

The Park Regime and Fifth Republic, 1961-1987: excerpts from Lucien Ellington and Tawni Ferrarini's "Why Some Nations Prosper? The Case of North and South Korea," *Foreign Policy Research Institute*, April 26, 2017, <https://www.fpri.org/article/2017/04/nations-prosper-case-north-south-korea/>

Many people were disgusted by both South Korea's dysfunctional economy and the Rhee administration's corruption. In 1960, a student-led revolution ousted Rhee, and a new "democratic" constitution and government was created. However, abysmal economic conditions including double-digit inflation fueled extensive demonstrations and societal chaos.

On May 16, 1961, General Park Chung-hee led a successful military coup d'état that silenced the unrest and ended the experiment with democracy. One of his most famous quotations shows the depth of his desire for economic modernization: "For such poor people like the Koreans on the verge of near starvation, economics takes precedence over politics in their daily lives and enforcing democracy is meaningless." Still today, many South Koreans, particularly in the older generation, believe that Park's suppression of political rights was an acceptable price to pay for the nation's subsequent rapid and impressive economic growth, given the dire poverty the country experienced after the Korean War and during Japanese occupation.

Starting in the early 1960s, South Korea expanded its economy nearly twentyfold, becoming known as an "Asian tiger" in the process. International trade played a key role in South Korea's rise.

At the beginning of the Park regime, real gross domestic product per capita was about 1,600

USD per person. Growth in production started when the import substitution policies of Rhee were abandoned, and South Korea was permitted to import goods, services, and resources that were otherwise in short supply. With the advantage of relatively low cost access to waterways, South Korea successfully pursued a strategy of export-led growth fueled by the world's demand for Korean products. In the 1960s, South Korea possessed a comparative advantage in producing and exporting garments, textiles, and other items in industries requiring a relatively unskilled labor force. As the education and training landscape advanced, production and export efforts intensified in the heavy industries including, but not limited to, shipbuilding, electronics, chemicals, metal, and iron.

Increased access to the world's marketplace and Korean production of goods and services based on what South Korea could offer to its trading partners at relatively lower per unit cost fueled economic growth and prosperity. By 1980, real GDP per capita increased five-fold to 5,539 USD.

More open markets helped South Korea gain access to millions of new producers and consumers. The peninsula now had more cost effective means to secure the resources required for building the infrastructure, industries, and cities that eventually became trademarks of developed nations. Meanwhile, foreign aid from the United States and some loanable funds from Japan and other countries flowed into South Korea, boosting opportunities to build new capital and expand the industrial base. These flows helped the nation overcome traditionally low savings and investment rates.

Park established an Economic Planning Board (EPB) in 1961. The EPB mobilized domestic labor and other production inputs by tapping into the concentrated resource and mobilization capabilities of the Korean chaebŏl. These family-owned businesses possessed low cost access to human and capital resources owned by families, relatives, and friends.

Since that time, the South Korean economy moved toward relatively open trade with export-led growth in key industries. Subsidies, tax breaks, low-interest loans, and political favors, though, did go to those exporters favored by the EPB. Foreign funds also flowed into Korea and toward the favored industries. Under government directives, expressways were built to transport and distribute goods, thus lowering transaction costs throughout Korea. The net benefits from this growth were widely distributed, as evidenced by the increased GDP per capita, improved educational opportunities, and improved living standards.

In the 1970s, threats of U.S. troop withdrawals and changes in the international environment, such as President Nixon's visit to China in 1972, caused the Park administration to intensify domestic production in the heavy and chemical industries for military reasons out of fear that North Korea would invade. For example, machinery and transport equipment jumped from 3.1 percent of all exports in 1965 to 13.8 percent in 1975. Resources aided by questionable loans mandated by Park frantically shifted to the chaebŏl and caused worker unrest as well as demands for higher wages in other sectors of the economy. Internal political tensions escalated.

Inefficiencies arose and instability spread throughout the economy. The world's oil shocks of the 1970s further pushed prices upward, causing persistent inflation. Meanwhile, Park used the possibility of North Korean attack to make himself a virtual dictator, and in 1974 outlawed all criticism of himself. In 1979, during a period of escalating political tensions, Park was assassinated by one of his own deputies. After a brief period of democratic reform, another army officer, General Chun Doo-hwan, seized power. The Korean government backed off of intense military production efforts in the heavy and chemical industries and took purposeful steps in moving away from favoring the large, family-owned conglomerates. In 1987, in the face of intense political pressure, the government changed the constitution and South Korea held its first national democratic elections.

During the early 1980s, partnerships between the government and the Korean chaebol became more transparent, and government leadership advanced with market transformations on numerous levels. Specifically, deregulation occurred in the trade and financial sectors, leading to less concentration in the chaebŏl-driven industries, more business diversification across industries, and less central government involvement in production. The economy rebounded, and growth in high technology industries took off. South Korea emerged as a world leader in the high tech industry with corporations like Samsung and Hyundai becoming household names. Between 1980 and 1997, real gross domestic product per capita increased by a remarkable 248 percent from 530 to 18,500 USD in 2011...