

Political Economy of Korean Development after Liberation: A Critical Reflection

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Abstract

Since liberation, the Korean economy has undergone a remarkable structural transformation, tantamount to a revolution. In the past, due to national division and the Korean War, Korea could not escape being an underdeveloped and peripheral country. However, as a latecomer, Korea successfully accomplished a condensed industrialization within a short span of time, followed by democratization. Now, social and economic advancement has been set as a policy goal. This dual revolution bears significance not only for modern Korean history but for world economic history during the post-war era.

However, it is misleading to focus only on the positive aspects of Korean development. A balanced and reflexive viewpoint encompassing both the bright and dark sides of Korean development is required. This paper pays attention to the specific characteristics of Korean development as a form of cold war, anticommunist capitalism, and then emphasizes the importance of power relations, interests, and events. By doing so, this paper aims to transcend linear evolutionism as well as the free market-state dichotomy, and offers a coherent analysis of both the successes and structural contradictions inherent to Korean development following liberation.

Keywords: colonial modernization, social market economy, cold war anticommunist capitalism, 1953 regime, developmental state, economic liberalization, the 1997 financial crisis, neoliberal restructuring, polarization, Korea-U.S. FTA

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Introduction

To most Koreans, the 60th anniversary of the liberation of Korea from Japanese imperialism has a completely different meaning than the 50th. In the traditional sexagenary cycle, called *yuksip gapja*, every sixty years marks a return to the beginning of the life cycle. It is a time for Koreans to review the past sixty years and prepare for a new cycle of life.

In South Korea, the past sixty, post-liberation years have seen a great social and economical transformation, tantamount to a revolution. The spring that was brought about by liberation was short. Division of the country into South and North disrupted national competence as well, and the Korean War ended in massive destruction and a constant state of confrontation on the peninsula. This national division and civil war prevented South Korean society from unfettering itself from the poverty of underdevelopment, and caused severe crippling of its basic economic framework. But after the 1960s, Korea had risen up from having been a poor, agrarian and peripheral country and accomplished a miracle of condensed high growth within a very short period. The success of this once-impooverished, miniscule East Asian country into a rich, industrialized country is an unprecedented example among the post-colonial, independent states after World War II. Even in modern and contemporary world economic history, it is not easy to find such a case.

Nevertheless, it is misleading to focus only on the positive aspects of Korean development. Also, Koreans must take care not to become conceited, as this would prevent introspection and further self-development. Marking the 60th anniversary of liberation as a turning point, we must redress our air of victory to one of self-reflection, in which both the bright and dark sides of economic development in the past can be duly summoned. This is not only important for Korea's future, but also for the lessons Korea offers as a role model of late development for the rest of the world, especially since the Korean case has been examined under the experience of economic development in East Asia.

The 1997 financial crisis and ensuing IMF trusteeship have altered the usual perspective on democratization following the June Uprising of 1987, as well as on the past model of unbalanced growth, which was driven by the *chaebol* (*jaeboel*) system and lay within U.S. regional hegemony. Widening socioeconomic polarization and degradations of people's livelihood since the 1997 crisis and neoliberal restructuring brought us to question the substantiality of democracy in the post-democratization era.

One notable point in this current situation is that a new rightist interpretation has been raising its voice regarding modern and contemporary Korean history. The "New Right" movement is characterized by blind belief in political dictatorship, economic liberalism and opening on one hand, and distrust and criticism of democracy and *minjung* nationalism on the other. Its ideological base is found in the growth-first idea and linear evolutionism.¹ The New Right theorists claim that under Japanese rule, so-called "colonial modernization" provided the historical condition for post-liberation modernization, that Syngman Rhee's authoritarian regime was the precondition for Park Chung-hee's condensed industrialization, and that the latter was the precondition for successive political democratization. And they take all the problems that arose during the democratization period after 1987 as those of democracy itself.

Apart from this New Right explication of the period in question, I do not think that the economic success of the past sixty years after liberation was the fruit of economic liberalism. Nor can we think that economic "growth" is the most important index for economic success. Even less can we agree that the past sixty, post-liberation years can be summarized as an economic success in the end. Even though we believe that "history matters" as much as those on the right, our

1. Park Se-Il, the popular theorist of the New Right movement, says: "For the past 60 years Korea has had the busiest tasks. We've been through state building in the 1940s-1950s, industrialization in the 1960s-1970s, and democratization in the 1980s-1990s. All ended in success, even if it was a rather bumpy ride sometimes. During state building, we laid a foundation of liberal democracy and market economy. . . ." (Park S. 2006).

stance toward history is completely different from theirs because ours is not fixed on accumulative growth. It is important to consider the specific effects that the cold war anticommunist regime and ideology had on the modern Korean economic system during the post-liberation years. It is imperative that we grasp the proper code and historical path dependency of the Korean economy as one of “cold war anti-communist capitalism” under national division and U.S. hegemonic boundaries. The history of the Korean economy has been one of “transformism” accompanied by a peculiar conservative revolution. Unless we examine the specifics—the emergence of a divided state, the Korean War, the cold war system as a semi-warfare state, the strategic utilization of all of them by the dominant South Korean bloc of state and capital, and the impact of U.S. foreign policy on Korea, etc.—we cannot elicit the fundamental traits of the Korean economy, nor discern its lessons for Koreans as well as for people in the world.²

To speak about the importance of history is to ask about historical accidents and the significance of their effects. The importance of history, as a chain of accidents and contingencies, raises contention among actors and includes the choices made by them on the stage of history as well as the new possibilities and solutions to the structural contradictions of a particular regime and era. In other words, it requires a revival of the political arena in which embattled sociopolitical forces desire legitimacy.³

The importance of historical accidents, contentions, and their effects, though, does not mean that one can overlook the structural system. On the contrary, by stressing the actors, historical accidents, and contentions among sociopolitical forces, structural systems are given new meaning as institutional forms as well as power and interest relations. The historical system as forms of both institution and power of a single period is justified and structured by the choices made by contention and competition among actors. The system is not

2. Lee B. (2006).

3. Lee B. (2003a, 2003b).

permanent. In the meantime, the system that once functioned well will reach its own limitations and lose legitimacy, arousing another bout of battles between a sociopolitical camp with stakes in system maintenance and the other in structural reform. With this in mind, we will be able to scan the Korean post-liberation economic system, from the evolution of cold war anticommunist capitalism and its dissolution to entry into a neoliberal path, marking the democratization transition of 1987 as a turning point.

Colonial Legacy, Making of the Archetype of “Cold War Anticommunist Capitalism”

The building of an independent nation-state gives birth to the task of creating an independent socioeconomic system. Such a mission entails establishing a national economy armed with a new ownership system and new foreign economic relations out of the colonial economy, left backward and limping from Japanese rule. What kind of legacy were Korea left with and what primary conditions did it set for the foundation of a national economy?

Recently there have been arguments that have attributed the high growth of the Korean economy after the 1960s to the development of the economy under Japanese colonial rule.⁴ Advocates of this argument say that the colonial economy experienced both “exploitation” and “development,” which propelled it into a pattern of continuous modern economic growth. Furthermore, they argue, it paved the way to the high growth and economic modernization of the 1960s after national liberation. In a way, it seems that their argument contributed to rethinking the one-dimensional painting of colonial rule as “exploitation and underdevelopment.” In fact, Japan had to implement a degree of “development” for more efficient exploitation. After the 1930s, Japan pushed forward with military industrialization, mobilizing the Korean people for their war of aggression. It is left to

4. Ahn (1995); Kim N. (2003); Lee Y. (2006); and Kim J. (2005).

the task of empirical studies, therefore, to discern how economic growth passed through colonial rule and what its influences on building the national economy after liberation really were.

From the empirical aspect, even though there was a certain degree of exploitation as well as economic growth in the colonial period, there is a lack of evidence that it was the origin of sustainable, modern economic growth and particularly the rapid growth of the 1960s.⁵ To prove that there was substantial modern economic growth, in the Kuznets sense, there must be at least thirty to forty years of continuous growth in production per capita. Such growth during colonial rule was limited to the period of 1930-1937. Also, the amount of material remaining in the South from wartime industrialization was much scantier than in the North. More than half of all Japanese-owned property was in the North, as was typical of the “southern agriculture, northern industry” phenomenon. Particularly, chemical, iron, and steel industries and electricity were concentrated in the North.⁶ What was left in the South was already in the process of serious deterioration even before the civil war, as the Japanese defeat had disconnected the colonial South from the mainland Japan, and the war brought severe destruction.⁷ It stands to reason that the property handed over by the Japanese made up an important material base for *chaebol* formation in the 1950s.⁸ Nevertheless, only a small number of conglomerates, which played a major role during the rapid growth period dating from the 1960s, have been found to have benefited from the transfer of Japanese colonial property.⁹

5. Huh (1999, 2006).

6. The amount of industrial production was 53% in the North, 47% in the South, with chemical (82%) and metal (90%) industries in the North, and spinning (85%) and machinery (72%) industries in the South (all figures in 1940).

7. The Korean War destroyed 42-44% of industrial equipment, and the number of dead and missing reached approximately 900,000. According to Huh Soo-Youl's calculation, the industrial assets left in the South after the war were reduced to only 23.4% of Japanese colonial property at the time of liberation. In 1960, the material base left by the Japanese decreased to about 1/7 of U.S. aid (2006, 68-69).

8. Gong (1993).

9. Lee D. (1993).

Another issue is about human, institutional remnants. Regarding this, there is an argument that the fundamentals taught by the Japanese Government-General, which boasted an efficient bureaucratic system and a strong developmental impulse, were the “colonial origin of a developmental state” after the 1960s.¹⁰ The most important thing is, however, that this colonial “efficiency” deprived the Korean people of the opportunity to manage their own country and internationalize themselves. Most of the high-ranking officials were Japanese who left the country after liberation. Except for some low-level officials, only a weak connection existed between the pre- and post-liberation bureaucratic apparatus.¹¹ Korean capitalists, managers, and technology control personnel had only superficial knowledge. More importantly, the “colonial origin” advocates did not ask what the military clique, including General Park Chung-hee, had learned in Manchuria, rather than on the Korean peninsula. They also skip over the 1950s and keep silent about why these colonial “remnants” only appeared under the Park regime after a lapse of fifteen years.¹² In the 1950s, state autonomy was weak as the “strong Liberal Party” controlled the “weak Gyeongmudae,” or presidential administration, and the political authority of bureaucrats had been considerably reduced.¹³

Colonial modernization is not just a matter of empirical proof. Its most serious problem is that it, regardless of intention, covers up the inhumane, barbarian shackles of Korea's colonial period. In this sense, the discourse commits a great epistemological violence. This discourse contends that genuine development came from outside, and that a golden fusion of traditional Korean civilization and modern European civilization introduced through the medium of Japan

10. Cumings (1984); Eckert (1991); Woo (1991); and Kohli (1994).

11. It is hard to find evidence that the economic policy-related thinking of the leading economic officials in the era of Park Chung-hee, such as Kim Hak-ryeol, Jang Gi-yeong, Kim Jeong-ryeom, O Won-cheol, Kim Man-je, etc., actually came from their experience of bureaucratic system under Japanese rule. Most of these officials studied in the U.S., and witnessed and learned much from the high economic growth of Japan after the war.

12. Haggard et al. (1997).

13. Moon and Ryu (2004); and Park J. (1987, chap. 4).

was achieved during the Japanese colonial era. From this perspective, the colonial period was the direct precedent of modern Korean development and civilization,¹⁴ presenting a binary opposition in which opening and imperialist assimilation were the only path to civilization and development, while nationalism was a sign of closed isolationism and regressive stagnation. It says that the pattern of growth in South Korea and the stagnation of North Korea well proves this. This argument disregards the most important aspect: Japanese colonial rule and repression deprived the people of their political self-determination and autonomy and, instead, handed down the material, human, institutional, and ideological residues of colonial fascism.¹⁵ It also elides the fact that national division after liberation was a direct result of colonial oppression.

When discussing the historical origins of South Korean capitalism, what we should pay attention to is not the colonial origins but the effects of the making of a divided nation after liberation, the Korean War, and the cold war anticommunist regime after war. In this historical process, most traditional remains were liquidated and the basic frame of conservative Korean-style capitalism, characteristic of cold war anticommunist regimes, was molded. The joint occupation by the United States and Soviet Union after the short spring of liberation led to national division. The United States backed Syngman Rhee's plan of building a South Korean separated government. The cold war and the U.S.-Soviet Union confrontation grew fiercer, worsening the intra-Korean left-right confrontation. The establishment of a divided nation drove out not only the radical left but also the political centrist. The Korean War perpetuated the division and, with it, made anticommunist conservative ideology dominant, excluding a wide range of moderates by polarizing the political field into extremes of black and white. In addition, the division drove out and ostracized the terminologies and discourses of a universal modern politics—like “left” and “right,” “people,” “mass,” “class,” etc.—in the public

14. Lee Y. (2006).

15. Regarding the legacy of colonial fascism, refer to Pang (2006).

sphere and political way of life in Korea.¹⁶ The left-right conflict was transformed into semi-warfare between anticommunist authoritarianism in South Korea and communist totalitarianism in North Korea. Thus, through national division and war, modern South Korean capitalism came to possess the following characteristics:

- (1) Extraordinarily repressive and overdeveloped anticommunist state apparatus and ideology or mode of legitimacy, in contrast to a weak civil society and labor sector.
- (2) Supreme focus on private proprietary rights excluded from social publicity and accountability, with an economic system dominated by private *chaebol* dependent on privilege arising from politicoeconomic collusion with strong repressive state power.
- (3) Land reform and the successive disintegration of the traditional landlord class, and an “equalizing effect” generated from increased social mobility and the dismantling of the material and cultural base of traditional society through and after the Korean War.¹⁷
- (4) Incursion of Korea into U.S. hegemonic boundaries in terms of foreign relations, and its pressure on the Korean economy to open up to the liberal market economy.

We could probably call these characteristics archetypal of the “1953 regime” or “the 1953 economic order” of Korean capitalism, since they were fixed and rooted throughout the war after the division,¹⁸ which continued with the state-led developmentalism since the 1960s. It became a long-lasting code that left the marks of a “democracy without labor” in the post-cold war, democratization period after 1987. This economic and political frame which is unique to the South Korean “1953 regime,” along with the conservatives’ governing ideology of so-called “liberal democracy,” is widely referred to as the

16. Choi (2005, 78- 80).

17. Lee (1987); and Park M. (2004).

18. About the “1953 regime,” refer to Park M. (2004).

“market economy” in Korea.

**Orientation towards a Social Market Economy
in the 1948 Constitution and Regression into Cold War,
Anticommunist, Crony Capitalism**

Even though the new state was established as a dependent of the United States and the National Security Law (Act No. 10, Dec. 1948) functioned as the dominant ideology for cold war anticommunism, we should not forget Article 1 of the Constitution, which declares that Korea is a democratic republic. This article leaves room to find alternatives different from the cold war, anticommunist capitalism, even in the situation of national division. It can also provide proof against the non-historical, colony-as-origin ideology that connects colonial remains directly to the developmentalist economy since the 1960s.

Through legitimate elections, the pro-Japanese collaborators marched officially into the Constitutional Assembly. Though the Korean Democratic Party and the National Society for the Acceleration of Korean Independence (Daehan Dongnip Chokseong Gungminhoe) were the two largest political camps, neither could hold a majority. The third force formed the middle and the rest of the right-wing nationalists. In this regard, the Constitutional Assembly comprised a larger part of the ideological spectrum than afterwards.¹⁹ The 1948 Constitution enacted under this situation was heading towards a sort of European “social market economy,” somewhere in between liberal free marketism and state socialism.²⁰ The principles of economic democracy were most prominent in the 1948 Constitution. Article 84 in Chapter VI, The Economy, states, “The economic order of the Republic of Korea is based on the realization of social justice and balanced development of the national economy, which enables all citi-

19. Park C. (1998).

20. Yu (1957); and Park M. (2003).

zens to afford basic needs, in the limitation of which each person’s economic freedom will be guaranteed.” On property, “The right to property of all citizens is guaranteed. Its contents and limitations are determined by law. The exercise of property rights shall conform to the public welfare” (Article 15). Among the public, social duties levied on the exercise of the right of property, which is the essential part of civic and enlightened capitalism, is the laborers’ right to share profits (Article 18, Paragraph 2). Other principles of ownership include minerals and all other important underground resources (Article 84), nationalization of major enterprises that are important in terms of public services (Article 87), an emergency measure that enables private enterprises to be nationalized (Article 88), and state control of foreign trade (Article 87). Finally, Article 86, regarding the implementation of land reform, stipulates that farmland should be distributed to farmers, and the method, contents, and limits of land ownership should be regulated by law.

Even though the power struggle that took place when the Constitution was in the process of being drawn up seemed to be the most important matter of concern to politicians, the spirit of the 1948 Constitution itself is a very precious legacy of the economic ideas of the early democratic republic. This is because it elucidated the principles of the property order of the state, which aimed at creating economic democracy and a social market economy by making the private profit-seeking of capital’s power meet public welfare. But this principle was lost through the ensuing war and the developmental authoritarian rule. The exclusive system of private property rights and the *chaebol* system, which subsists on privilege and preference, betray the founding spirit of the democratic republic. Land ownership was a different matter. The landlord class was dismantled in the process of land reform. Thus, the Korean capitalist system of 1953 that sprang out of the war is characterized by dismantling of the traditional landlord class, alliance between an authoritarian state and privileged *chaebol*, weak labor, and import substitution industrialization (also called ISI) that fosters dependence on U.S. aid goods.

One of the important features of Korean cold war anticommunist

capitalism is land reform and the fall of the landlord class. We should take particular note of the fact that Syngman Rhee aimed to use land reform to uproot political unrest and secure the peasant class as his stronghold.²¹ He recognized the need to weaken the economic, political base of the landlords in order to paralyze the rival Korean Democratic Party. Another factor behind land reform in South Korea was the perceived threat from the North, where radical land reform had already been undertaken in March of 1946. Opportunity for the landlord class to express those interests was limited, and their influence was weakened due to their lack of legitimacy. Compared to Taiwan or Japan, land reform in South Korea was remarkably incomplete and failed to produce any sustainable management of the tenants, nor did it succeed in transferring the landlord class into industrial capitalists. But the ruin of the traditional landlord class and the conservative tendency of agrarian communities provided conditions for the capital grip on the agricultural sector and high growth since the 1960s and thereafter; indeed, this is one of the most important components of the South Korean development model.

South Korean capitalism during the “1953 regime” was characterized by disintegration of the social market economy and a turn to a free market one. Korea had the potential to pursue a path of development based on national property, according to the 1948 Constitution. Taiwan had moved along this route. But after the Korean War, Korea evolved in the opposite direction. In the “round-off” constitutional amendment (*sasa oip gaeheon*) of November 1954, articles concerning the economy were lost or modified in favor of free market and private ownership. A massive transfer of ownership of nationalized firms followed, which became a material base for *chaebol* formation and for regressive collusions between the Liberal Party elite and *chaebol*. Banks under government ownership were also sold to private businesses, so Korean *chaebol* in the 1950s emerged as a dominant industrial-banking complex. It should be remembered that the

21. It is often said that Syngman Rhee favored the landlord class and was therefore lukewarm about the idea of land reform; however, this was not true.

United States was behind this shift to privatization and the free market during the Syngman Rhee government.²²

Although there were some colonial Japanese possessions left, the Korean economy in the 1950s was largely dependent on U.S. aid. If not for the aid, state management of the economy would have been impossible.²³ *Chaebol* led import substitution industries, i.e. the “three white industries” of cotton, flour, and sugar processing and received preferential treatment in the allocation of aid supplies, transfer of colonial property, import permits, government purchases, loans, etc. They received these privileges almost free of charge.²⁴ This flow of material and funds was the link between the regressive alliance of *chaebol* and the Liberal Party elite. This structure enabled Syngman Rhee to strengthen his power base while fettering bureaucratic autonomy and their ability to carry out long-term development policies for industrialization.

Import substitution industrialization in Korea under the “1953 regime” was superficially similar to that of Latin American countries. Of course, there is an argument that economic growth in the 1950s would result directly in high growth in the 1960s.²⁵ However, the level of industrialization remained low and internal and autonomous capacity for sustainable growth was weak. An economic development plan was drafted in the latter years of the Syngman Rhee regime to meet decreasing levels of U.S. aid, but the regime failed to implement

22. Jang (1999, 166-167); and Park M. (2004). A similar perspective to mine is found in Lee K. (2006). Lee takes note of the fact that even before the war, economic officials in the Ministry of Finance, Commerce, etc., were heading toward a free market system.

23. From 1953-1961, the proportion of U.S. aid to the GNP was 15.2% (22.9% in 1957), aid to the total trade balance was 82.0%, and aid to U.S. imports was 236.8%. The counterpart fund collected from sales of aid goods accounted for 39.2% of the national budget and 95.1% of the military budget (in 1961).

24. The rent created by government intervention in the 1950s reached approximately 16-20% of the GNP. Rent originating from foreign currency regulation was largest, reaching 10-15% of the GNP, while rent originating from fund controls was 3-8% (Kim N. 1999).

25. Woo (1991).

it due to the overly strong free market.²⁶ More importantly, while the strong Liberal Party dominated a weak administration since the mid-1950s, the political power structure weakened state autonomy and bureaucratic authority over economic policy. This prevented the government from creating an incentive system, which closely links rent distribution with economic performance.²⁷ Thus, the Korean economy of the 1950s is more appropriately defined as cold war, anticommunist, “crony capitalism” or “bureaucratic capitalism,” in which the authoritarian regime of the Liberal Party and privileged *chaebol* joined hands and created a regressive symbiosis with the lever of U.S. aids. Incompetence and corruption of the Syngman Rhee regime delayed the task of industrialization and democratization until later.

Alliance of the Developmental State and Chaebol, Rush-to Industrialization, and Take-off as a New Industrializing Country

The Rhee regime was overturned after the April Revolution of 1960, because of its incompetence and corruption. Korea had the lowest income per capita among the aid-dependent countries, and the majority of the population was living in dire conditions.²⁸ For over thirty years, during the military regime led by Park Chung-hee, the Korean economy achieved miraculously high growth and had brought itself out of a state of extreme poverty. The Korean economy achieved an average annual growth rate of around 8% for 30 years since 1963. The GNI was US\$67 in 1953, expanding to US\$79 in 1960, US\$1,000 in 1977, and US\$10,000 in 1995. Agriculture and fishing, which took

26. Lee D. (2003, 159-160).

27. Moon and Rhyu (2004); and Lee S. (2004).

28. Compared to the five African countries that had the lowest GDP per capita in 1960, twenty countries had a higher GDP per capita than Korea, and 34 were lower. Compared to 37 Asian countries, 20 countries had a higher GDP per capita, and 16 were lower. The Korean income level was a little higher than the median in Africa, and a little lower than in the rest of Asia. Huh (2006, 71).

36.8% of the total industry value added in 1960, was downsized by 8.9% in 1990; in the same period, the mining and manufacturing industry increased from 15.9% to 28.1%. This radical transformation brought in with condensed high growth was made possible by an unprecedented, high investment rate of 25-30% and a high degree of 60-70% dependence upon foreign trade.²⁹ Although foreign loans became an important resource for fundraising instead of the grants of the past, foreign savings constantly dropped; in the late 1980s, self-reliant investment resources reached over 100% (see Appendix Table).

How was this miraculously high growth possible?³⁰ It did not arise from the planned preparations of the military regime but rather from a complicated set of factors. The following archetypal characteristics of South Korean capitalism were still persistent throughout the Park administration: 1) a strong, repressive state and weak civil society and labor, 2) exclusive private ownership rights and alliances between the state and *chaebol*, 3) disintegration of the traditional landlord class, and 4) integration into U.S. hegemonic boundaries. But Korean capitalism during the Park regime became qualitatively different from that of the Rhee regime, with big changes in the relations among the state, society, and the market, as well as between Korea and the United States.

First of all, we should take a look at the characteristics of state power of the Park regime, which led to successful industrialization. Park's political power sealed off popular demands for political democratization and national reunification, which were handed down from the April Revolution, and sought political legitimacy and authority, focusing on the building of a rich, militant, capitalist state over North Korea's communism. Its ideological base was anticommunist, statist nationalism coupled with guided, possessive liberalism. Its aim was “modernization of the fatherland,” on which the regime tried to mobilize the collective will and energies of the Korean peo-

29. Bank of Korea (2005).

30. See Lee B. (2005).

ple. The regime became the first authoritarian developmental state in modern Korean history that accomplished rapid economic modernization by creating strong political authority and a national collective will and by inducing cooperation between state and society, as well as state and market.³¹

In managing the economy, the Park regime established a powerful state apparatus that allowed it to produce condensed industrialization. A stable macro-economy, a free market and opening to the world economy, and small government—these are core components of the neo-classical view that says growth comes from “getting prices right.” This makes up the discourse called “Washington consensus” mainstreamed by the IMF, World Bank, etc., on the rise of East Asian countries. The growth model planted by the Park regime, to the contrary, was not that of market liberalism but of state-led capitalism strategically governing and inducing private property rights and market competition for the formation of a self-reliant national economy. In general, developing countries that face the challenge of industrialization must tackle the following three policy issues: 1) the property rights system and investment strategy, 2) management of politico-economic conflict, and 3) mode of integration into the global economy.³² The Park regime resolved the problems by using the following developmental frame: a high growth-oriented investment regime led by the cooperation of the state and *chaebol* that used the advantages of latecomers provided by selective integration into the global economy, and the anticommunist growth partnership of the Korea-U.S.-Japan triangle.

First, the Park regime closed up democratic liquidation of the past regime’s illegal profiteering by putting *chaebol* partners upfront for investment in industrialization. Accordingly, the ownership sys-

31. According to Rustow, political modernization faces three challenges: building of political authority, formation of identity, and realization of participation and equity (Rustow 1967). The Park regime presented industrialization as a top priority and focused on building political authority and national identity.

32. Rodrick (1999, 2000). It should be notified that what is important in ownership system is not just about formal, legal possession but also about substantive control.

tem reverted to what we have called the “1953 regime,” which represented conservative, cold war, anticommunist capitalism. But the Park regime acted as an entrepreneurial interventionist state promoting private investment through a strategic industrial policy. It nationalized the banks and tightened its reins over the financial market, pushing forward a credit rationing policy. Through this state-bank-*chaebol* nexus, a cost and risk sharing partnership for industrialization was established.

Second, a sense of devotion and self-sacrifice was forced upon laborers under the near-military control system that labeled them as “industrial militants.” This mobilizing system with political repression that could mobilize high quality labor while controlling economic and political conflict among labor and management was an essential part of the *chaebol*-driven, privileged ownership system that yielded high profit and capital accumulation.

Third, the Park regime’s growth model was anything but a free market one. Neither did it pursue the then-dominant traditional import substitution strategy of industrialization. It aimed at a combined strategy of import substitution and export-oriented development, making an export substitution strategy possible. In its implementation, the most important factor was the government’s disciplinary policy that linked subsidies to *chaebol* with mandatory economic performance levels, measured by export results, etc.³³ This strategy secured double advantages, arising from economies of scale provided by integration into the global market on one hand, and from the state’s imposition of disciplinary regulation of private capital on the other.

Fourth, the Park regime pursued a persistent North-South confrontation. Korea was a subservient member of the southern anticommunist triangle alliance led by the United States, in opposition to the northern communist triangle alliance. This axis of the Korea-U.S.-Japan triangle alliance and the Korea-U.S. anticommunist Vietnam War alliance was the motor that resulted in the “miracle on Han

33. Refer to Amsden (1989).

river.” Also, the Park regime used fortuitous global market conditions to its advantage.

In short, the Korean economic system of rapid industrialization had at its core the privileged ownership order on the extension line of the 1953 regime; public-private partnerships between the state, which used economic performances as selection criteria for subsidies, and high investment-oriented *chaebol*; the combined developmental policy of export orientation and import substitution; the anticommunist triangle alliance under U.S. hegemony; and timely, favorable conditions in the global market, etc. This enabled the Park regime to create the “miracle on the Han river,” i.e. high growth and huge national wealth. But this miraculous, high growth cast a shadow as wide as its successes.

Democratization and Economic Liberalization, Crisis and Post-Crisis Restructuring: “Power Thrown over to the Market”

The model of the authoritarian developmental state was extremely contradictory and fragile, which hampered the sustainability of the system and became a trap in the progressive transformation of the Korean economy. First, the developmental nexus of state-*chaebol*-bank initially enabled high growth, but it also generated conservative symbiosis, unfairness, and corruption through politicoeconomic collusion. Furthermore, the Park regime was a highly-privileged, highly-concentrated system in which two extremes existed—on one side were the insiders made up of dictatorial power, privileged *chaebol*, and the Seoul metropolitan area, and on the other were the outsiders made up of laborers, SMEs, and provincial areas outside of the Seoul.³⁴ The people as outsiders could not fully consent to mobilization of the “growth first, distribution later” system that poured all national, material, and human resources into the mold of the “*chae-*

34. In Park’s model, rent originating from government intervention totaled over 20% of the GNP; in many cases, this number was over 30% (Kim N. 1999).

bol-and-Seoul-only” policy. Second, Park’s growth-priority policy created a bubble economy, characterized by crazed real estate speculation and an ecologically damaging construction boom unlike anything found in other East Asian countries that experienced similarly rapid growth. The bloated construction industry wreaked serious havoc on the natural environment and generated explosive cycles of corruption through secret chains of bribery.³⁵ Third, the *chaebol* conglomerates’ loose management style depending on high liability loans and low profit also resulted in bubble growth. Corporate bankruptcy in the late 1960s and early 1970s and the Presidential Emergency Decree for Economic Stability and Growth issued on 3 August 1972 are good examples. Fourth, the extroverted growth model that was dependent on U.S. hegemony made the national economy and the livelihood of the population highly unstable.

After political democratization in 1987, the Korean economy faced the challenge of adapting to the newly achieved democratic legitimacy and start-up of new growth momentum. But from the emergence of the Chun Doo-hwan military regime in the early 1980s, the Korean economy started to convert over to a policy line of market liberalization. After the transition to democratization, free market ideology was dominant, which resulted in *chaebol* conglomerates’ high-handed market economy. It was an irresponsible regime characterized by a bad combination of free market and a privileged *chaebol* system. When the state retreated, *chaebol* turned out to be too big to discipline democratically.³⁶ *Chaebol*, along with their hostage government, fervently pursued a policy of opening and globalization, and attacked the rising labor movement. Meanwhile, the United States aggressively pushed forward with free market opening and deregulation, and the previous U.S.-Korea relations, which had provided a

35. From 1963-1979, there were only two years when the land price growth rate measured in the single digits; for four years the growth rate was over 50%. Land prices soared, multiplying by 180 times, between 1963 and 1979. Lee J. (2005). See Hong (2005); Kim and Seon (2005); and Lee J. (2006).

36. Lee B. (2006: 130).

structure of high growth opportunity, became one of outside pressure to open. Under these circumstances, the Kim Young-sam government blindly and abruptly adopted a so-called *seggyehwa* (globalization) policy, which meant upgrading the competitive advantage of the state by opening markets, without any appropriate countermeasures in hand.³⁷ As a result, the Korean economic crisis of 1997 was a crisis of the *chaebol* system as well as that of semi-peripheral capitalism.³⁸ The national economy faced the dire conditions of foreign short-term capital return, and a host of *chaebol* conglomerates including Daewoo were driven to bankruptcy. The government called on the IMF and their bailout to halt further economic collapse.

In managing the crisis, the Korean government accepted the IMF and U.S. intervention. Moreover, it took steps to restructure the economy by using outside intervention and impacts as a lever. The government responded to IMF conditions as if they had to accept their demands immediately. This attitude, though, was welcomed by civil society organizations within Korea, which makes Korea a rare case when compared to other countries facing similar crises in Asia or Latin America.³⁹ This comes from the state and civil society's strategic choice to make the *chaebol* system accountable to the regulatory rules and standards of the financial market. They did not realize, though, how badly this market reform strategy would fetter the development of an innovative, advanced democratic economy and the autonomy of economy policy of Korean government.

The Korean economy was restructured according to an Anglo-American, neoliberal model via the joint efforts of the IMF, a U.S. proxy, and the Korean government. This structural adjustment included the total opening of the Korean economy to the global market, a big bang approach to capital market reform in the financial sector, realignment and foreign sale of the banking sector accompanied by tons of injected public funds, induction of hostile M&A, *chaebol*

37. Dent (2002, 136-145).

38. Lee S. (2001, 137-175).

39. Lee B. (1999).

reform through an outside director system and strengthened rights of minority shareholders, a flexible labor market that produced irregular workers, privatization of public sectors, etc. Then how did the operation of the Korean economy change through these neoliberal structural adjustment?⁴⁰

The developmental state model in the past had certain several components: state autonomy, both domestic and foreign; developmental partnership between the state and *chaebol*, which was based on two essential policy instruments of industrial policy and financial control; a *chaebol's* high-investment and high growth-oriented accumulative regime; effective mobilization of labor and political repression; and a paternalistic employment guarantee, etc. But after structural adjustment, the state lost much of its autonomy and control, and the cooperative nexus among state, *chaebol*, and banks was dismantled. The paternalistic employment guarantee was also abolished. The nexus of state, capital and bank, and class relations between capital and labor were restructured to suit the unilateral, unfettered demands of capital and corporations. This is the situation of the Korean economy indicated by the quote, "power thrown over to the market."⁴¹ Korea, however, had much stronger competitive superiority in industry and institutional competence compared to such Latin American countries as Mexico, Brazil, and Argentina—the countries known as a "structural adjustment experiments lab." As a result, the Korean economy since 1997 came to establish a new, Korean-style, neoliberal growth model, different from other similar cases in the world.

In the high center of the new Korean market economy lie the rules of open "market democracy," i.e. capital liberalization, maximization of shareholder values, mega-competition, and claims of global financial capital. More than half of top-ranking Korean corporate shares are owned by foreign capital. In the banking sector,

40. See Lee B. (2005).

41. Quote by President Roh Moo-hyun.

which was barely solvent after an injection of public funds to the amount of 1.68 trillion won, which placed too great a burden on the people, the problem of foreign ownership and denationalization was much more serious. Korean banks rapidly degraded into a Mexico-type financial structural adjustment.

On the other hand, it should be noted that shareholder sovereignty and short-term profitability logic have a reforming effect on *chaebol's* corporate governance structure as well as management style, which were characterized by the discretionary and almost dictatorial power of the chairman (*chongsu*) of the group. After 1997, the Korean *chaebol* world adapted itself to the new environment and geared itself up for an intense reorganization and inner polarization along with the downfall of medium-sized *chaebol*. The Daewoo Group collapsed, and the Hyundai Group disintegrated. The LG Group shifted to a holding company. SK and KT&G were under attack by foreign capital's M&A. Samsung Electronics, the core of the Samsung Group that single-mindedly adopted a dictatorial chairman style, began to practice the highest standard of American-style shareholder value management. Restructuring of Korean *chaebol* proceeded along dual paths: shareholder value management was pursued along with cross-investment among subsidiaries and control of the entire group by the chairman, who owned a small portion of the shares.⁴²

Capitalist alliance between global financial capital and Korean *chaebol*, or oligopolistic dominance of the trans-border merge of financial and industrial capital—these were the most important events to be ranked among the results arising from the new Korean market economy molded after the 1997 crisis and structural adjustment. Under these new circumstances, *chaebol* had to compete with global financial capital along with conflicting interests, sometimes while

42. Among the 41 biggest *chaebol* groups, presidents' families had an average share of 9.17% and enjoyed 39.72% of voting rights. In the 14 biggest *chaebol* groups, they held an average of 6.36% of shares but exercised 37.65% of voting rights (Samsung 4.2%, Hyundai Motors 6.2%, SK 2.2%, LG 5.5%). Fair Trade Commission opened the information on ownership and control structure of big corporate groups in 2006.

even being exposed to the hostile M&A of foreign hedge funds. Nevertheless, the major features of *chaebol* restructuring were the making of a new dominant bloc with global financial capital at the expense of workers, small- and medium-sized capital and communities; the pushing forward of deregulation and the exclusive flexibility of the labor market; and exodus towards global market of *chaebol*, weakening their previous status as the national bourgeoisie. Although the neoliberal restructuring program more or less became a burden to Korean *chaebol*, they accepted the restructuring because they grasped the fact that it contained essentially favorable measures for them under which capitalist class position and capital accumulation would be boosted.⁴³

Conclusion: A “Developed Country” Marching towards Division into “Two Nations”?

The Korean economy, led by the alliance of *chaebol* and global financial capital, once showed signs of growth and healing from the 1997 crisis. The Roh Moo-hyun administration has, since 2003, established a plan to advance the Korean economy towards that of a “developed economy.” The first goal of reaching US\$20,000 GDP was raised to US\$30,000. The reshuffled Korean economy has an accumulation regime such that the dominant blocs can call for more privilege, i.e. much more deregulation or much less social responsibility, labor market flexibility, and opening. On the contrary, the position and space in which people can demand social and economic rights to a better life and livelihood, is shrinking. More than ever, the new growth regime depends on exports. The export-led industry is centered on the assemblage and processing industry comprising IT, which experienced outstanding growth after the crisis, and transportation equipment such as automobiles, ships, etc. This is concentrated on a small number of *chaebol* such as Samsung and Hyundai.

43. The diagnosis of the Korean economy after the crisis made by the conservative mainstream media well shows this.

Therefore, the following downsides lay behind the growth of these industries and a few *chaebol* linked with global financial capital:

- 1) Increasing concentration and centralization of economic power rather than a more competitive market order.
- 2) The exclusive flexibility of the labor market and unstable employment consisting of lay-offs and irregularization of workers.
- 3) Underdeveloped social welfare that marginalizes the majority of irregular workers.
- 4) Unfair transactions between large-sized enterprises and SMEs, and unilateral exploitation of SME subcontractors by large enterprises.
- 5) A low level of development in the components and basic materials industry, a chronic problem in the Korean economy.

The polarization of booming exports and stagnating domestic demand represents the polarization among classes, industries, corporations and regions. Seen from two axes of production-distribution mechanisms of surplus value and national linkages between industries, the neoliberal regime of accumulation appears to be a polarized hourglass with “two nations” at each end. The macro-economic circuit in this accumulation regime functions in favor of the small proportion of superior corporations and the upper-most income bracket. Their wealth continually drains out of the country, but is not diffused and trickled down in a way that benefits the people’s livelihood.⁴⁴ When the accumulation movement and growth of capital and corporations becomes disconnected from the goal of improving the majority’s livelihood and is disembedded from communities, the Korean economy, as led by them, loses status as substantive ground⁴⁵ for the livelihood of

44. The market income Gini coefficient of the Korea increased from 0.302 to 0.374 between 1996 and 2000, and the disposable income Gini coefficient increased from 0.298 to 0.358. An important feature of the Korean Gini coefficient is that there is almost no difference between the market income standard and the disposable income standard. With disposable income as a set standard, the degree of Korean income inequality rates second worst among OECD nations, next to Mexico. Yu (2003).

45. Refer to K. Polanyi’s comparison of “substantive economy” against “formal economy.”

the people.

The disembeddness of the neoliberal growth regime from the commonwealth of the people, or the increased wealth of the dominant blocs and the impoverishment of people, implies the high instability of the national economy and system risk. This regime of accumulation could even be affected by the American economy due to the lack of a buffer zone. If an international economic crisis originating in the United States were to break out, its shock to Korean society will be unimaginable. Some might think that the prospects for crisis have considerably lessened with the rise in Korean trade with China. But the retrenched U.S. market directly affects Korean exports to China as much as Korean exports to the United States. Furthermore, this impact on the Chinese market has a rebound effect on the Korean economy since Korea mainly sells intermediate material for products that China exports to the United States.

In its late stage, the Roh administration is forging ahead with the Korea-U.S. Free Trade Agreement, excluding even the basic democratic procedure of public hearings or consultations. And what is more, the government claims that the Korea-U.S. FTA drive is only intended to advance the Korean economy into a developed one as well as to resolve socioeconomic polarization and create jobs. The reformative capacity of the government is quickly waning, with bouncing gains being intercepted and thrown over to old conservative forces. The FTA negotiations presage a catastrophe in that the United States will unilaterally demand the opening of Korean economy and the Korean government is demonstrating its eagerness to comply with this demand and to Americanize the national economy. The future of the Korean economy and society hinges on how the Korea-U.S. FTA agreements will be arranged and how social movements will successfully strengthen their popular struggle against neoliberal reforms that include these agreements.⁴⁶

46. Refer to the following about the problems of the Korea-U.S. FTA negotiations: The Policy Planning Team, Korean Alliance against the KorUS FTA (2006); and Lee H. (2006).

Table 1. Major Economic Indicators in Korea over the Past 60 Years

Items / Year	1953	1960	1970	1980	1990	2000	2004
GNI per cap. (US\$)	67	79	254	1,645	6,147	10,841	14,162
GDP growth rate (substantive, %)	5.6 ¹	1.2	8.8	-1.5	9.2	8.5	4.6
Industry structure:							
Agro-Fishery	47.3	36.8	29.2	16.2	8.9	4.9	3.7
Mineral	10.1	15.9	19.6	26.4	28.1	29.8	29.1
Electricity, gas, water, construction ²	2.6	4.1	6.5 (5.1)	10.2 (8.0)	13.4 (11.3)	11.0 (8.4)	11.7 (9.3)
Service	40.0	43.2	44.7	47.3	49.5	54.4	55.5
Savings rate	13.1	9.0	17.8	24.7	37.5	33.7	34.9
Investment rate	14.7	10.0	24.8	31.9	37.4	31.1	30.3
(Saving/domestic capital formation) x100	89.1	90.0	71.7	77.3	100.4	108.4	115.2
Import-export/GNI	13.0	16.8	40.0	80.1	59.3	81.9	86.3
Labor income distribution	25.8	37.4	41.1	50.4	58.0	58.8	58.8
(Tax/GDP)x100	5.5	12.0	14.3	17.8	18.6	19.6	19.5
Consumer price index	0.53764	2.02005	7.363	33.20	60.9	100.0	114.7
Unemployment rate		8.1 ³	4.4	5.2	2.4	4.4 ⁴	3.7

Source: Bank of Korea, *60 Years after Liberation in Figures*, Aug. 2005.

Notes: 1) Figures collected in 1954; 2) Figures in parenthesis are for construction only; 3) Figures collected in 1963; and 4) From the year 2000, the official employment statistics standard changed from an employment period of 1 week to 4 weeks.

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