



Asian Tigers: Export-led Growth

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Interest in Korean popular culture has boomed in the last few years. Many of us will have watched Squid Game – one of the most viewed series on Netflix – or seen the movie Parasite which won the Oscar for the best film. We might be watching them on our Samsung Galaxy tablet as we eat kimchi. On the other hand, we might prefer to turn on our Sony television to watch an anime film as we eat sushi. Or we might prefer to drive to the cinema in our Hyundai or Toyota car. The growth of these Asian economies since the Second World War has been remarkable.

After the Second World War, developing or emerging economies pursued two different policies, both with a concern for economic nationalism.

- One was import-substituting industrialisation: an attempt to replace imported manufactures from the advanced industrial economies of the US, Britain and Germany with local goods produced behind tariff walls. Such an approach was pursued in India, and above all Latin America from the Great Depression of the 1930s. It was economic nationalism based on isolationism.
- The other was export-led growth. It went with protection of domestic markets and the pursuit of economic nationalism based on expansionism. It looked to exports as the route to economic growth and national survival and power. This strategy was adopted by Japan, South Korea and the 'Asian tigers'.

The graph shows which strategy was more successful.

- Around 1900, Argentina was one of the richest countries in the world: in 1960, its per capita GDP was around the same as Japan and around ten times that of South Korea.
- By 2020, the per capita GDP of Japan and South Korea were around three times that of Argentina.

In my next lecture of this series, I will consider the failure of ISI and the poor economic performance of Latin America. Today, my concern is the success of Japan and South Korea - though if you have watched Squid Game or Parasite you will realise that success comes with serious problems. Both are powerful critiques of the social consequences of economic growth.

To understand the outcome after 1945, we need to go back to the nineteenth century – to the rapid economic transformation of Japan after the Meiji restoration of 1868 and the annexation of Korea in 1910.

JAPAN

Japan was unique in Asia: it achieved modernization and maintained independence by its own efforts. This was not a foregone conclusion.

Japan had very limited engagement with foreign traders from the early seventeenth century until the arrival of Commodore Matthew Perry's 'black ships' on July 1853. He was sent by US to establish relations with Japan, and he issued an ultimatum that it should accept formal relations. The outcome was the US-Japan Treaty of Amity and Commerce of 1858, modelled – alarmingly for Japan - on Chinese treaty ports. Similar so-called 'unequal treaties' were soon reached with other powers, forcing markets open for foreign goods.

The Tokugawa regime that had dominated Japan since 1603 looked weak and the country, it seemed, would go the same way as China.

What was the nature of that regime?

- Neo-Confucianism stressed rigid hierarchies, limited change, minimal foreign contact from 1640.
- The emperor was based in Kyoto – he had divine power but his role was ceremonial with no military or financial authority.
- Administration was in the hands of the shogun in Edo (Tokyo). The Tokugawa held about a quarter of Japan themselves, with allegiance from local lords (daimyo) who held a han or domain. Some were hereditary vassals (fudai) who participated in government; others – the tozama - submitted after defeat and were marginalised.
- Shogun kept authority by requiring lords to spend every other year in Edo, where their wives and children were permanently based – a sort of hostage system. Provided the daimyo did not challenge the shogun, they had considerable autonomy in their domains – but they were under central control through superior military power, divisions between daimyo.
- The samurai – the military elite – owed allegiance either to the shogun or to individual daimyo. Although they wore swords, trained in military skills, and followed warrior values, they had little military purpose after peace was established. Many provided bureaucratic services to shogun and individual daimyo – running landholdings, collecting rice tax, overseeing public works.

This system continued to the 1850s but problems were becoming apparent even before the arrival of the black ships.

- Tokugawa had limited finances. They relied on income from their own lands and ports, mines. Daimyo taxed land in their domain which was paid in rice and sold through markets in Osaka – they were not themselves taxed by the shogun. There was a lack of fiscal capacity to deal with the external threat.
- There was also a lack of military capacity – shogun could not rely on the samurai of the daimyo.
- The rigid structure of society was breaking down and the balance of power was shifting. The daimyo borrowed from merchants; some samurai were turning to farming to make ends meet, and they were hit when opening trade led to an outflow of bullion, debasement of coinage and inflation: the samurai were hit because they had fixed stipends. Further, tozama lords resented their exclusion.

The vulnerability to western powers with the unequal treaties led to a terminal crisis in the Tokugawa regime.

- There were internal problems of succession in Tokugawa, and the last shogun resigned in 1867.
- The initial reaction to the unequal treaties was isolationism, with attacks on foreign merchants. There were demands to ‘Revere the emperor, expel the barbarians’ – a line initially taken by Ōkuba Toshimichi of the Satsuma and Itō Hirobumi of the Chōshū. They changed their approach to a need to adapt in order to compete – Itō went to UCL in 1863; and Ōkuba changed tack after the Anglo-Satsuma war of 1863: Satsuma sent 19 students to Britain.
- Imperial courtiers became a centre of criticisms, started to demand approval from emperor.
- Fuelled by resentment of samurai and by leading tozama families of Satsuma and Chōshū who seized the palace in Kyoto and took power in the name of the emperor – including Ōkuba and Itō who became the most powerful figures in the new regime. Worked with courtiers such as Iwakura Tomomi

In 1868, emperor Meiji was installed which was presented as a restoration of imperial rule. It was a combination of court nobles and daimyo from south-west Japan, a seizure of power by one part of ruling class against another. The Charter Oath of 1868 claimed to unite all groups in justice, welfare, prosperity, with allegiance to the emperor rather than separate domains.

What policy should the new regime adopt to avoid the fate of China?

Rather than expel the barbarians and return to isolationism, the solution might be to pursue rapid modernisation by adopting western institutions in law, military and business; a centralised, unified nation which, unlike the Tokugawa, had political power over the whole country with the capacity to raise revenue. The barbarians could then be dealt with on equal terms within a global economy and great power politics. It was a policy of building national strength through expansionist nationalism and engagement with the global economy.

The pursuit of this strategy required major changes to Japan's economy, politics and society to create a modern nation state.

- After 1868, power largely remained with leaders of the restoration – the Satsuma, Chōshū, and to an extent Tosa and Hizen han. They did bring in retainers of Tokugawa in areas where administrative expertise needed – but not political responsibility.
- Replace loyalty to domain with loyalty to Japan. Daimyos agreed to return lands to the emperor in return for being appointed imperial governor over their former domains. They were given noble status, a salary and the government took over their debts.
- The state initially took over payment of the samurai from the daimyo, so that loyalty was now to the emperor. In 1876, they were paid off with a lump sum. They lost their warrior status with a shift to a conscript army from 1872 which was drawn from all parts of society.

This all amounted to a major change with the creation of a nation state. As might be expected, it encountered resistance from those who felt that their status and values were threatened – something that was true of some elements of the dominant Satsuma as much as the displaced Tokugawa. The differences were apparent in two incidents:

The mission of Iwakura Tomomi – including Itō and Ōkubo - which left for the United States and Europe in 1871 to renegotiate treaties (unsuccessful) and gather knowledge. In Iwakura's view, successful renegotiation of the treaties would only be possible after domestic reform of law, politics, economy, and culture to face west. On the other hand, those who remained in Tokyo looked to external expansion by invading Korea - one way of dealing with disaffected samurai.

Iwakura's position was adopted on his return in 1873. But opposition continued from disaffected samurai who resented their loss of status, and by domains which were losing identity. Iwakura, it seemed, was working with the barbarians and threatening traditional culture.

These resentments culminated in a second incident: the Satsuma rebellion of 1877. Its defeat by the conscript army meant the effective end of samurai and daimyo with a highly centralised state with western style armed forces. Satsuma samurai considered Ōkubo a traitor for his role in suppressing the rebellion: he was assassinated in 1878.

The strategy of competing with the barbarians through reforming Japan's society worked:

- Defeat of China in war of 1894/5 over Korea. Korea was a client state of China and was seen as a dagger to the heart of Japan – a weak, Chinese dominated Korea would not be a buffer against Russia.
- Defeat of Russia in 1904-5. Japan and China had rival claims in Manchuria: should Russia be allowed a free hand in China in return for Japan taking Korea? In 1905, Korea became a Japanese protectorate with full annexation in 1910. Japan also took over Russian claims in Manchuria.
- Unequal treaties had been renegotiated by First World War, as Iwakura hoped. Japan regained control over tariffs. Japan had emerged as a powerful economy and player in great power rivalries – ally in First World War.

How was this transformation achieved? There were various political changes:

- Adopted civil and criminal codes, educational system and financial institutions from Europe – an eclectic mix that drew on what seemed to be most appropriate.
- Cabinet government in 1885 in place of post-restoration oligarchy – though the first prime minister was Itō who remained a powerful figure until his assassination by a Korean nationalist in 1909. He was largely responsible for the new constitution of 1889 which appealed to tradition with the emperor as 'sacred

and inviolable'. The emperor was seen as the father of the people who, in accord with Confucian ideals, owed him loyalty as the head of the household. The bureaucracy, Cabinet and armed forces were only answerable to him. By drawing on an imperial past and divinity, it was possible to combine Japanese values with a pursuit of modernity to protect independence.

- Constitution also created an elected assembly or Diet with a very limited franchise of about 1 per cent for the lower house, with nobles in the upper house.
- The power of the Diet was limited both by the status of the emperor and competing elites of the Cabinet, military, privy council, bureaucracy and an extra-constitutional group of older statesmen. When the Diet started to press for more influence, there was a division between compromise or suppression of popular politics. The Peace Regulations of 1887 gave police extensive power to ban mass meetings which was extended by the Peace Police Law of 1900.
- Government had taxing powers based on the new system of land tenure which provided finance for the army and navy, investment in the infrastructure, and subsidies to private industry.
- Army and navy had considerable power: answerable to emperor, largely free of legislative. Up to 1913 and again from 1936 army and navy ministers had to be serving officers, nominated by the military which gave effective veto power over the Cabinet.
- The bureaucracy was also powerful compared with politicians. They could appeal to the will of the emperor against the politicians.

Above all, Japan embarked on industrialisation. Initial opening to the west hit the local cotton industry, and technological lagged. Although the Satsuma introduced the first steam-powered cotton spinning mill, little was achieved before 1868. The new regime was much more successful.

- It provided physical infrastructure, postal system – the first railway came in 1874, as well as training and education.
- Japanese were sent abroad to study new technology, and foreigners were invited to Japan. Foreign technology and capital goods were acquired – but vital that not lead to foreign ownership and control.
- These goods were paid for in two ways. One was earnings from exports – above all silk which benefited from silkworm disease in Europe, though cotton mechanised and by early 20th century was taking over British markets in Asia. The second was domestic capital accumulation through taxation and savings which squeezed domestic consumption and welfare. Investment was funded by a high savings rate.
- Foreign direct investment was banned until 1899, and remained; foreign loans were in the form of bond issues by the central government and local government, to fund infrastructure and above all war, mainly in the 1900s. Financial stabilisation and reparations from China meant Japan join the gold standard in 1897 which was a mark of financial stability and rectitude. This gave access to the London capital market on more favourable terms, and these loans allowed naval building and industrial development. The funds were directed by the Bank of Japan which ensure that Japanese firms were not acquired by foreign owners. Of foreign savings over the Meiji period, only 0.7 per cent was foreign direct investment; 82.5 per cent was central government bonds and 7.8 per cent municipal. It did not entail foreign ownership – unlike the situation in Argentina.
- Government invested in industries to develop new technology, such as in cotton in 1872, and later in cement, glass. The government bought blueprints and prototypes, ensuring Japanese control. The government's role was mainly to support private enterprise. There was a public-private partnership, with government guidance of private enterprise. Government bureaucrats and businessmen came from similar backgrounds, and many bureaucrats moved into business. Although some government enterprises were set up to demonstrate new technology, they were sold off in the 1880s at low prices – helped successful private firms which expanded as zaibatsu.
- What were zaibatsu? Mitsui was one of the largest – origins in a merchant family under the Tokugawa; set up bank in 1876, into mining, textiles, cement, paper, real estate, trading. Developed a hierarchical or pyramid structure: a holding company at the top was the key body, set up in 1909 as an unlimited partnership of 11 families; holding company had the entire capital of other firms, dominated by families, though usually with professional managers. The zaibatsu provided finance, supplied raw

materials, dealt with local marketing and exporting, provided shipping services. They grew with the war when the economy now moved into heavy industry.

- There was a dual structure: the zaibatsu concentrated on western goods, advanced technology and exports, oligopoly; offered lifetime employment, better conditions and training alongside controls on labour activism. Alongside them, subordinate smaller firms: they could be laid off in recession, with lower wages and workers lacked stable employment. These small firms also supplied the local market with traditional goods.
- Business articulated a rhetoric of pursuing the good of the nation rather than private profit. By the 1930s, there was extreme right-wing criticism of the zaibatsu as a state within the state. In 1932, the managing director of Mitsui was assassinated. Mitsui and other established zaibatsu tried to show more transparency and to work with the military in providing loans and goods needed for their expansionist policies, though their relations remained strained. Above all, new zaibatsu benefitted – especially Nissan. It relocated its headquarters to Manchuria where it held a 50 per cent stake with the government the Manchurian Heavy Industry Development Corporation in 1937.

There was a shift in Japanese politics between the wars.

Social unrest during and after the First World War led to a more conciliatory attitude to the Diet and manhood suffrage eventually came in 1925. However, in the same year the Peace Preservation Law maintained stringent controls.

Despite success, there was still a sense of vulnerability: a need to invest in military and territorial expansion to sustain the population, secure natural resources – especially with the Great Depression and the turn of other countries to protectionism.

There was internal division, leading to political assassinations, attempted coups. Some elements of the army wanted military rule and territorial expansion. Others, above all reform-minded bureaucrats, wanted domestic reform to deal with the depression.

The outcome by 1936 was cooperation between military leaders as servants of the emperor, working with bureaucrats to mobilise the economy towards expansion.

- Ministers of army and navy appointed from serving officers, and refusal to appoint would bring down the Cabinet.
- Emperor worship and sacred patriotism were allied with militarisation of society to create national unity, and to entrench a conservative elite.
- Bureaucrats aimed to reduce the power of zaibatsu, control the economy for national defence: in 1937, licences for foreign currency and trade gave greater control over firms. As we will see, these ideas were important after 1945 – and there was continuity of personnel.

The invasion of China in 1937, and attack on Pearl Harbour and European empires in south-east Asia in 1941 ended with defeat in 1945. What would the American occupiers do? Although Japan occupied until peace treaty of 1952, there was indirect rule with elections in 1946.

Democratisation and reform the constitution which seen as the basis for militarism: retain the emperor for continuity and legitimacy but no role for the military.

Land reform. US occupiers thought that structure of landownership led to problems of militarism: replacing large landowners and poor tenant farmers with owner farmers would remove feudal remnants and create democratic stability.

Break up the zaibatsu which were seen as the basis of militarism – all lumped together despite differences: in 1946, the Holding Company Liquidation Commission. This was followed in 1947 by the Decentralisation and Anti-Monopoly Laws of 1947 designed to break up monopolies and stop unfair competition. But this policy was abandoned at end of 1949 before much progress. The result was the emergence of keiretsu which were coordinated by banks rather than a hierarchical structure of holding company. It was horizontal rather than vertical, a decentralised system of interlocking directors and shareholders, with coordination by group presidents and a greater role for the bank than in zaibatsu. A dual system continued, with smaller

firms supplying the larger concerns with poorer conditions, less stable employment for workers; and supplying domestic market.

Labour market. Union membership grew after war. In the private sector, most were enterprise unions with a separate union for each plant within the enterprise. They soon became part of the establishment, with lifetime employment and seniority wages. Managers were members and led to company solidarity. Recession hit non-unionised workers – dual structure of the labour market continued.

Survival of bureaucrats. In theory, they were subordinate to ministers who were answerable to diet. In practice, they remained powerful. Their long experience meant they continued to formulate and implement a coherent economic policy, and many moved into politics and had close ties with conservative parties and business. Controls over trade and exchanges were needed after the war – Japan lacked exports, needed to import goods for reconstruction. The Foreign Investment Law of 1950 prevented inflows of private capital so that firms like Ford could not buy Japanese businesses. Meant reform bureaucrats from 1930s retained power. A key figure was Kishi Nobusuke who had developed ideas about control over business in the 1930s and was responsible for industrialisation in Manchuria. He prepared a five-year plan inspired by Stalin in 1936, used brutal forced labour, and worked with Aikawa Yoshisuke of Nissan. During the war, he became minister of commerce. He was one of the founders of the dominant Liberal Democratic Party in 1955, serving as prime minister from 1957 to 1960, and continuing to work with Aikawa; his grandson was prime minister Abe.

Reform of public finances. Tax breaks were given for savings in banks that would invest in private business and postal savings banks in public works (often for political advantage). High savings would hold down inflation and allow capacity to be used for exports. The government cut personal income tax to secure popular support and instead relied instead on corporate taxation – possible because of cheap loans and lack of reliance on equity capital.

Savings were encouraged by the National Salvation Savings Campaign. Deferring consumption was a patriotic duty; women were encouraged to monitor spending in account books (half reported they did in 1965). Consumption was culturally devalued.

Trade policy. The initial approach was protectionist from necessity – then a shift to exports from the 1950s. The postwar deficit was covered by American aid, but continued dependence was not welcome. Dependence could be ended by imposing more controls over imports which would hit growth – or turn to exports to regain economic independence. This second course was adopted. It was not a turn to free trade: import restrictions continued, with the benefit of an undervalued currency. The yen was fixed at 360 to the dollar in 1949 rather than the initial intention of 300 to 330. As a result, imports were more expensive and exports were more competitive.

Industrial strategy. The government pushed exports in technologically advanced sectors, giving priority to industries according to their export potential. They were then given preferential treatment for tax and credit, subsidies, with government controlling access to foreign exchange. There was close cooperation between bureaucrats and keiretsu above all through the Ministry for International Trade and Industry (MITI) which was a successor to Kishi's approach in the 1930s.

By 1960, exports were more than a means of securing foreign currency and creating self-reliance: they became the engine for growth and economic development. Kishi resigned in 1960 and his successor announced the National Income Doubling Plan - growth was the key metric, driven by exports with government assistance.

Kishi's allies at MITI had a continued role, now working in partnership with business through 'administrative guidance'. This relied on an informal exchange of information and government's priorities in return for compliance by business. The government worked with business associations to organise the market. Rather than direct control over foreign investment, MITI encouraged cross holdings between firms so it not easy to purchase them; and limits on voting rights of foreign directors.

By 1968, Japan had moved to a large trade surplus and the United States started pressing for a removal of import barriers and a revaluation of the yen. Japanese resisted: only just back into balance, had worked hard and made sacrifices. The exchange rate of 360 yen to \$ was seen as sacrosanct, and references made to the return of the black ships. But forced to revalue in 1971 to 308 – and then the oil shock of 1973, and further revaluation. However, now apparent that Japan could overcome these challenges and growth continued.

Problems with the surge in real estate prices as a result of generous lending and subsequent collapse that led to bad debt, a fall in investment. The result was the 'lost decade' of the 1990s – now extended to three. Concern about the dominance of bureaucracy and of salarymen/seniority within firms, of low return from industrial policy. As we saw in the graph, Japan has failed to grow over this period, as South Korea has continued to catch up. Let me now turn to the experience in this other Asian economy.

KOREA

Korea did not have anything like the Meiji restoration: its ruling family was conservative and authoritarian, reliant on China and pursued a policy of seclusion. During annexation by Japan from 1910 to 1945, Korean culture was subordinated, and the country was turned into a source of food and raw materials for Japan, and of industrial production to support the invasion of China. In 1939, Japan owned 92 per cent of firms employing over 200 people; they were largely in the north and did not lead to wider economic development. Even more than in Japan, the economy was dominated by the state and army.

In 1945, the country was divided on the 38th parallel between American occupiers in the South and Soviets in North, with an internal Communist threat. The division continued after the Korean war of 1950 and 1953. Development must be understood in this context of a continued threat from Communism.

The Americans were eager to overcome South Korea's technological and – in their view - cultural backwardness. The occupiers viewed the Koreans as the Irish of the Orient, fun-loving and with an inferiority complex due to domination by the Japanese. In 1947, the American army embarked on a programme of reforming transport and utilities, agriculture and education – and Communist take-over of China in 1949 made this more pressing..

In 1948, South Korea regained self-rule under its first president, Rhee Syngman, an anti-Communist authoritarian who suppressed and imprisoned the left and moderates. American economic assistance continued, and a new body was created in 1950 – the American-dominated United Nations Korean Reconstruction Agency. Its report of 1954 was pessimistic, and in 1960, the State Department still complained of a lack of leadership to provide 'the imagination, vision and energy to ... end the Korean spiritual and social confusion...and to give the country a sense of unity, direction, and destiny.'

What was Rhee's approach between 1948 and his fall in 1960?

- Land reform. In North Korea, the Communists confiscated the property of large landowners. In South Korea, the Americans needed support from conservative landed elites and also to stop peasants from turning to Communism. In 1948, both aims were achieved by distributing land owned by the defeated Japanese imperial government, companies and individuals – a step that contributed to successful elections. The new government then embarked on a wider programme of land redistribution as part of a project to build a modern, anti-Communist state.
- Like Japan, Rhee turned to trade barriers and controls over capital flows. He pursued import-substituting industrialisation. Local industries needed licences which led to corruption and favours in the allocation of capital.
- About three-quarters of investment came from US aid which Rhee channelled to chaebol (the large business conglomerates like Hyundai that were akin to zaibatsu) who supported him. He combined isolation and corruption.

In May 1961, Park Chung-hee took power as the head of a military junta. He had trained as an officer in the Japanese army during the war, serving in Manchuria. After the war, he joined the South Korean army but was sentenced to death as an opponent of Rhee and the Americans. The sentence was commuted, and he resumed his military career during the Korean War. He was elected president in 1963 and served until his assassination in 1979.

Rhee continued some elements of Rhee's policy but also took new directions that led to the 'miracle on the

Han river' – the transformation of South Korea into a major industrial power.

Isolationist nationalism was strong, a reaction to Japanese colonialism and dependence on the United States. There was also dislike of chaebol: after the fall of Rhee, executives were paraded with signs saying 'I was a parasite of the people'. Park promised to end corruption and to stimulate national renewal. But he also realised that chaebol had a strategic role and pardoned those accused of corruption in return for an active role in export growth.

- He aimed to rebuild Korean identity and pride in its culture through the Cultural Heritage Protection Act of 1962. The Committee for Erecting Patriotic Forefathers started with a huge statue of Admiral Yi Sun-Shin who defeated Japan in the war of 1592-9.
- He censored media and limited freedom of expression. The regime was authoritarian and repressive.
- He turned to export-led growth as a way of ending dependence on American aid: repression and his cultural policies allowed him to turn away from nationalist economic isolationism to nationalist expansion.

What was the basis of this export led growth?

- The emphasis is often placed on Park's military authoritarian but this is to miss the role of a powerful technocratic bureaucracy which had considerable discretion. The South Korean state under Park was, in the term of one historian, 'authoritarian bureaucratic' that provided effective coordination and growth. Park pursued a 'development dictatorship' that gave a role to technocrats who introduced institutional reform and improved planning, influenced by the economic model of Japan.
- The state owned some production itself, such as Pohang Iron and Steel Company - a major steel producer that supplied material to successful shipbuilders and engineers.
- But its major role was in support of private enterprises. The state provided guidance through five-year plans, starting in 1962; the second plan of 1967 was more explicit in supporting exports and heavy industry. These plans were close to Kishi's in Manchuria – to his embarrassment when Park started fondly to recall their time there. A special export manufacturing was set up in Seoul – the Kuro Industrial Park. The plans were run by skilled bureaucrats in the Economic Planning Board and the Ministry of Trade. They worked with a few diversified business groups or chaebol such as Hyundai, Samsung, LG that dominated the economy and spread risk across a wide range of industries, offering cheap loans, licences, tax benefits.
- The chaebol were interconnected firms ruled by family members and group president whose power exceeds actual shareholding – the formal status of his office was ambiguous, lacking formal responsibility but having decision-making power. The focus was on expansion though debt-financed increases in capacity, including loss-making ventures – they expanded and diversified with more subsidiary companies to increase their market share rather than profits; they relied on debt rather than equity. Success rested on their ability to extract rents and make deals with the state rather than on dividends to shareholders.
- Government support to private firms was through loans and permits, tax cuts and subsidies, linked with success in exports. It channelled finance from nationalized banks and provided a guarantee for foreign borrowing by private firms; it rewarded groups that did well in exports and punished those that were less successful. The aim was to shift the industrial structure to heavy industry and to more capital intensive, high value-added and technologically advanced sectors – a strategy that needed state support given the long time-horizons.
- As in Japan, the state ensured that export growth did not lead to foreign involvement in the economy. Domestic banks were nationalised; the government raised funds overseas which were directed to private firms through these banks or by state guarantees which allowed targeting of strategic sectors, used credit as a tool of industrial policy. Foreign ownership was restricted, and technology was secured by purchasing licences for local firms.

Sales by the largest ten chaebol increased from 15 per cent of GNP in 1974 to 67 per cent in 1984, with many internal transactions shaped by managerial decisions rather than the market. The chaebol formed intimate connections with the state and leading politicians. The industrialization of South Korea rested on an alliance between the state and businesses in a 'governed market' of private enterprises that co-

operated and competed under state supervision – a system that has been termed ‘crony capitalism’.

This reliance on big business was linked with two other features:

- Park needed to create a coalition with the countryside and farmers. The Saemaul Undong or New Village Movement was launched in 1970 to modernise the countryside – a government-funded community-led social and economic programme. Each village was given building materials, with community leaders to gather seed money and persuade villages to join in schemes to improve housing, build community centres and cooperative ventures. Park drew on ideals of traditional Korean communalism to create diligence, self-help and mutual cooperation. Recognised by UN as a model for other countries.
- labour repression which allowed him to ignore the anti-Japanese views and support for isolationism, and to hold down wages to help the chaebols compete.

Problems started to appear with populist opposition to corporate power and favouritism, as well as protests against low wages and repression. An anti-Park student leaflet complained that “The military dictatorship ... disregarded the desperate national aspiration to a self-reliant national economy, and blindly pursued a foreign-dependent and export-oriented economic growth policy which forced workers and farmers to suffer low wages and low agricultural prices.”

Park was assassinated in October 1979. The new president suppressed the pro-democracy Gwangju uprising in 1980, and suppression continued alongside the use of popular culture as a distraction: the policy of the three Ss of Sports, Sex and Screen.

In 1987, renewed protests led to an end of military rule, and the new civilian government saw potential in cultural industries: it invested in the internet, information and communication technology.

The government continued to support chaebol but shifted to deregulation of their industrial and financial activities. As in Japan, there was a move from a strategy of development to deregulation, cuts in subsidies, rationalisation. The chaebol were expected to be more transparent, to specialise by shifting from a pursuit of scale of operation to quality. This shift in policy was linked with ‘soft’ repressive rule.

This attempt to reform the internal structure and market power of the chaebol in the late 1980s and early 1990s was not successful. The presidents in this period lacked reliable allies in the ruling group and bureaucracy and turned to a populist appeal over their heads to the public combined with the use of personal decrees.

The strategy did not work and reform faltered in the face of opposition from experienced members of the bureaucracy and business elite. The chaebol successfully shifted the agenda from internal reform and transparency to making them more competitive on global markets. In November 1994, a globalisation policy was announced. By removing the direction of the state, the chaebol became both more autonomous and more competitive in international markets, without major internal reforms either of the chaebol or of the political system.

As a result, the chaebol continued to dominate: the largest five chaebol held 27.1 per cent of assets in 1996 and 32.3 per cent of sales.

Crisis hit in 1997:

It was partly the result of the carry trade by which Americans invested in Asian tiger economies offering high returns without exchange risk as a result of currencies being pegged to the dollar. This peg came under pressure in Thailand and Malaysia – money left to avoid devaluation, and the crisis spread to South Korea.

It exposed the risk of the strategy of generous, often short-term, loans to large business groups that led to high leverage/debt and over-investment. The price of computer chips (one of the largest exports) collapsed, leaving banks with bad loans.

The IMF intervened and put the blame on poor financial and corporate governance: imposed conditions of reform of corporate structures of chaebol, reduced role of banks in development lending. Higher interest rates led to problems for companies - unemployment and recession.

Critics argued that the IMF was imposing the norms of American free-market capitalism and failing to appreciate the success of state-led development. As Martin Feldstein of Harvard pointed out, ‘a nation’s desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgement for the outcomes of the nation’s political process’. And why accuse South Korea of crony capitalism when it was so apparent in the United States?

There was resentment at the intervention of the IMF and a desire to regain independence as in the campaign to collect gold from the public to repay— but also acceptance by the government that over-expansion and mismanagement of the chaebol were genuine issues. There was a new push to reform through better corporate governance – consolidated accounts, external audit, shift in debt-equity ratio, reduced diversification to focus on core business.

There were also plans to reform the financial sector and create an agreement between business, unions and the government through a Tripartite Commission. Despite some progress, corporate and democratic reform still lagged.

A lesson was learned: use capital control, build up currency reserves so to avoid being forced to go to IMF. This strategy meant that South Korea was largely unaffected by the financial crisis of 2008.

Investment in internet paid off after the financial crisis of 1997 when cultural industries expanded. The government aimed to quadruple exports in the cultural industries – and Squid Game is one sign of the success of the policy.

Growth returned – a contrast with Japan. Exports as a percentage of GDP increased from 25.9 per cent of GDP in 1995 to 56.3 per cent in 2012. One reason was a high proportion of spending on research and development – above US and Japan which were two of the leaders in this area (see graph).

Economically, the export-led industrialisation seems a great success – but we should also note weaknesses and problems. The sociologist Chang Kyung-Sup referred to South Korea experiencing ‘compressed modernity’ – economic, social, political changes in a very condensed manner that is ‘anchored in familism’ in business, welfare, education. This ‘family-centred modernity’ led to ‘functional overload’ of families with high levels of suicide, divorce, violence, low fertility – burden on women and young, pressure on poorer people. Very high levels of household debt.

Education: Korea has a very high level of tertiary education> A technically skilled workforce was crucial to success.

Proportion of population aged 25-34 with tertiary education, OECD, c2013

South Korea	69.6
Japan	60.7
US	49.4
UK	50.8
France	46.9

Source: Chang Kyung-Sup, *The Logic of Compressed Modernity* Cambridge, 2022, 91.

However, a large part of the cost of education fell on families rather than the government: South Korea had the highest level of private family investment in formal education in the OECD. In 2003, the private proportion of public education expenditure was 17.5 per cent for primary and middle school education compared with an OECD average of 8.3 per cent; and for high school 76.0 per cent versus 20.0 per cent. Better-off families supplemented schools with crammers; poorer families could not afford school tuition.

Social policy: there was a low level of government spending, with a high reliance on ‘familial self-welfare’.

	Year	Govt spending as % GDP	% of total government spending on social security
South Korea	1995	19.9	9.3
Japan	1993	23.7	36.8
UK	1992	43.1	29.6
Germany	1995	32.5	45.3

Source: Chang Kyuing-Sup. Logic of Compressed Modernity, Table 4.1 p. 56

The main social entitlement was stable employment.

Familial capitalism. Problems of cronyism remain. In 2017, the president was ousted and accused of demanding money from three leading chaebol: she was sentenced to 20 years in prison but was released in 2021. The chairman of Samsung was given a prison sentence but was pardoned in 2022.

This brings us back to Squid Game. It is a critique of Korean capitalism, of inequality and authoritarianism. The premise is that 456 players are in financial difficulties and are playing for a huge money prize in children's games where losing means death. The players are dressed in green (associated with the New Village Movement) and controlled by masked guards in red jumpsuits, for the gratification of rich foreigners (the US and IMF?). The script was written in 2009 and refers to the occupation of the factory of SsanYong Motors which was violently suppressed by riot police - the main character, Gi-hun lost his job in a motor plant and was black-listed. "They were the ones who ruined the company," he says of the factory's owners, "but held us responsible." Like Parasite, it deals with people who experience inequality and marginalisation while others prosper.

Conclusion

Measured by per capita GDP, both Japan and Korea have been remarkably successful since 1945 – not through free-market capitalism that was advocated by the United States and international organisations, but through state direction.

The contrast with Argentina was striking - there, the economy stagnated and government was equally, if not more, repressive. South Korea escaped from under-development to become a developed economy; Argentina regressed from one of the world's most prosperous economies to under-development. Although Latin America secured political independence from Spain and Portugal in the 1820s, they became economically subordinated to foreign capital and as suppliers of food and raw materials to the developed world. This contrast between east Asia and Latin America is the subject of my next lecture.

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