion of loans through this institution in 1961 resulted in a significant shift in the allocation of credit.¹²

Park Government also encouraged the inflow of foreign loan. Government arranged systematic planning and united effort for bank guarantees to the entrepreneurs. The foreign loan guarantee operations became significant in 1963 when Korean Development Bank acceptances went up from 22 billion Korean Won in the previous year to 18.1 billion and it's jumped to nearly 70 billion in 1966.¹³

STRENGTHEN THE CHAEBOLS GROUP: One of the most important characteristics of Park Chung-hee's industrial development policy was to strengthen the *Chaebols* group and involved them with his development program. Park established a Confucian military-style master-student relationship between the government and the business community. *Chaebols* means family-controlled Korean big corporate groups. Park modeled this arrangement on the *Zaibatsu* system which developed in Japan during the Meiji Era. The foundation of *Chaebols* was established after the departure of the Japanese from Korea. During this time some Korean businessmen obtained the assets of some of the Japanese firms, a number of which grew into the *Chaebols*. These companies as well as, certain other firms that were formed in the late 1940s and early 1950s, had close links with Syngman Rhee's. Many of these companies received special favors from the government in return for bribes and other payments. Park at first arrested fifty-one *Chaebols* on the charge of "illicit profiteering," and confiscated their property. But Park Chung-hee realized that it would need the help of the entrepreneurs of the government's ambitious plans. These leading *Chaebols* were released on only after they had signed an agreement stating: "I will donate all my property when the government requires it for nation construction." In actually, most Korean *Chaebols* were placed on parole and their freedom

depended strictly on their business performance and cooperation with government. In return, Park's guided capitalism offered extensive measures of industry support, such as unprecedented protection and privileges, including foreign loan guarantees, financial subsidies, protection from independent unionism and a fixed-wage system. These measures allowed *Chaebols* to access massive industrialization program. On July, 1961 thirteen convicted *Chaebols* established the Promotional Committee for Economic Reconstruction, the forerunner of the Federation of Korean Industries (FKI). The FKI's aim was to implement of program of industry development by drawing up a plan for six key industries: cement, synthetic fiber, electricity, fertilizer, oil refinery and iron. These industries divided among thirteen members and it decided that these industries were to be managed directly by the government. Other *Chaebols* also became actively involved in national economic development activities following the announcement of the 5-year plan.

Government-*Chaebols* cooperation created an astonishing success in the early 1960s. Park government provided the blueprints for industrial expansion and the *Chaebols* realized the plans. However, the *Chaebols*-led industrialization accelerated the monopolistic and oligarchic economy in Korea. The tremendous growth that the *Chaebols* experienced was increased expansion of South Korean exports. During the period between 1962 and 1966, 72.2% of required capital was drawn from domestic sources and 27.8% from overseas. The government took charge of 55.6% and the private sector took 44.4%. The government also considered ways to make maximum use of domestic capital and to fully utilize domestic labor in carrying out development projects.¹⁴

CAPITAL REGULATION PROGRAM: One of the important features of the industrial development of Park Chung-hee was his capital regulation program, which was on July 18, 1961 the emergency economic policy announced. The policy encourages foreign capital investment in Korea. It's declared "Importance of foreign capital is necessary for the rapid development of domestic industries." Park government realized that previous regulations of foreign capital were inappropriate for accomplishing the goals of the economic development plan. According to previous law, only these foreign citizens could invest in Korea with which Korea had normal diplomatic relations and Korean citizens who had lived for longer than 10 years in Korea. Moreover, the Act set a lower limit for foreign investment and restricted the withdrawal of profits from investments in Korea.

With the amendment of these act problem was solved. But another problem was raised in foreign investment, most of the Korean private companies lacking international confidence. To solve this problem on July 18, 1962, Park government announced the Act for Foreign Loans, which provided certificates of payment guarantee for all foreign capital and loans for shortfalls in equity capital. Under these systems, Korean enterprises wishing to borrow abroad had to obtain the approval of the Economic Planning Board, which in turn sought approval of National Assembly of the insurance of guarantee covering repayment of the foreign borrowings. Once the guarantee had been authorized, the bank of Korea issued the guarantee to the foreign investor, while the Korean Development Bank issued guarantee to the Bank of Korea. The ultimate borrower was committed to repay the loan, but he had the backing of both Korean Development Bank and the Bank of Korea that in the event of his default, the loan would be repaid. Thus the risk of default for the lender was negligible

and the Korean borrower had assurances of support not only from the domestic banking institutions but also from the central bank. Park government encouraged foreign investment in Korea through government. Later on, government intervention was expanded not only to capital distribution but also to resource allocation, distribution of manufactured goods in the domestic market and also in fixing price of commodities.¹⁵ This way Park Chung-hee established a system of “*government-directed capitalism*.”

HEAVY AND CHEMICAL INDUSTRY POLICY: Park Chung-hee took initiative for Chemical and Heavy industry in Korea in 1970s. In 12 January 1973, Park declared the government’s Heavy and Chemical Industrialization Policy. He said, “Through which government hereafter will focus on the development of the heavy and chemical industries all of us from now on begin a campaign for national scientization. I urge everyone to learn technological skills, master them and develop them.”¹⁶

To fulfill this agenda for Park took initiative of massive expansion of vocational education, training of scientists, engineers, and other technologically skilled of workers.¹⁷ In August 1973 Park government published “The Long-Term Outlook for the Korean Economy, 1972–1981.” In this economic plan long-term outlook focused primarily on six heavy industries--- steel, nonferrous metal, shipbuilding, machinery, electronics and chemicals and set production targets for each. It fixed total export goal was \$10 billion in early 1980 and heavy and chemical products must exceed over 50 percent of total export goods. In May 1973 Heavy Chemical Promotion Committee was set up by presidential decree and a Heavy Chemical Planning Board (HCPB) was formed as a subsidiary of the

committee except these bodies. The Ministry of Commerce and Industry, the Ministry of Construction all was responsible for heavy chemical-related policies and their implementation. National investment fund was created to support loans were allocated to the heavy and chemical industry. From 1974 to 1980, 67.1% of the national investment fund, which was 80%-90% of the financial loan, which was allocated for the heavy and chemical industries.

The heavy and chemical industries received special favors also for customs act. Fourteen key industries, including steel, metals, petrochemical, shipbuilding received 100% direct tax free for three years and a 50% tax waive for the following next two years. Much of the available finance also allotted for the chemical industry and loans from the industrial banks between 1973 and 1980 reached. According to the heavy chemical industrialization plan, Park government chose industrial sites for each type of industry and provided necessary facilities such as roads, ports, electricity and water. In addition, government also provided financial and tax incentives for those industrial sites. Park Chung-hee government also pursues an economic development friendly labor policy during his whole tenure of regime.

LABOR POLICY: Shortly after *coup d'état* Park Chung-hee issued an order which prohibited strikes and dissolved all trade unions in Korea. Government allowed unions only if register in accordance with the Revised Act of the Registration of Social Organization and the Interim Act on Workers' Organized Activities, both of which statutory instruments came into force on August 3, 1961. Nationwide industrial union was prohibited and it denied the rights to organize and to bargain collectively. It established the Federation of Korean

Trade Unions (FKTU) in August, 1961, which was a federation of unitary national-level unions by industry. Actually, it's a pro-government organization and always supported Park Chung-hee regime and through this organization Park government regulated industrial labor of South Korea. Whole Park Era industrial relations were relatively remaining stable.¹⁸

NATURE OF PARK CHUNG-HEE'S INDUSTRIALIZATION POLICY

If we examine the industrialization policy of Park Chung-hee we find some basic characteristics in it. **First**, The most important characteristic of Park Chung-hee industrialization policy was proper planning.¹⁹ Government fixed plan for deciding what, when, and how much to produce and authority used the *Chaebols* group for fulfill their plan. **Second**, it highlighted the shortcomings of a free market system and proposed a shift to government-driven capitalism. **Third**, to build the basis for a self-supporting economy, it placed its main focus on key industries, such as cement, fertilizer, steel, and oil refining. **Fourth**, it identified the boosting of exports as the primary means of restructuring the balance of payments.²⁰ Therefore, it's mentioned as market oriented or institutional industrialization policy.²¹ **Fifth**, it restricted labor liberty to form trade unions and strike.

Now we identify the factors of industrialization policy of Park Chung-hee, which the developing countries can pursue for their own ends in this regard.

The Developing Countries and Park Chung-hee's Industrialization Policy

The term developing country is used to categorize a country which has a relatively low standard of living, an undeveloped industrial base, and a moderate to low Human Development Index score. A developing country has got a relatively undeveloped industrial base. These countries are also described as less developed countries. Most of them are in Africa, Asia, and Latin America. Under the current process of globalization, now industrial activity has spread from the developed to geographically close developing countries. Developing countries for their alleviation of poverty, for the upliftment of the living standard of people have got a great desire for building industrialized society. They can learn from the industrialization policy of Park Chung-hee.

Several factors have lured the developing countries to follow Park's industrialization drives.

First: In underdeveloped countries the entrepreneurial capitalist class can perform a better job as vehicles of industrialization once they are brought under proper planning and state guidance. Park's methods in this regard could give them guide lines.

Second: the Korean experience has shown that a close cooperation between business and state is the key to economic prosperity and developing countries can adopt these methods for their economic advancement.

Third: Since most developing countries are very often confronted with political turmoil and labor management problems, they tend to adopt the method in

which Park administration pacified the laborers and politicians.

Last: Many developing countries have enough raw materials. Following Park Chung-hee's example they can build export oriented industries.

Conclusion

Every development story is unique, every economic success as, a whole constellation of factors comes into play in order to explain. That is why it is necessary that a development story must always be analyzed. Virtually most of the policy measures adopted by Park Chung-hee government were directed toward assisting business. President Park's export orientation program, foreign capital inducement and monetary and fiscal reform, export led growth strategy all these reforms were successful. Furthermore, strong government support reduced the risks through monetary and fiscal means. All these courageous initiatives of President Park transformed South Korea a developed industrial country.

Chung-hee's model of Industrialization Policy also can be a model for developing countries. Pursuing these policy developing countries can proceed on the way to industrialization. Now a day, Korea is an example that grew very fast and yet violated the canons of conventional economic wisdom,²² and the credit for this goes to Park Chung-hee, the unprecedented leader of South Korea.

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