

# Miracle in Korea

by Robert Bedeski

In the 1950s, the Republic of Korea (ROK) seemed a most unlikely candidate for industrialization — devastated by war, divided into two antagonistic halves, and lacking many vital resources. Yet the Koreans in the south have overcome these formidable obstacles to become a member of the small circle of “Newly Industrializing Countries,” or NICs. Similar to West Germany, the ROK has emerged as a half-nation performing far better than most countries with superior political and economic resources. But unlike West Germany, Korea’s industrial infrastructure was very rudimentary before the war, and much of that was located in the now Communist-ruled north.

Under the rule of President Park Chung-Hee, the country’s industrial drive began in earnest. His authoritarian control ended in 1979 with assassination by the head of the Korean Central Intelligence Agency. A brief period of civilian rule was followed by military intervention and the imposition of martial law. General Chun Doo Hwan and other military figures took power. Chun was inaugurated President of the new Fifth Republic in March 1981, and the country resumed its drive towards modern industrial growth after over a year of recession and instability.

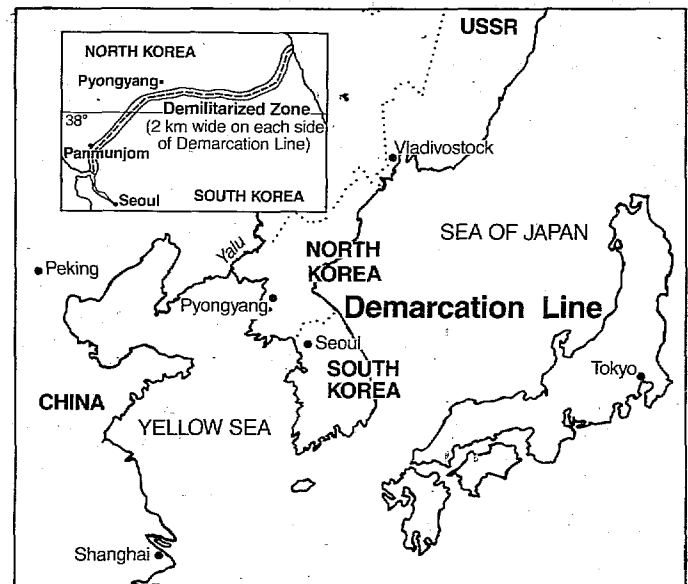
Korea’s economic growth has been sustained in large part by developing its export markets, fostering heavy industry, and continuously improving technology. To support this growth, the country needs political stability and a peaceful external environment.

## **Economic strategy**

The Koreans have been successfully fighting their poverty, colonial heritage and war devastation. Today, their country is on the verge of moving from being classified as “developing” to “developed.” This transformation was stalled for a time following the death of Park and the wider world recession. Instability, popular uprisings, notably in the city of Kwangju, and military intervention threatened the economic progress of the 1970s. Poor weather decreased agricultural output by 22%, while large wage increases (averaging 30% per annum) reduced the former price advantages. The gross national product (GNP) registered a decline of 5.7% in 1980, and inflation soared to 44.8%.

Then, in 1981, new policies were formulated to halt the economic decline. The government temporarily cut taxes and bank interest rates to stimulate the economy. Capital gains taxes on the sales of housing units were reduced to aid

the construction industry, while a program of public works aimed at more pump priming and at a reduction of the unemployment rate. Structural reforms gave banks greater autonomy, and the government reduced its equity in several banks. A 1980 devaluation of the Korean *won* helped to boost exports. This year, further measures included



more reduction in interest rates and corporate taxes as well as plans to turn over three commercial banks to private ownership, concessional excise taxes for autos and color TVs, and assistance for up to 3000 small enterprises.

In addition to short-term measures to pull the nation out of recession, the government has decided to reduce its presence in the economy. According to the fifth Five Year Plan (FYP) which began this year, “Excessive government intervention in the private sector has discouraged private initiative and efficiency of investments which are vital to the growth of a market economy.” This new direction will not lead to a totally free market. Even by 1986, the last year of the present plan, the state will still be in effective control of the national economy. This control is implemented through the allocation and pricing of credit, tax incentives,

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