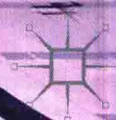
A photograph of a modern Korean city street. In the foreground, a river flows under a concrete bridge with decorative balustrades. Several people are walking on the bridge and along the riverbank. In the background, tall modern buildings line the street, and a construction crane is visible. The sky is clear and blue.

# The Political Economy of Korea

Transition, Transformation  
and Turnaround

Jitendra Uttam



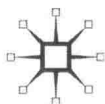
# **The Political Economy of Korea**

## **Transition, Transformation and Turnaround**

Jitendra Uttam

*Assistant Professor in Korean Studies, Jawaharlal Nehru University, India*

palgrave  
macmillan



© Jitendra Uttam 2014

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2014 by  
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN: 978–1–137–45123–1

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Uttam, Jitendra, 1963–

The political economy of Korea : transition, transformation and turnaround / Jitendra Uttam (assistant professor in Korean Studies, Jawaharlal Nehru University, India).

pages cm

Includes bibliographical references.

ISBN 978–1–137–45123–1 (hardback)

1. Korea – Economic conditions. 2. Korea – Politics and government.
3. Korea – Social conditions. 4. Social change – Korea – History.
5. Social movements – Korea – History. 6. Yangban – History. 7. Land reform – Korea – History. 8. Business Conglomerate – Korea – History.
9. Capitalism – Korea – History. 10. Industrialization – Korea – History.
- I. Title.

HC467.U88 2014

330.95195—dc23

2014028180

# The Political Economy of Korea

*TO  
THE UNKNOWN KOREANS  
AND THEIR SACRIFICES FOR KOREA*

# List of Tables

5.1	Owner-tenant distribution of land in Korea before 1945	98
5.2	Trend of Korea's tenant farming land, 1945-51	99
5.3	Chronological sequence of events leading to land reform	101
5.4	Number of students enrolled in Korea, 1935-63	106
6.1	Share of loans to SMEs and 30 largest Chaebols by domestic banks	116
6.2	Expansion of Chaebols during the HCI drive, 1974, 1978	119
6.3	Top 50 Chaebols: years of establishment	122
6.4	Top 10 Chaebols in Korea in 1960, 1972, 1984, 1996	124
6.5	Top 20 Chaebols: debt-to-equity ratios, 1995-8	126
6.6	Estimates of per capita GDP and ratio of public to private sector salaries in developing countries	130
6.7	Estimates of net and gross export subsidies per dollar of export for Korea, 1958-83	137
6.8	Government allocation of budget to education, 1984-2000	147
7.1	Profitability of top-30 Chaebols in Korea, 1994, 1995, 1996	161
7.2	Big business deals among and between Chaebols, 1999-2000	163
7.3	Measures taken for restructuring the Korean financial system	171
7.4	Number of labor disputes and participants, 1993-2004	173
7.5	Labor union participation rate in Korea	173
7.6	Ratio of regular and non-regular workers, 1995-2003	175
8.1	Share of BK-21 funding to top 5 institutions	183
8.2	Infusion of public funds into the financial sector	189

# Preface and Acknowledgments

The long, drawn-out contest for equitable distribution of national resources in Korea presents a political economy in which the elite-dominated socioeconomic equilibrium was punctuated twice: first, during the crumbling of the Yangban-centered agrarian aristocracy through comprehensive land reform in the early 1950s; second, during the far-reaching restructuring of the Chaebol-led industrial bourgeoisie in the late 1990s. These twin equilibrium-punctuating events – land reform and Chaebol restructuring – were the consequence of Korea's indigenous 'incremental pressure', which came in the form of various social movements, uprisings and rebellions. Beginning with the Donghak Peasant Revolution (*Donghak Nongmin Undong*) of 1860 and moving forward through the March 1919 independence movement, the Jeju and Yeosu-Suncheon rebellions in 1948, the student revolt in April 1960, the Gwangju uprising in 1980, and then transforming into post-crisis citizen's movements, Korean history is dotted with numerous instances of societal contests over the demand for an egalitarian approach to the political economy. *Minjung* consciousness, which derived its core from Korea's age-old 'village socialism' or 'horizontally organized society', provided a unifying thread to the national 'community of dissent' seeking a more equitable socioeconomic order. These numerous indigenous social pressures arguably compelled external forces, which sought sociopolitical support to expand their hegemony in Korea, to accept a system-wide reordering. The cumulative power of the persistent internal demand and external acceptance was enough to punctuate the equilibrium twice. During these periods of disequilibrium and fundamental change, Korea's legacy of dissent demanding economic justice was able to widen the social base of the nation's economy which, in turn, unleashed the energy of dormant productive forces. Both the parasitical Yangbans and the highly subsidized Chaebols had to give way to productive forces represented by a reforming army of small farmers and post-crisis (1997) Chaebol restructuring that promoted tech start-ups and venture capitalism that to some extent helped diffuse the concentration of wealth in Korea. This book aims to capture the essence of Korea's social churning during the time of crisis and how that churning injected economic dynamism, political pluralism and social vitality.

This study stresses that centuries-long 'agrarian equilibrium' in Korea was marked by 'embedded elitism' that flourished under a highly centralized, top-down Yi-Joseon state. A very tiny elite class of Yangban scholar-officials provided bottom-up bureaucratic support to the Yi-Joseon state and in return were given a free hand in effectively controlling the flow of knowledge, government jobs and large tracts of rural land. This scholar-official class lived a life of leisure and pleasure and was largely detached from the country's production system. The parasitical character of the Yangbans invited social discontent from an impoverished majority that toiled day and night to meet their daily life necessities. Reeling under the burden of a small but very powerful unproductive social class, ordinary Korean people protested through various rebellious movements and mass-mobilizations and demanded a political economy based on the egalitarianism of their past, aptly articulated by the popular Minjung consciousness. Brewing social discontent created 'incremental pressure' to change Korea's centuries-old, elite-dominated political economy. However, these social pressures were possibly not enough to punctuate the equilibrium. Fortunately, Korea received unexpected support from foreign powers such as China, which supported the idea of 'Eastern Learning, Western Machines', Japan helped craft 'Gabo Reform' and, in a bid to counter the rising tide of Communism on the peninsula, the United States agreed to implement comprehensive land reforms in the early 1950s. Finally, internal demand and external pressure resulted in the 'punctuating of equilibrium' that led to the crumbling of the Yangban aristocracy.

The more-level playing field that emerged after the land reform provided a firm base for industrialization during the Park Chung-Hee period. In the absence of any powerful agrarian interests hindering the industrialization drive, Korea experienced the rise of giant business conglomerates that, under the guidance of a powerful 'developmental state', transformed the nation from a poor agrarian economy into a rich industrial economy. Korea's industrial transformation, which began earnestly in the early 1960s, fostered decades of double-digit economic expansion. Descriptions such as 'Miracle on Han River', 'Asia's Next Giant' and 'Han Unbound' aptly summarized Korea's arrival in the industrial era. However, this miraculous growth spurt also created a non-transparent, unaccountable system that favored a handful of Chaebol firms over the interests of many other enterprises. The phenomenal rise of the octopus-like giant Chaebols and persistent underdevelopment of SMEs indicated that all was not based on fair competition and open rules but was rather, as some scholars have termed it, 'crony capitalism', which benefited a



few chosen enterprises at the expense of a marginalized majority of SMEs and individual entrepreneurs. Civil society, led by progressive intellectuals, labor union representatives, and powerful NGOs built up social pressure for reform. Thanks to these citizen-led societal pressures, the rights of minority shareholders, state-support to SMEs and issues related to environmental awareness became highly debated topics in the post-crisis Korea. More than any internal critique, the industrial bourgeoisie of Korea got a rude awakening due to a powerful regional financial crisis that effectively decimated corporate Korea in the late 1997. In the face of regional financial upheaval, Korea's highly diversified, debt-ridden Chaebols fell like a house of cards, resulting in a powerful 'downward spiral' leading to a sharp fall in the value of currency, stocks and real-estate. Corporate bankruptcies, job losses and other social dislocations came to haunt Korea which once had been showered with unlimited praise for its economic dynamism. A proud nation was compelled to seek an IMF rescue package with its associated harsh conditions.

The intense debate following the 1997 financial crisis led to a general consensus that the era of the interventionist 'developmental state' built by Park Chung-Hee had passed. Surprisingly, a deep sense of national vulnerability prevailed, leading to a broad policy consensus among and between IMF, the Korean state, civil society and even the Chaebol to implement a neo-liberal, market-based restructuring of the economy. In 1998, the Kim Dae-Jung administration established the 'Tripartite Commission' in order for government-business and labor to create a framework for the systemic restructuring of the Korean economy. Although neo-liberalism and its market logic were the stated goals for economic restructuring, in reality the government made sure to safeguard the nation's famed 'export machine'. Korea tried to impose 'neo-liberalism' on top of earlier-era 'national developmentalism', and in the process created a hybrid 'developmental liberalism' that permitted the state to lead the painful process of restructuring by injecting an enormous amount of 'public funds'. The spirit behind reform and restructuring was to ensure the core-competent, the knowledge-intensive global Chaebol, could effectively lead the nation's charge in the unfolding era of the knowledge economy. Along with reforming the Chaebol, system-wide reform altered the basic tenets of Korean capitalism, which had been 'organized from the top', and initiated an alternative variant of capitalism based on 'reorganization from the bottom'. Under this restructured capitalism, the government acted decisively to engage the bottom of the industrial pyramid by initiating various policy guidelines aimed at empowering SMEs, strengthening tech-intensive

start-ups and promoting creative industrial sectors. The rise of Korea's high-tech manufacturing using embedded software, the expansion of the cultural industry – under the framework of *Hallyu*, or 'cultural wave', and employing increased creative experimentation – has led Korea to take firm steps in the post-industrial era.

These twin attempts aimed at systemic reform empowered Korea to carry forward its successful journey from agrarian to industrial and then industrial to the post-industrial era. In both reform efforts, societal pressures mounted through collective and individual sacrifices were crucial to building 'incremental pressure' for change. However, barring a few studies, analysis that focused on the Korean political economy could not assign due credit to social struggles, which played a critical role in changing the contours of state, society and market interrelations. After a critical review of existing perspectives based on the primacy of 'market', 'state', 'culture', 'world system' and 'colonialism', this book tries to bring the operation of societal forces to the analysis of the nation's political economic dynamics. It attempts to demystify the nature, orientation and the frequency of societal demands contesting or questioning 'embedded elitism' that has been deeply ingrained in the national-political economic life. The fragmented, diverse and unorganized social pressures had one common underlying thread that held together the community of dissenters – it was the shared dream of egalitarian past. This articulation of social dissent has been brought under the 'second state' perspective, in which mutual embeddedness of state and society offers a better understanding of the fundamental changes the Korean political economy was able to incorporate. By bringing operation of wider social forces into the analysis of political economy, this book attempts to widen the analytical depth and expand horizons of research on Korean political economy.

In this long-drawn effort to comprehend the twist and turns of Korea's political economy, I would like to acknowledge contributions made by individuals, institutions and situations. At the turn of 1990s, the crumbling Cold War era political economic structures exposed East Asia's rising economic chart, which captured the imagination of Indian leadership. In a soul-searching mode, India started to debate rebalancing its relations with East and West. This led me to opt for a two-year MPhil course in East Asia specializing in Korean Studies. However, my journey to understand Korea began in earnest on April 4, 1993, when I landed in Seoul to begin my PhD with the explicit aim of understanding a persistent developmental contrast that was unfolding between India and Korea. In Seoul National University, I was fortunate to have as my doctoral

supervisor Professor Yoon Young-Kwan, who has been considered one of the finest minds in the field of international political economy specializing Korea. Thus, I express my sincere gratitude to Professor Yoon, who reminded me not only about the spectacular economic development Korea achieved, but also the price it paid for 'that type of development'. In this context, I would like to acknowledge the contribution of Kim Won-Soo, First Secretary in the Korean Embassy in New Delhi and an alumnus of Seoul National University – the person who connected me with Professor Yoon. My intellectual endeavors also received inspiration from Professor Chung Un-Chan, Professor Ha Yong-Chul and Professor Lee Gun, all of whom provided vital input for my understanding of Korea and its various facets of development.

The institutions that played key role in shaping and upgrading my understanding of Korea include, Jawaharlal Nehru University and Seoul National University (particularly its Central Library, where I spent the best of my years). My fellow students at International House, a dormitory in downtown Seoul reserved only for foreign students, who endlessly debated about Korea, its economic and social development: deserve great admiration. My interaction and discussions were with all walks of Korean life; fellow students at SNU's Department of International Relations, including Greg Scarlatoiu, David Hundt, Wongi Choe and others; corporate managers at Samsung and Daewoo corporations and members of Hyundai Social Centers in Seoul – these all became a constant source of my learning and understanding of Korea's fascinating but unpredictable march from the global periphery to the core.

This book-length study would not have been possible without financial support from the Academy of Korean Studies, Korea, which facilitated my reach for primary and secondary sources in both Korea and India. Also, I would like to acknowledge support from my colleagues and students, including Jojin John, Ranjit Kumar Dhawan and others here in the School of International Studies at New Delhi's Jawaharlal Nehru University. I acknowledge enduring emotional support provided by my wife, Elena Pulenkova, and daughter Elisveta who quietly accepted the harsh time regime that this writing project enforced on me. Finally, the unfailing support provided by my father, who empowered me to take the uncharted journey to Korea, a country that was at best unknown to him, deserves my special admiration.

This work was supported by the Seed Program for Korean Studies through the Ministry of Education of the Republic of Korea and the Korean Studies Promotion Service of the Academy of Korean Studies (AKS-2009-LC-300).

# Note on Romanization

As the widely used Western McCune–Reischauer System did not fully comply with the specific features of Korean language due to its detailed special marks, this book follows the romanization system notified by Korean Ministry of Tourism and Culture in July 2000, available at <http://www.korean.go.kr/eng/roman/roman.jsp> (accessed on 7 June 2014). The Korean system of romanization complies with the Korean language's specific features and the needs of the information-oriented society. In the new romanization, Korean pronunciation should be translated into roman letters and the important difference between ‘ㄱ, ㅋ, ㆁ, ㅈ’ and ‘ㅋ, ㆁ, ㆁ, ㅈ’ should be expressed as ‘g, d, b, j’ and ‘k, t, p, ch’. However, proper nouns, such as ‘Chaebol’, may be romanized differently from the new system (which would render it ‘Jaebeol’), if such nouns are already circulated across countries, as altering their romanization now would only add to further confusion. The new system is used almost uniformly for Korean place names: for instance, the south-eastern Kyongsang province is now known as ‘Gyeongsang’, its capital Pusan as ‘Busan’, and Cholla province as ‘Jeolla’. Capital city Seoul is still spelt ‘Seoul’ under the new system.

This book retains the transliteration of the names of former presidents Syungman Rhee, Park Chung-Hee and Chang Myon, and also retains the Korean practice of placing surnames before given names, except when the author or figure seemingly prefers to adopt the Western style of placing the given names first. In the case of the former presidents listed above, Rhee, Park and Chang are surnames while Syngman, Chung Hee and Myon respectively are given names. Rhee chose to romanize his name in what might now be considered an unconventional manner; Park spelt his in the Korean style; Chang, confusingly, was sometimes also referred to by his English name of John, becoming variously John Chang, Chang Myon, Myon Chang or John M. Chang. When quoting directly from documents, the book retains the transliteration used in the original. Also, in order to avoid confusion, while citing Korean authors names within text, sometimes both given names and surnames are mentioned.

# List of Acronyms and Abbreviations

AOPC	American Office of the Property Custodian
ASEAN	Association of South East Asian Nations
BK-21	Brain Korea-21
BOK	Bank of Korea
BRICS	Brazil, Russia, India, China and South Africa
CCEJ	Citizens Coalition for Economic Justice
CEO	Chief Executive Officer
CPKI	Committee for the Preparation of Korean Independence
DPRK	Democratic People's Republic of Korea
EP	Enlightenment Party
EPB	Economic Planning Board
EPI	Export Promotion Industrialization
ETRI	Electronics and Telecommunication Research Institute
FDI	Foreign Direct Investment
FKTU	Federation of Korean Trade Unions
FLC	Forward Looking Criteria
FRUS	Foreign Relations of the United States
FSC	Financial Supervisory Commission
FTC	Fair Trade Commission
GGK	Governor General of Korea
HCI	Heavy and Chemical Industries
ICT	Information Communication Technology
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
KAIS	Korea Advanced Institute of Science
KAIST	Korea Advanced Institute of Science and Technology
KAMCO	Korea Asset Management Corporation
KDI	Korea Development Institute
KDIC	Korea Deposit Insurance Corporation
KDIC	Korea Development Investment Corporation
KDP	Korean Democratic Party
KEJI	Korea Economic Justice Institute
KERI	Korea Economic Research Institute
KEDI	Korea Educational Development Institute
KFOF	Korea Funds of Funds

KLDI	Korea Labor Development Institute
KNP	Korean National Police
KOSDAQ	Korea Securities Dealers Automated Quotation
KPG	Korean Provisional Government
KPR	Korean People's Republic
KTAC	KIBO Technology Advancing Capital Corporation
KTDC	Korea Technology Development Corporation
LG	Lucky Gold Star
LIEO	Liberal International Economic Order
LOC	Letter of Credit
MCI	Ministry of Commerce and Industry
MKE	Ministry of Knowledge Economy
MNC	Multi-National Corporation
MOC	Ministry of Communication
MOFE	Ministry of Finance and Economy
NCKLU	National Council of Korean Labor Unions
NGO	Non-Governmental Organization
NPA	Non-Performing Asset
NURI	New University for Regional Innovation
OECD	Organization for Economic Co-operation and Development
P-CBO	Primary Collateralized Bond Obligation
PCER	Presidential Commission on Educational Reform
POSTEC	Pohang University of Science and Technology
PRC	People's Republic of China
PSU	Public Sector Unit
PSPD	People's Solidarity for Participatory Democracy
R&D	Research and Development
SME	Small and Medium Enterprise
SNU	Seoul National University
SWNCC	State-War-Navy Coordinating Committee
TRCK	Truth and Reconciliation Commission of Korea
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNKRA	United Nations Korean Reconstruction Agency
UNTOCK	United Nations Temporary Commission on Korea
USMGK	United States Military Government in Korea
USSR	Union of Soviet Socialist Republics
VC	Venture Capital

# Contents

<i>List of Tables</i>	xi
<i>Preface and Acknowledgements</i>	xii
<i>Note on Romanization</i>	xvii
<i>List of Acronyms and Abbreviations</i>	xviii

## Part I Transition in Perspective

1 Perspectives, Arguments and the Structure	3
1.1 Introduction	3
1.2 Perceptions and perspectives on the Korean political economy	8
1.2.1 Market perspective	9
1.2.2 'Statist' and 'World System' perspective	9
1.2.2.1 Close cooperation between state and the private sector	11
1.2.2.2 Governed markets	12
1.2.3 Cultural perspective	12
1.2.4 Colonial perspective	13
1.2.5 Bringing the 'Second State' perspective	15
1.3 Ideas and arguments in the book	17
1.4 Structure and organization	21

## Part II Locating Twin Transitions

2 Situating Korea's Political Economy under Twin Transitions	31
2.1 Korea's first transition from agrarian to industrial era	32
2.1.1 Egalitarian political economy through 'land reforms'	33
2.1.2 Formation of the 'political capitalist' under Rhee's autocratic rule	34
2.1.3 'Developmental State', Chaebol and Korea's industrialization drive	36
2.1.4 Korea's 'Cold War passage' to a global market space	39
2.1.5 Developmental contradictions and paradoxes	41

2.2	Korea's second transition, from an industrial to a post-industrial era	42
2.2.1	From 'developmental' to 'post-developmental state'	43
2.2.2	Reforming the Chaebol system	45
2.2.3	Structural reforms in the financial system	46
2.2.4	Recasting of Korean capitalism	47
2.3	Conclusion	48

### **Part III First Transition: Agrarian Aristocracy and Its Discontents**

3	Yangban-centered Agrarian Aristocracy and Its Social Discontents, 1700–1910	53
3.1	Late-Joseon era political economy	54
3.1.1	Inward orientation: Korea as the 'Hermit Kingdom'	57
3.1.2	Parasitical elite, the Yangban Class	59
3.2	Social response to foreign pressure	60
3.2.1	'Practical Learning'	63
3.2.2	Donghak Peasant Revolution, 1860	65
3.2.2.1	Minjung, Donghak and the sources of indigenous egalitarianism	67
3.2.3	Gabo Reform, 1894–6	68
3.3	Conclusion	70
4	Continuation of Status Quo under Colonial Economic Drain, 1910–45	71
4.1	The nature and structure of the Japanese colonial state in Korea	72
4.2	'Commerce-industry' as a new source of national power	76
4.3	Consolidation of 'large' and the marginalization of 'small' farmers	77
4.4	Colonialism and the question of Korean identity	79
4.5	People's struggle for national independence: March First 1919 Movement	81
4.6	Colonialism and political-economic status quo in Korea	82
4.7	Conclusion	83
5	U.S. Intervention, War and the Assertion of the 'Second State,' 1945–60	85
5.1	Surrender, occupation and the formation of the Korean People's Republic	86
5.2	Politics of people's resentment and state repression	89
5.3	Inter-Korean War and the politics of reconstruction	92
5.4	Decimation of the Left, restoration of the Right	94



5.5	Land reform as counter measure to Communism	97
5.6	U.S. aid, Rhee administration and the rise of the rent-seeking capitalist class	102
5.7	April 1960 Revolution and the end of the Rhee regime	105
5.8	Shattering of the Yangban-dominated traditional order	107
5.9	Conclusion	108

#### **Part IV Second Transition: Industrial Bourgeoisie and its Reconfiguration**

6	Nurturing of National 'Industrial Bourgeoisie' under Authoritarian Polity, 1961–97	113
6.1	Rise of the capitalist 'developmental state'	115
6.2	Emergence of big business, 'Chaebol phenomenon'	122
6.3	Marginalization of 'peasant dissent' in the high-growth phase	125
6.4	Growth-oriented economic bureaucracy	129
6.5	Regime of 'repressed finance'	132
6.6	Outward-oriented industrialization drive	134
6.6.1	Export promotion industrial strategy	134
6.6.2	Preferential tax system	135
6.6.3	Preferential credit system	135
6.6.4	Administrative support system	136
6.7	Historical weakness of 'bourgeoisie impulse'	140
6.8	Cold War era strategic constraints on the international political economy	142
6.9	Hierarchy-conscious societal culture	143
6.9.1	Hierarchy, authority and power in Korea	144
6.9.2	Collective solidarity, societal discipline and the rise of mass-production	144
6.9.3	Family at the core of societal culture	145
6.9.4	Education as social status	146
6.10	Conclusion	148

#### **Part V Transformation and Turnaround**

7	Financial Crisis, Democratic Consolidation and Civil Society Intervention, 1997–2007	151
7.1	The political economy of Korea's democratic consolidation	153
7.2	Financial crisis and the arrival of the 'post-developmental state'	155
7.2.1	Restructuring of the developmental state in Korea	157