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A Model For Others: An Examination Of Korean And Taiwanese Economic Development

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A MODEL FOR OTHERS: AN EXAMINATION OF KOREAN AND TAIWANESE ECONOMIC DEVELOPMENT

A THESIS SUBMITTED TO
THE FACULTY OF THE DEPARTMENT OF INTERNATIONAL RELATIONS
IN CONSIDERATION FOR GRADUATION WITH HONORS
DEPARTMENT OF INTERNATIONAL RELATIONS

BY
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Dr. Wittman was my first political science teacher when I came to Carroll. I have been privileged to have had him as a professor for the past three years. He has challenged me in class and has taught me to be a better student and writer. His assistance as a reader throughout this process has been invaluable.

Dr. Pratt has been my advisor for the past three years and I have had the privilege to attend his classes. Over the course of the past three years he has provided me with a greater understanding of world events and problems. I know I am a better student because of him. Without his encouragement and assistance, this thesis would have not been possible. He has been involved in this process with me from the beginning. Dr. Pratt has greatly helped me overcome my problem of being “awkwardly redundant” for which I am extremely grateful.
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<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Characteristics of Development Theory</td>
<td>12</td>
</tr>
<tr>
<td>2. Prevalent Characteristics in Development</td>
<td>13</td>
</tr>
<tr>
<td>3. Percentage of Children Performing at or Above Each Level of the</td>
<td>44</td>
</tr>
<tr>
<td>Mathematics Scale, Age 13 years</td>
<td></td>
</tr>
<tr>
<td>4. Common Characteristics of Korean and Taiwanese Development</td>
<td>45</td>
</tr>
<tr>
<td>5. Characteristics of Development Theory and Revisionist Theories</td>
<td>53</td>
</tr>
<tr>
<td>6. Common Characteristics of Development and Revisionist Theories</td>
<td>54</td>
</tr>
<tr>
<td>7. Shared Characteristics of Development Theories and the</td>
<td>55</td>
</tr>
<tr>
<td>Case Experiences</td>
<td></td>
</tr>
<tr>
<td>8. General Characteristics of Development and Their Dangers</td>
<td>61</td>
</tr>
</tbody>
</table>
INTRODUCTION

Imagine that you had the opportunity to go from being one of the world’s poorest countries to being the eleventh largest economy in the world in your lifetime.¹ Imagine, having an economic system in which one can go from a per capita GNP of $82 ($675 in current dollars) in 1961² to a per capita GNP in 1997 of $10,530;³ an annual growth rate from 1962-1984 of 8.5 percent, including a year of negative growth rate in 1980 of 5.6 percent; and increased domestic savings from the 1963 level of 8.7 percent to a level of 31.4 percent in 1986. This may sound like an unbelievable accomplishment in such a short time, but this just describes some of the economic success seen in South Korea during the last forty years.⁴

Taiwan has also seen tremendous growth over the last fifty years. Taiwan has transformed itself from an "agricultural island" to a leading producer of high-technology goods and a major economic power in the world.⁵ Since

¹U.S. Department of State, 1997a, November, p. 6.
²Bedeski, 1994, p. 79.
³U.S. Department of State, 1997a, November, p. 2.
⁴Bedeski, 1994, p.79.
⁵U.S. Department of State, 1997b, November, p. 3.
1960, Taiwan has possessed one of the highest growth rates in the world, averaging about 9%.6 In 1996, Taiwan had a GDP of $275.1 billion, a per capita GDP of $12,872, and a trade surplus of $12.9 billion.7

South Korea and Taiwan are part of an East Asian group known as the "Four Dragons" due to their remarkable economic success. Development in South Korea, Taiwan, Hong Kong, and Singapore, the "Four Dragons," has often been referred to as the East Asian Miracle.8 As with any other miracle, people want to know how it happened and if it can happen to them as well. Countries will try to discover and emulate the process in order to achieve this success.

Institutions such as the International Monetary Fund and the World Bank have promoted the Korean and Taiwanese style of export-oriented growth as the method for developing countries to follow. According to the World Development Report 1987, export-led growth promotes the use of resources efficiently, encourages companies and individuals to be innovative in order to compete in the world market, promotes increased savings, and increases productivity.9 The report encouraged developing countries to specialize in the production of labor intensive exportable goods, which leads to faster economic growth by increasing capital formation, promotes efficiency by exploiting comparative advantage,

7U.S. Department of State, 1997b, November, p. 2.
8Berger, 1988, p. 4.
offers greater economies of scales, and induces faster technological change. Due to the success of the “Four Dragons,” the World Bank encouraged other developing countries to follow this pattern. The 1987 report soon came under criticism for focusing on export-led growth which attempted to “universalize a non-universal process.” In essence, the World Bank and others were creating policy on the basis of a handful of individual cases and constructing generalizations for all developing countries. Export-led growth seemed to be the quick and easy fix for a developing country.

This thesis will explore the different models of development used to explain South Korean and Taiwanese economic development and the development experiences of Korea and Taiwan. By examining the theoretical literature and the case studies, I will determine whether or not a general model of development can be created that is transferable to other developing countries or if development is a strictly unique experience.

The response to Korea’s and Taiwan’s economic development plans is not the first time a specific type of plan has been exemplified as the path to follow. Throughout the history of development, there have always been certain plans that attract the attention of other states. When one state becomes successful in the development arena, other states use it as an example and

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immediately assume that this is the way to pursue their own development plan. States, in general, do not seem to realize that not every successful development plan can be transferred and emulated by everyone.

In order to understand the attraction to Korea’s and Taiwan’s developmental models, we must first determine the characteristics that comprise these plans. The first section of the paper traces the history of development theory. This review of basic developmental theories will provide the background so that we may understand the development situation in South Korea and Taiwan. In this section the key characteristics of the development theories will be determined. The second chapter is devoted to a review of Korean economic history. Chapter 3 is dedicated to Taiwan’s economic history. A comparison between Korean and Taiwanese economic development and a summary of the revisionist theories will be presented in chapter 4. This chapter will also introduce those characteristics that are common in both the theoretical literature and the case study experiences. Chapter 5 will attempt to create a general model for economic development that can be used by all developing countries.
CHAPTER 1
DEVELOPMENT THEORIES AND THEIR COMMON CHARACTERISTICS

The popularity of individual development theories changes and evolves with each new success story. Since World War II, there have been several development plans put forward. The following section is a review of development strategies beginning with the agreements at Bretton Woods through Modernization, Dependency, and Basic Needs theories, followed by Import substitution and Export-led models. The development theories discussed below were the models available during the period of South Korean and Taiwanese development.

In 1944, after it became apparent that the allied troops were going to win the war, the leaders of the allied nations met in Bretton Woods, New Hampshire, to discuss the aftermath of the war and how they would begin to rebuild Europe. The conference was dominated by the leading economic thinker of the time, John Maynard Keynes. The members of the Bretton Wood conference remembered the disastrous world depression that engulfed them before the war. The Bretton Woods conference designed institutions to create a free flowing

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1The following section examining development theory is largely based on the work Understanding Development: Theory and Practice in the Third World by John Rapley.
international trading environment. The conference created the International
Monetary Fund (IMF) and International Bank for Reconstruction and
Development, which became the World Bank. In 1947, the General Agreement
on Tariffs and Trade (GATT) was created.\textsuperscript{2}

In addition to these institutions, there needed to be a common exchange
method for world currencies. This led to the adoption of the American dollar as a
reserve currency. Backed by gold, thirty-five American dollars could be
redeemed for one ounce of gold. Although the Soviet Union and its satellites did
not adopt the measures presented at Bretton Woods, this system became the
accepted norm by the majority of nations in the world.\textsuperscript{3}

In an effort to explain the disparities between the developed and
underdeveloped nations of the world, several new theories were devised. These
theories included: Modernization theory, Dependency theory, Basic Needs,
Import substitution, Export-led Growth, State-centered theories, and Sustainable
development models. Each of these individual theories can be divided into three
different poles: theories that include strong government involvement, theories
that focus on a market-oriented economy, and those theories that take a more
humanistic approach to development.

\textsuperscript{2}Rapley, 1996, p. 5.

\textsuperscript{3}Rapley, 1996, p. 6.
centered theories can be placed at the strong government influence pole. They depend on a strong governmental influence over the planning and implementation of economic plans and policies. Dependency theory focuses on the belief that development in the third world was being purposely held back by the first world in order to maintain first world predominance. The poorer countries were forced to export primary goods and raw materials in order to pay for the finished goods they needed to import. The major contention behind dependency theory was that as long as third world economies were linked to first world economies, the cycle of poverty and dependency would not be broken. It becomes the government's responsibility to create policies that encourage the development of industries indigenous to the country. Many dependency theorists incorporated Import Substitution Industrialization into their economic plan in order to break the cycle of dependence to the first world.\(^4\)

Import Substitution Industrialization (ISI) was one of the most appealing courses that development countries could take. The principle behind ISI is to build up the domestic manufacturing sectors in order to replace those products one would normally import.\(^5\) In order to assist those companies trying to establish themselves as manufacturers, the government usually applies protectionist measures, such as quotas and tariffs, to protect these new


\(^5\)Harrison, 1987, p. 182.
industries from the cheaper imports from the first world.⁶

State-centered theories focus on how the government interacts with the economy. In state-centered systems, such as those present in East Asia, the government plays an active role in creating economic plans and policies. According to John Rapley, developmental states include governments that make development their first priority, encourage individuals to maximize savings and investment, emphasize private property and land reform if needed, give the governmental technocrats autonomy from outside pressure, and invest heavily in education so as to further their development.⁷

Modernization theory and Export-led growth theories fall under the market-oriented economy pole. They emphasize economic development based on the principles that govern a market-oriented economy. Modernization theory is an attempt to explain underdevelopment and help underdeveloped countries break into the industrialized sector. Modernization theory attempted to identify those characteristics that gave rise to development in the first world in order to comprehend where and why these characteristics were missing in the third world.⁸ Countries who followed this model believed that underdevelopment was just a natural stage of development and could be helped along. This would be

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⁸Rapley, 1996, p. 16
done with assistance from the already industrialized countries.

Since modernization theory is based on the principles that govern a market-oriented economy, exploiting one's comparative advantage is an important aspect. According to Rapley the situation for countries is best explained in the following way: rather than try to satisfy all its own needs, an economy will prosper more if it specializes in the production of a few goods in which it enjoys a comparative advantage. These goods can then be exported to other countries and the money brought in may then be used to purchase imports to satisfy the country's remaining needs.\(^9\)

Countries soon discovered that building an industrial base took time and often the domestic market was not strong enough to support these industries. This led countries to look towards export-led growth as a viable development model. Export-led growth focuses on manufacturing goods cheaply that are then exported to the first world. This is usually done in conjunction with multinational corporations.\(^10\) Export-led growth relies on an abundant source of cheap educated labor and foreign markets to sell their goods. Exports create growth for a country, which thereby increases the amount of money available for the purchase of imports that a country needs, as well as for further capital

\(^9\)Rapley, 1996, p. 22.

\(^{10}\)Harrison, 1987, p.183.
Recently in the arena of developmental theory there has been a push for more humanist approaches to development. These include development plans that focus more on the sustainability of a development project. Currently the World Bank and IMF have put requirements on loans in order to ensure environmentally safe development projects. There has also been a push for more local forms of development.12 These are smaller scale local projects rather than the huge industrial projects that were popular in the past. An example of this more humanist development came in the 1970s with the advent of the Basic Needs approach to development.

Basic Needs development theory focuses on the premise that any development planning should include as a major goal "the satisfaction of an absolute level of basic needs."13 According to the International Labour Office, basic needs consists of two parts. First, basic needs encompass the minimum requirements for a family, such as adequate food, shelter, clothing, and certain household equipment and furniture. Second, basic needs include services provided to the community at large, including safe drinking water, sanitation, public transportation, and health and educational facilities.14

12Drakakis-Smith, 1997, p. 816.
Development strategies used to meet the basic needs criteria must incorporate high levels of employment. A rapid rate of economic growth is also essential. Proponents believe that greater employment will raise the rate of economic growth and this will lead to a better allocation of resources. Other developmental strategies often try to work elements of the Basic Needs strategy into their plans.15

From Table 1 certain trends are able to be determined from the various development theories. As shown in Table 1 those theories that comprise the strong government pole share several of the same characteristics, including government involvement, labor intensive, and protectionism. Under the market-oriented pole, shared characteristics including high level of savings, foreign direct investment, focus on education, market oriented economy, and involvement in the world market. The humanist pole contains such characteristics as: focus on education, labor intensive, adequate food, shelter, and clothing and basic services.

As has been shown, each pole contains common characteristics, but the table also illustrates the idea that there are basic characteristics that are present in several of the different development theories. The following is a table of those characteristics identified in three or more development theories.

<table>
<thead>
<tr>
<th>Table 1 Characteristics of Development Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>strong gov. involvement</td>
</tr>
<tr>
<td>Dependency Theory</td>
</tr>
<tr>
<td>ISI</td>
</tr>
<tr>
<td>State Centered</td>
</tr>
<tr>
<td>Modernization Theory</td>
</tr>
<tr>
<td>Export-led</td>
</tr>
<tr>
<td>Basic Needs</td>
</tr>
</tbody>
</table>

-12-
Table 2 Prevalent Characteristics in Development

**Characteristics of Development**
* Strong government involvement
* Foreign sources of capital
* Focus on education
* Labor intensive
* High level of exports
* Involvement in the world market

These characteristics appear to be essential components of several development theories. One then might be able to conclude that since the characteristics listed above are found in several different development theories, they may be general enough to be applied universally. The following chapters illustrate how the development theories discussed above were incorporated into the Korean and Taiwanese economic development plans and how the experience of these two countries helped shaped new theories about development.
CHAPTER 2

CREATION OF A MIRACLE: THE HISTORY OF KOREAN ECONOMIC DEVELOPMENT

South Korea is one of the “Four Dragons.” Korea is considered to be an economic miracle. Korea has gone from one of the world’s poorest countries to being the eleventh largest economy in the world in under fifty years.1 As we saw in the previous chapter, during the time in which Korea was developing there were several different development theories in place that Korea could work from. Korea incorporated several different development theories throughout its economic development. This chapter is a review of the various stages Korean economic history.

According to Subir Gorkarn, Korean development can be divided into four phases: the import substitution phase during the 1950’s; the export promotion phase 1960-1973, which included exports of labor intensive products; the selective intervention phase 1973-1980, where the government strove for global competitiveness in heavy and chemical industries; and the liberalization phase after 1980, when the government took a step back and a market-oriented

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1U.S. Department of State, 1997a, November, p. 6.
regime was set up in its place.\textsuperscript{2} However, before Gorkarn's phases began, Japanese colonialism dominated Korean development.

Initially, Korean traditional society was based around subsistence farming and simple manufacturing. The peasant farmers were taxed to pay for the government functions and eventually land gravitated toward the aristocracy of the nation. Simple manufacturing consisted of tools, utensils, and clothing that were produced by artisans, who would sell their wares in the villages or at court.\textsuperscript{3} The Japanese dominated Korea from the late 1890s to 1945 and governed them as a colony from 1910 to 1945. Japan added a blend of modern industrialization to Korea's agrarian feudal society. By the end of the colonial period, Japan had built a network of roads, railroads, ports, electrical power, and governmental buildings.\textsuperscript{4} The Japanese also expanded the reach of education throughout Korea.

Donald Macdonald states that although the Japanese brought many improvements to Korea, the general quality of life was not raised.\textsuperscript{5} According to Kyong-Dong Kim, during their colonial rule, the Japanese did not encourage Korean entrepreneurs to create indigenous industrialization. The purpose of

\textsuperscript{2}Gokarn, 1995, p. 22.
\textsuperscript{3}Macdonald, 1988, p. 182.
\textsuperscript{4}Savada, 1992, p. 139.
\textsuperscript{5}Macdonald, 1988, p. 182.
industrialization was only to serve the needs of Japan. Korea was at most a secondary consideration. In fact, during World War II Japan drew heavily on Korean resources, which created problems for Korean economic development following the war. When the Japanese left, Korea lacked markets for its goods and educated elites to run the companies.

The Cold War and the Korean War dominated the Korean economy from 1945-1960. The division between North and South Korea caused even more economic problems. The resource division between North and South Korea is unequal. South Korean is considerably less endowed with resources than the North. As put forth by Y.W. Kihl, North Korea contains 80-90 percent of all the mineral deposits in the peninsula. South Korean relies heavily on imported resources, including oil.

The Korean War devastated both North and South Korea. The U.S. promised one billion dollars in grant aid over three years to help in South Korea’s reconstruction. The total external aid granted to Korea from 1953 through the mid-1970s was about six billion dollars, not including an additional seven billion dollars in military assistance. During President Syngman Rhee’s First Republic (1948-1960), economic policy was hampered by political unrest and pressure

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6Kim, 1988, p. 199.
8Kihl, 1984, p. 143.
9Macdonald, 1988, p.185-186.
from the U.S. to follow economic policies approved by them. According to Macdonald, popular dissatisfaction with the economy was a factor in the political upheaval in 1960.10

General Park Chung Hee’s takeover of the government in 1961 provided Korea with the environment for great economic change. Park realized the need for rapid economic development. The Park administration believed it could best achieve this by moving Korea towards the industrialized sector. Early on, Park recognized the need for the government to create and implement economic policies.11 The economic programs under Park’s administration were based on five year plans. These five-year plans would list the goals the country wanted to meet and establish the steps it would follow in order to achieve this.12

Park and his administration greatly benefitted from the foreign aid they received from the U.S. after the war. The aid money from the United States was used to build a nation-wide infrastructure of primary and secondary schools, modern roads, and a modern communications network. This provided Korea a strong foundation, including an educated work force and modern infrastructure, for economic growth.13 The First Five-Year Economic Development Plan, from 1962 to 1966, benefitted from this build up of infrastructure. The goal of this

plan was to move towards a self-sufficient industrial sector that was not
collection oriented or dependent on oil due to the lack of oil present in South
Korea. Areas such as fertilizers, oil refining, synthetic fibers, and cement were
emphasized.14

The Second Five-Year Plan (1967-1971) focused on modernizing the
industrial sector and creating import substitution industries, especially steel,
machinery, and chemical industries.15 During this time period, savings and
investment increased, based on the creditworthiness of the Korean economy.
Under pressure from the U.S., Korea also renewed relations with Japan that led
to an assistance package of $800 million.16

Export-led growth was the rationale behind the Third Five-Year Plan
(1972-1976). Rapid growth during this period was achieved through promoting
heavy and chemical industries. Industries, including iron and steel, household
electronics, and shipbuilding, received special attention during this time.
Industrial development was targeted in areas far to the south of Seoul to provide
jobs to those in need of them.17

A world-wide recession in the late 1970s was the background for the
Fourth Five-Year Economic Development Plan (1977-1981). Despite the world-

16Macdonald, 1988, p. 188.
wide recession during this period, Korea still maintained high levels of growth. The only apparent problem in the late 1970s was the acute inflation due to the concentration of investment in heavy industry.\textsuperscript{18} The plan focused on creating industries that were designed to be competitive in the world's export markets. Korea now began to focus on technology-oriented industries that required skilled labor. During this period heavy and chemical industries grew by 51.8 percent and total exports increased to 45.3 percent of the total output.\textsuperscript{19} Growth of real GNP from 1965-1979 averaged 10 percent a year until the oil shock of 1979.\textsuperscript{20} The U.S. stopped all direct aid to Korea in 1980.\textsuperscript{21}

Park's assassination on October 26, 1979 created a political vacuum in Korea. This led to a period of intense open competition for power. Ch'oe Kyuh-ha, premier under Park, was elected president in December 1979. Lieutenant General Chun Doo Hwan was in charge of the investigation into Park's assassination. This gave him immense control over the army and allowed him to create his own political base. In March 1980, students in the universities demanded the removal of professors with ties to the Park regime, and by May 1980, they demanded that martial law be lifted. Massive student demonstrations continued until May 17, when Chun issued a decree closing down all colleges

\textsuperscript{18}Savada, 1992, p. 145.

\textsuperscript{19}Savada, 1992, p. 145.

\textsuperscript{20}Macdonald, 1988, p. 188.

\textsuperscript{21}U.S. Department of State, 1997, p. 7.
and universities and prohibiting all political gatherings. This lead to the Kwangju massacre from May 18-27 where 200 people were killed in a student uprising. Chun’s crackdown at Kwangju further solidified his power in the government and lead to his election to the presidency on August 27, 1980. Chun’s authoritarian administration focused on economic stabilization, controlling inflation, and redirecting investment to labor-intensive light industries.22

Continuing effects of the world-wide recession and an external debt reaching a peak of $47 billion in 1985 confronted the Fifth Five-Year Economic Development Plan (1982-1986).23 During times of outside economic problems with the world economy, South Korea was able to maintain its high growth rate. The government, in Keynesian fashion, borrowed its way out of trouble. Aggressive bailouts of financially troubled firms led to a pro-big business environment.24 Even with a large external debt, Korea was able to maintain an average growth rate from 1981-1985 of 6.8 percent.25 This continued the new emphasis of the Fourth Five-Year Plan, which concentrated on moving the emphasis away from heavy and chemical industries and towards technology-intensive industries due to the greater demand for these products in the world

22Savada, 1992, pp. 52-59 passim.
25Macdonald, 1988, p. 188.
market. Also during this period, Korea focused on ways to reduce its massive foreign debt burden.

Slower economic growth characterized the beginning of the Sixth Five-Year Economic Development Plan (1987-1991). Under pressure to liberalize their system, Korea moved towards removing import restrictions and non-tariff barriers. Korea continued to emphasize the goals of the fifth plan and began to encourage the creation of more small scale industries. According to Savada, "in 1987, manufacturing industries accounted for approximately 30 percent of the gross domestic product (GDP) and 25 percent of the work force." This plan placed greater emphasis on meeting domestic needs for goods and services and reducing the level of foreign debt.

With the upcoming election in December 1987, four candidates emerged as competitors for the presidency: Roh Tae Woo, Kim Dae Jung, Kim Young Sam, and Kim Jong Pil. Roh was Chun’s hand-picked successor to the presidency. In a surprise move on June 29, 1987, Roh distanced himself from Chun by announcing that if he was elected president he would push for

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The major opposition party was the New Korea Democratic Party (NKDP). This party split into two factions with the Kim Dae Jung’s Peace and Democracy Party (PPD) and Kim Young Sam’s Reunification Democratic Party (RDP). As a result, in December 1987, Roh won the election with 37% of the vote. During this era, a new constitution was put in place and it became a period of greater freedoms of speech and assembly, political liberalization, and restoration of civil rights. In January 1990, the political parties of Roh, Kim Young Sam, and Kim Jong Pil merged to form the Democratic Liberal Party (DLP) leaving Kim Young Sam in the leadership position. In December 1992, Kim Young Sam was elected president becoming Korea’s first civilian president in thirty years.32

Despite Korea’s miraculous economic development, problems existed that must be addressed. In the Seventh Five-Year Plan (1992-1996) the government focused on addressing these problems. There were four main objectives: industrial restructuring and technical renovation; counter-measures designed to cope with changes in international economic conditions such as the settlement of the Uruguay Round trade negotiations; relaxation of the government’s restrictive measures and preparations for more local autonomy systems; and promotion of

31U.S. Department of State, 1997a, November, p. 5.
32Ibid.
welfare services, especially in rural villages.\textsuperscript{33} The government focused on industries in high technology fields such as microelectronics and bioengineering. It also planned to work towards a better distribution balance of industries throughout the country.\textsuperscript{34}

As illustrated by the seven Five-Year Plans, Korea has put forth a variety of economic policies and goals, but to truly understand the evolution of the Korean economy, it is necessary to examine the chaebol, which drive the Korean economy and greatly influence or even create Korean economic policy. The chaebol are groups of specialized companies with interrelated management; usually they are owned or controlled by one family. They include businesses involved in heavy and consumer industries and electric and electronic goods, as well as trading companies.\textsuperscript{35}

The immense power of the chaebol arose during the era of Park's government. It was alleged that many of these corporations received special favors from the government in return for kickbacks and other payments.\textsuperscript{36} According to Savada, after Rhee's government was overthrown, the new government under Park promised reforms. Several corporate leaders paid heavy fines, but after this the close relationship between the chaebol and the

\textsuperscript{33}Bedeski, 1994, p. 81.
\textsuperscript{34}Savada, 1992, p. 145.
\textsuperscript{35}Savada, 1992, p. 147.
\textsuperscript{36}Savada, 1992, p. 147.
The chaebol became the arm through which government policy was implemented. The chaebol grew due to two factors, foreign loans and favors from the government. The government made available to the chaebol projects funded by foreign investment and provided domestic loans for expansion. The government also provided for guaranteed repayment should a company be unable to repay its foreign creditors.

During the 1950s and 1960s, the chaebol focused their efforts in industries such as textiles. This is what truly began Korea's push for export promotion. In 1988, textiles still composed one the largest industrial components of Korea's output. The 1970s saw Korea pushing into more complex heavy and chemical industries. With its start in fertilizers and pharmaceuticals, Korea has advanced to become one of the leading producers of electronic goods, steel, shipbuilding, and, most recently, automobiles. According to Macdonald, The Korean Hyundai Excel car was able to sell 160,000 units in the United States in 1986, its first year of availability. The chaebol benefitted greatly from this period of growth.

Today Korea faces the challenges and responsibilities of being a member

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40 Macdonald, 1988, p. 196.
of the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD). On the other hand, Korea’s use of high tariffs and other non-tariff barriers continues to pose problems for its trading partners. As Korea expands into more technical industries, it will face continuing strong competition from the United States, Japan, Europe, and other up and coming Asian countries.

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42Savada, 1992, p. 194.
CHAPTER 3

EMERGENCE OF A DRAGON: THE HISTORY OF TAIWANESE ECONOMIC DEVELOPMENT

Taiwan, like South Korea, is also one of the “Four Dragons,” and considered an economic miracle by many. It has experienced tremendous growth in the last forty years. The path of economic development Taiwan followed is remarkably similar to the one which was taken by Korea. Both cases incorporated several different development theories through the course of their own development. The following chapter reviews the history of Taiwanese economic development.

According to Baldwin, Chen, and Nelson, Taiwanese development can be separated into five periods: Taiwan under Japanese control, the import substitution period of 1945-1958, rapid export expansion period of 1958-73, the turbulent years of 1974-1979, and the mature stage of the export drive, 1980-present.\(^1\) Japan’s colonial influence over Taiwan (1894-1945) began with the Treaty of Shimonoseki (1894), which granted Japan control over Taiwan and ended the war between Japan and China. In an effort to circumvent Japan’s occupation of their country, Taiwan declared itself an independent republic on

\(^1\)Baldwin, 1995, pp.1-18, passim.
May 23, 1895. The Japanese put a halt to this ambitious endeavor and occupied Taiwan until 1945.²

The Taiwanese economy during Japanese occupation was a typical colonial economy. The main focus was placed on agrarian development. Japan used Taiwan as a source of food and raw materials for the growing Japanese population and economy. Japan greatly invested in the modernization of the agricultural sector. But unlike the majority of colonial systems, Japan also laid the base for industrialization by creating food processing industries.³ Although Japan kept Taiwan in a subservient position, it brought many improvements to the country. As Japan had done in Korea, it implemented a governmental system, a network of transportation, improvements in agriculture, and established the first education system.⁴

After the conclusion of World War II, Taiwan was retroceded to the Republic of China (ROC), and the close colonial ties once held by Japan were immediately severed. With the trade between Taiwan and Japan stopped, China now became the major market for Taiwanese products. The products consisted of mainly agricultural goods, sugar and rice. The civil war that soon erupted in China halted all commerce between China and Taiwan.⁵ After the communists

⁵Baldwin, 1995, p. 2.
under the leadership of Mao gained control of mainland China, the ROC
government was forced to relocate to Taiwan. On December 7, 1949 the ROC
government declared that Taipei was the capital of all China and that the
government would use Taiwan as a base of operations to regain the mainland.⁶

Taiwan benefitted greatly from the outbreak of the Korean war in June of
1950. The U.S. viewed Taiwan as a strategic base in the Pacific to combat the
advancement of communism. The U.S. sent the Seventh Fleet to patrol the
Taiwan Strait and began its aid program in 1951. Over the next fifteen years
$1.5 billion in aid was brought into Taiwan by the American government.⁷

It is said that Taiwan's path to economic growth began with land reform.
This land reform increased production and freed up excess farm labor that could
then be utilized in the up and coming textile factories and other light industries.
Redistribution was an essential element to land reform. The government, which
held large tracts of land, could sell this land to the peasants. In return for the
land made available to peasants, landlords were reimbursed with industrial
bonds or used their payment to invest in small industries.⁸

The trade policy pursued by the ROC in the 1950s was an example of
classic import substitution industrialization. According to Baldwin, Chen, and

⁶Leppert, 1996, p. 49.
⁸Cooper, 1988, p. 17.
Nelson, the ROC government used U.S. aid to assist the country's infant industries, especially textiles. Imports of the raw materials to produce these products was financed by U.S. aid. On the other hand, exportable products, such as sugar and rice, were subject to an export tax. The government also insured the price of textiles to reduce the risk of investment.9

The ISI program was very successful. The GNP in real terms increased 56.1 percent between 1953 and 1958.10 During 1952-1960 manufacturing production had an average annual growth rate of 13 percent.11 Due to this rapid increase in growth, the domestic market soon reached its limit. This forced the government to look outward. In order to accommodate this new push outward, a new unified exchange rate was adopted and the Taiwanese currency was devalued 50 percent. This move by the ROC government signaled Taiwan's emergence into the export arena and the start of the export expansion period.12

During the 1960s, textiles and apparel dominated Taiwan's exports. Exports to the U.S. increased from $18.9 million in 1960 to $564.2 million in 1970. This increase is largely attributed to the increased demand from U.S. wholesalers and importers looking for cheaper products for the American market. The technology needed to produce these goods could be easily and

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9 Baldwin, 1995, p. 3.

10 Baldwin, 1995, p. 5.


12 Baldwin, 1995, p. 5.
cheaply transferred to these manufacturers. Involvement in electronics and consumer goods also became important parts of this push for exports.¹³

Trade between the U.S. and Taiwan was a dominate factor in the Taiwanese choice of development strategies and industries in which the country was involved in. The textile, apparel, electronics, and consumer products industries lent themselves to the establishment of small to medium size companies that dominated these industries. Unlike the chaebol that dominate the Korean economy, the Taiwanese economy was not forced to adhere to the wishes of an elite few.¹⁴

Consumer goods became an essential part of the Taiwanese economy. Through the government's export promotion package, companies involved in exporting could quickly turn letters of credit into cash, at a good interest rate, to obtain the capital needed. For the producers there was little risk involved. The costs were borne by the importers.¹⁵ By 1964, consumer goods accounted for 30 percent of all the goods Taiwan exported to the United States.¹⁶

The use of foreign investment was carefully planned out and monitored in Taiwan. The Taiwanese government took a favorable view towards FDI. Companies investing in Taiwan were granted a five-year corporate income tax

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¹³Baldwin, 1995, pp.6-8.
holiday and a maximum of a 25 percent tax after this period ended. Taiwan also established several economic free trade zones (EFTZs), which allowed for greater ease in importing and exporting.\textsuperscript{17} The electronics industrial sector became the most popular place for foreign investment. Between 1952 and 1971, 39.6 percent of all foreign capital went toward electronics.\textsuperscript{18} The electronic industry in Taiwan was dominated by American multi-national corporations.

Higher amounts of human capital investment were necessary so that the workers would be qualified to perform the technical jobs that the electronic industry required. According to Baldwin, the advancement in education and creation of higher skill level jobs pushed the Taiwanese into a class of newly industrializing countries where cheap labor is no longer the main source of comparative advantage.\textsuperscript{19}

The period between 1974 and 1979 in Taiwan is often referred to as the “turbulent years.” As Taiwan was successfully implementing its export-oriented development, a series of events occurred that provided Taiwan with problems. Taiwan, along with Korea, was affected by the world-wide recession set off by the first oil crisis. Although Taiwan maintained what many would consider a respectable level of growth, the country experienced its first decline in exports.

\textsuperscript{17}Linnemann, 1987, p. 343.
\textsuperscript{18}Baldwin, 1995, p. 7.
\textsuperscript{19}Baldwin, 1995, p. 8.
Taiwan was also becoming more isolated from the rest of the world. Earlier in 1973, the ROC government was forced to give up its seat in the United Nations to the People's Republic of China and was "de-recognized" by Japan, one of Taiwan's major trading partners. But perhaps the biggest blow to Taiwan came when President Chiang Kai-shek died in 1975.

With Chiang Kai-shek's death, the Taiwanese economy began to flounder without his strong leadership. More emphasis was placed on the development of heavy industry. These heavy industries seemed to be dominated by state-owned enterprises. The economy was split into two sectors, with the small and medium-size private companies dominating the export market and the government controlling the domestic market.

President Richard Nixon's meeting with Mao Zedong and visit to China was an effort by the U.S. to begin the process of normalizing relations between China and the United States. The meeting came as a shock to the East Asian countries who were given no advance warning. This meeting had an immense impact on Taiwan. The new rapprochement between China and the U.S. was likely to upset the balance of power in Asia. Nixon's visit helped lead the United States to change its diplomatic recognition from Taipei to Beijing.

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23 Brands, 1994, pp. 327-328.
January 1, 1979, the United States announced that it would now recognize the PRC as the sole legal government of China; there was only one China, and Taiwan was part of this China. After this announcement, the U.S.'s position towards Taiwan was unclear. Taiwan was reassured of its position on April 10, 1979, when then President Jimmy Carter enacted the Taiwan Relations Act (TRA). TRA enabled the U.S. to conduct unofficial relations with, Taiwan including commercial relations.

The second oil crisis in October 1979 ushered in the next phase of Taiwanese development. Unlike the previous oil crisis, Taiwan faired very well during this period. Total exports increased in 1980 by 20.8 percent and another 10.8 percent in 1981. After a year of dismal growth in exports of only 7.3 percent in 1982, Taiwan was back on track, recording strong years of growth in exports, 29.4 percent in 1983 and 31.1 percent in 1984.

In May 1985, Chiang Ching-kuo was re-elected President. The period between 1985 and 1988 marked an era when the government was very inactive in the economy. This period was marred by corruption scandals that included members of the government and corporate leaders. State businesses that were

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24U.S. Department of State, 1997b, p. 2.

25U.S. Department of State, 1997b, p. 2.

26Baldwin, 1995, p. 15.

once protected were now being sold off if they proved to be inefficient.\textsuperscript{28} In 1985, there was a decline in exports and this helped prompt the government to further sell off its state-owned enterprises.\textsuperscript{29} When Chiang Ching-kuo died in 1988, he was replaced by Lee Teng-hui. His arrival marked an opening up of the political system, which contributed to the economic system becoming more and more liberal.

Taiwan has consistently invested in education. The Taiwanese believe that in order to maintain their position in the world, they must rely on an educated work force. Their standard of living no longer permits them to depend on labor intensive industries. In order to ensure their continued success in the global economy, the Taiwanese are continuing to develop and push for investment in high-tech industries, especially electronics.\textsuperscript{30}

Today, Taiwan is active in participating in international trade blocs or alliances. Taiwan applied to join GATT in 1990 and became part of Asian Pacific Economic Cooperation (APEC) 1991. Taiwan has become an example of successful economic development for other countries. It is now a source of economic aid and in many ways has come full circle.\textsuperscript{31} Taiwan still faces problems just like other countries do, but Taiwan currently appears to be a

\textsuperscript{28}Baldwin, 1995, p. 191.

\textsuperscript{29}Baldwin, 1995, p. 16.

\textsuperscript{30}Baldwin, 1995, p. 191-195 passim.

\textsuperscript{31}Baldwin, 1995, pp.192-195.
strong economic country. Taiwan's annual growth rate between 1991 and 1995 was 6.6 percent and is expected to remain relatively stable in the future.\textsuperscript{32}

\textsuperscript{32}U.S. Department of State, 1997b, p. 2.
CHAPERT 4
COMMON CHARACTERISTICS OF KOREAN AND TAIWANESE DEVELOPMENT AND REVISIONIST THEORIES OF DEVELOPMENT

Over the past three chapters, I have examined the history of Korean and Taiwanese development. The thesis began with an overview of the developmental theories available to Korea and Taiwan at the time of their development. Chapters 2 and 3 focused on Korea's history of economic development and Taiwanese economic history. In an attempt to explain the rapid development of the "East-Asian miracles," several revisionist theories of development were created. Revisionist theories were formulated because the development theories examined in the first chapter were unable to accurately explain the high rates of growth of the "East-Asian miracles." This chapter will examine the similarities and differences of Korean and Taiwanese development, introduce two revisionist theories of development, and determine those characteristics that are common in the theoretical approaches and case experiences.

Korea and Taiwan have followed relatively similar paths during their economic developments. Initially, Korea and Taiwan were colonies of Japan. In many aspects, the course of Korean and Taiwanese development reflects the development of Japan. During the periods of Japanese colonial rule in Korea
and Taiwan, Japan built an extensive infrastructure system, including governmental structures. The Koreans and the Taiwanese learned the Japanese style of management, including techniques for building large trading systems and directing the structure of industry.\(^1\) This helped to create a favorable environment for initial periods of import substitution in both countries.\(^2\) This provided them with the beginnings of an industrial base before their respective push for exports.

One of the most important characteristics that Korean and Taiwanese development share is a strong interventionist government. Although both countries have been recently moving towards more liberal economic and political policies, in the beginning of their economic development a strong interventionist government was a major factor in each country’s success. The success of the Korean economy is largely attributed to “government-chaebol cooperation” which was essential to the economic growth and success that began in the early 1960s.\(^3\) The chaebol’s growth was attributed to two factors: foreign loans and special government favors. The chaebols were the conduit through which the government was able to achieve its economic development policy.

Government intervention did not come without a price for the people of

\(^1\)World Bank, 1993, p 80.

\(^2\)Yaghmaian, 1995, p. 2.

\(^3\)Savada, 1992, p. 148.
Korea. Governmental leadership under Park was often authoritarian and exploitive of the people in Korea. According to Park, political unrest and agitation have an adverse effect on long term modernization plans. Unlike many other countries, Korea cannot afford to slow down its growth rate for the sake of stability; nor can stability be allowed to affect growth. Stability without growth causes economic stagnation; and unstable growth threatens to produce chaos. What Korea must seek to achieve, therefore, is growth with stability and order.⁴

Using the Korean economy as a model, we have seen that a strong interventionist government led to great success, but this does not mean it was immune from problems. According to Andrew Higgins, "Korea is becoming a victim of its own success. It developed so fast that it outgrew the strong government that created its prosperity."⁵ Although Korea appears to have outgrown its "strong government" aspect, does not mean that a strong government involvement for others would be inappropriate. As Mardon commented, and contrary to previous beliefs, a government that takes a hands-off approach to the economy does not ensure success.⁶

Taiwan's government also intervened in its economy, although the extent to which they intervened is debatable. Many economists contend that Taiwan's growth was due mainly to initial government involvement and then a tapering off

⁴Hee, 1979, p.43 & 98.
⁵Higgins, 1997, p.6A.
of the government’s intervention.\textsuperscript{7} Economist Ian Little argues that “Taiwan’s growth resulted from low levels of government intervention or reduction in government intervention.”\textsuperscript{8} This is opposed to Robert Wade’s belief that “government intervention in Taiwan was much greater than economists have said.” He reports that the government put measures in place to subsidize exports and the import sector. This provided Taiwan with substantial protection from international competition.\textsuperscript{9}

Despite the fact that Korea and Taiwan share the characteristic of having an interventionist government, the method in which they pursued this development is quite different. Korea’s economy placed an emphasis on the large chaebols. These chaebols focused on heavy and chemical industries, including steel and ship building.\textsuperscript{10} Taiwan’s economy is mainly composed of small and medium sized companies. The majority of these companies are focused on the electronics industry, making Taiwan the largest exporter of computer hardware in the world.\textsuperscript{11} However, in order for both the Korean and Taiwanese economies to develop as rapidly as they did, it was necessary for them to receive large amounts of foreign sources of capital.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{7}Henderson, (1997, Summer), pp.439-440.
\item \textsuperscript{8}Henderson, 1997, Summer, p. 13.
\item \textsuperscript{9}Henderson, 1997, Summer, pp. 13-14.
\item \textsuperscript{10}Savada, 1992, p.149.
\item \textsuperscript{11}Tanzer, 1998, pp. 52-53 passim.
\end{itemize}
\end{footnotesize}
Foreign capital came in the form of direct aid from the U.S., international loans, and direct foreign investment (DFI). Korea and Taiwan were both beneficiaries of large amounts of foreign aid from the United States. The amount of aid was large because Korea and Taiwan held strategic importance to the U.S. during the Cold War. During the Cold War, the U.S. was willing to provide foreign aid in order to stop the threat of communism.\(^{12}\) Korea shared a special strategic relationship with the U.S. that provided it with military protection and access to U.S. markets in which to promote their goods.\(^{13}\) Taiwan also had a special military and economic arrangement with the U.S. until diplomatic relations were revoked in January 1979.\(^{14}\)

However, Korea and Taiwan financed development differently. According to Donald Macdonald, the Korean government placed most of its equity in five major banks, where it was able to maintain close control over how the money was dispensed. The banks were often placed in difficult positions by having to make loans according to government policy rather than the profitability or the credit-worthiness of the situation.\(^{15}\) The Korean state's successful management of foreign aid, foreign loans, and foreign investment ultimately served the state's primary goals of domestic ownership and control of the

\(^{12}\)Macdonald, 1988, pp.184-185 passim.

\(^{13}\)Mardon, 1990, p. 114.

\(^{14}\)U.S. Department of State, 1997b, p. 2.

\(^{15}\)Macdonald, 1988, p. 200.
productive apparatus in order to encourage export-oriented industrialization," stated Bradshaw.16 The government had ultimate control of how much foreign loans and investments came into the country, who and from where it came, and where the money would be directed.

Taiwan took a different approach to distributing equity and making loans. Despite the fact that Taiwan's rate of capital investment was half that of other Asian countries, Taiwan has achieved great success due to the wise investment of the private entrepreneurs. "Taiwan has the most efficient capital market in the world, the way savings are channeled to entrepreneurs," says Tobias Brown, managing director of General Oriental Investments Ltd.17 The Taiwanese system is also different in that it puts very few obstacles in the way of bankruptcy. This encourages investors, lenders, companies, and workers to act carefully because they will not be bailed out by the government in the same manner that can occur in Korea.18 "If you don't show good profits here, you can't raise money from banks or the stock market," stated Chi Schive, vice chairman of Taiwan's Council for Economic Planning and Development.19

Korea tended to view foreign loans more favorably than they did DFI.20

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16Bradshaw, 1993, p. 325.
20Mardon, 1990, p. 120.
The Koreans were able to successfully use foreign loans and domestic savings to develop businesses, depending very little on DFI. This helped to provide the companies and the government with greater control over the economic decision making processes without the foreign interference that can accompany foreign direct investment.\textsuperscript{21} The Korean government designed legal and bureaucratic procedures to guide foreign capital inflows into a pattern to help development plans without interfering with domestic enterprises.\textsuperscript{22}

Unlike the Koreans, the Taiwanese were not as heavily dependent on loans and were able to attract and use DFI from multi-national companies in a very successful way. Taiwan has become a creditor nation, not a debtor nation. Taiwan has maintained foreign exchange reserves of $80 billion in 1998.\textsuperscript{23} The DFI money in Taiwan is mainly present in the small to medium size companies rather than in large chaebols. The favorite place for DFI investment in Taiwan was in the electronics area.

Another characteristic that both countries share is the important role education played in their development. According to Alice Amsden, one reason Japan, Taiwan, and Korea appear to have industrialized rapidly is that they have invested heavily in education.\textsuperscript{24}

\begin{itemize}
  \item \textsuperscript{21}Ibid.
  \item \textsuperscript{22}Mallaby, 1995, p. 116.
  \item \textsuperscript{23}Tanzer, 1998, pp. 52-53.
  \item \textsuperscript{24}Amsden, 1989, p. 215.
\end{itemize}
As put forth in Amsden, Korea tends to excel in the areas of education, especially when compared to other late industrializing countries. On average Korean students tend to score higher than most other countries on almost all educational indicators.\textsuperscript{25} By 1987, approximately 34 percent of those students who graduated from secondary school went on to some form of higher education. This rate was comparable to Japan at the time and exceeded many other developed nations, including Great Britain.\textsuperscript{26} By 1996, the literacy rate in Korea stood at 96 percent. Currently Korea requires nine years of compulsory education, with a middle school rate of attendance of 99 percent and a high school attendance of 95 percent.\textsuperscript{27} Nine years of compulsory education is the current standard in Taiwan. The Taiwanese had in 1996 an attendance of 99.9 percent. Taiwan has a literacy rate of 95 percent.\textsuperscript{28}

Table 3 indicates the performance of thirteen year old students on a standardized math examination. As the data reflects, Korea outscored all others in four of the five areas. The Korean emphasis on education has greatly influenced its success in becoming a strong industrialized state.\textsuperscript{29}

\textsuperscript{25}Amsden, 1989, p 200-215 passim.
\textsuperscript{26}Savada, 1992, p. 115.
\textsuperscript{27}U.S. Department of State, 1997, p. 1.
\textsuperscript{29}World Bank, 1993, pp. 70-72.
<table>
<thead>
<tr>
<th>economy/province</th>
<th>Can add and subtract</th>
<th>Can solve simple problems</th>
<th>Can solve two-step problems</th>
<th>Understands concepts</th>
<th>Can interpret data</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>100</td>
<td>96</td>
<td>69</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Ireland</td>
<td>98</td>
<td>86</td>
<td>55</td>
<td>14</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>100</td>
<td>95</td>
<td>78</td>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>New Brunswick (English)</td>
<td>100</td>
<td>95</td>
<td>35</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>New Brunswick (French)</td>
<td>100</td>
<td>95</td>
<td>58</td>
<td>12</td>
<td>&lt;1</td>
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<tr>
<td>Ontario (English)</td>
<td>99</td>
<td>92</td>
<td>58</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Ontario (French)</td>
<td>99</td>
<td>85</td>
<td>40</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Quebec (French)</td>
<td>100</td>
<td>97</td>
<td>73</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Quebec (English)</td>
<td>100</td>
<td>97</td>
<td>67</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>99</td>
<td>91</td>
<td>57</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>98</td>
<td>87</td>
<td>55</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>United States</td>
<td>97</td>
<td>78</td>
<td>40</td>
<td>9</td>
<td>1</td>
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</table>


Taiwan has also placed a strong emphasis on education. As Sun Cheng stated, "In my view, the most fundamental reason for the economic success of the Taiwan region is the government's concern for the education and the population's high expectation for education." In addition, Yang Yi-Rong believes that education has also played a role in promoting social mobility and reducing
inequality in income distribution.30

Another aspect that is often cited as a unique characteristic of East Asian
development is the role that Confucianism played. There has been a great
debate in the world of East Asian development thought on the amount of impact
that the Confucian work ethic had on development. This is comparable to a
similar debate about the impact of the Protestant work ethic during western
nations developmental process. Most agree that although the Confucian work
ethic played a role it was minor compared to that of the other elements of
Korean and Taiwanese development.31

Table 4 Common Characteristics of Korean and Taiwanese Development

<table>
<thead>
<tr>
<th>Characteristics of Korean Development</th>
<th>Characteristics of Taiwanese Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Strong government involvement in the economy</td>
<td>* Strong initial government involvement with a period of tapering off</td>
</tr>
<tr>
<td>* Initial stage of import substitution</td>
<td>* Initial stage of import substitution</td>
</tr>
<tr>
<td>* Strong relationship with the U.S.</td>
<td>* Strong relationship with the U.S.</td>
</tr>
<tr>
<td>* High level of savings and investment</td>
<td>* High levels of savings and investment</td>
</tr>
<tr>
<td>* Use of foreign sources of capital</td>
<td>* Use of foreign sources of capital</td>
</tr>
<tr>
<td>- High level of foreign loans</td>
<td>- High level of DFI</td>
</tr>
<tr>
<td>* Focus on education</td>
<td>* Focus on education</td>
</tr>
<tr>
<td>* High levels of exports</td>
<td>* High levels of exports</td>
</tr>
<tr>
<td>* Involvement in the world market</td>
<td>* Involvement in the world market</td>
</tr>
<tr>
<td>* Large companies (Chaebols)</td>
<td>* Small to medium sized companies</td>
</tr>
<tr>
<td>* Colonial infrastructure</td>
<td>* Colonial infrastructure</td>
</tr>
</tbody>
</table>


From the table 4, it can be determined that Korea and Taiwan share many of the same general characteristics of development. Both have to some extent a high level of government intervention, initial stages of import substitution, high levels of savings and investment, the use of foreign sources of capital (differing in the types each used), an educated work force, a focus on exports, involvement in the world market, and the presence of colonial infrastructure from Japan. Where Korea and Taiwan differ is in how each country applied these characteristics to their individual country. Korea chose to focus its attention on creating large industries, whereas Taiwan placed a greater emphasis on smaller industries.

Korean and Taiwanese developmental history has been debated throughout the world. As illustrated in the previous section, Korea and Taiwan share several of the same characteristics of their economic development. In an attempt to explain their respective "economic miracles," several theories have been brought forth, specifically, the late-industrialization model, the East-Asian model, and the export-led model. These models contain elements of previous developmental theories such as import substitution, modernization, export-led growth, and state-centered theories. All three models share many common characteristics. Each has certain insights that tell us about Korean and Taiwanese development.

Export-led theory focuses on the ability of governments to provide a stable environment and a legal framework through which they can promote
domestic and international markets. According to the World Development Report in 1987, rapid growth in Asian economies has been associated with effective but carefully limited government activism. Export-led growth focuses strongly on manufacturing exports. This is done by exploiting comparative advantage and promoting low consumption levels at home. The 1987 report focused on export-led growth as a model for developing nations to follow. This was seen by many as an attempt to "universalize a non-universal process."

In an attempt to explain the rapid economic growth in East Asia, the late-industrialization and the East Asian models were developed. They are revisionist theories of development that address development characteristics present in East Asian development which were not addressed by previous development models.

As explained by Gustov Papanek, the strategy of the East Asian model contains five basic elements: 1) A set of prices and other incentives that made it profitable for investment in heavy industrial areas; 2) Extensive government intervention in economies which compensated for weaknesses that existed in the market economy; 3) Strong incentives to compete in the world market; 4) High rate of return for investors; and 5) An environment in which personalistic

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decisions were limited.\textsuperscript{36}

Late industrialization theory was put forward to explain the rapid industrialization and modernization of those countries who developed after World War II. Alice Amsden uses this theory to explain such economic phenomenon created in Japan and South Korea. Although Taiwan is not specifically mentioned as an example of late industrialization, it does exhibit several of the characteristics of late industrialization. Late industrialization development is characterized by the following characteristics: an educated work force, an almost unlimited supply of labor, a lack of opportunity for international migration, and a government that is willing to step in and guide industry. Finally, the entire system is based on learning from other industrialized countries.\textsuperscript{37}

According to Alice Amsden, Korea has been blessed with all the characteristics necessary for a successful jump into industrialization. Late industrialization focuses on the premise that development should be based on learning the production processes and procedures that are characteristic of more advanced economies.\textsuperscript{38} In this respect, late industrialization is quite similar to modernization theory. It is evident that Korea followed Japan's lead in industrialization which focused on industrialization from above, using the

\textsuperscript{36}Papanek, 1988, pp. 77-78.

\textsuperscript{37}Amsden, 1989, passim.

\textsuperscript{38}Amsden, 1989, p. 215.
government to implement economic policy. The need for an educated work force is an underlying characteristic of all three development theories: late-industrialization, the East-Asian model, and the export-led model. The educational component of the export-led model focuses on educating workers to perform the high-skill level jobs that drive production. Education, in the late-industrialization and the East-Asian models, provides a basis for people to develop reasoning and problem solving skills that can be useful in a developing economy. An educated work force is essential for any late industrializing country. There has to be a base of individuals that recognizes how the economy should run and how to create an environment in which this can occur. Countries that are said to be part of the East Asian economic miracle have invested heavily in this area.

Education of the population is key to any possibility of success. When education issues are addressed, the level and type of education needs to be appropriate for each individual situation. Inappropriate education can lead to brain drain and a waste of resources that could have been put to better use. Different types of industries require different types of education. What is the appropriate level of education for the agricultural industries and the levels

39Mallaby, 1995, p. 5
necessary for the electronics industry are completely different.

Whereas export-led theory, as illustrated in the World Development Report 1987, does not allow for a strong government influence, both late industrialization and the East Asian models do. The export-led model is associated with an effective, but carefully limited, government action. Amsden contends that the idea of government and business being separate has been smashed. "Korea is evidence for the position that if and when late industrialization arrives the driving force behind it is a strong, interventionist state," stated Amsden. Contrary to the belief held in classical economics that the government should stay out of the economy, Korea and Taiwan have shown that strong government intervention in certain areas of the economy can lead to a great economic outcome.

In 1993, the World Bank adapted its notion of the role for government. The 1993 World Bank Report contended that government intervention resulted in a greater and more equal growth than otherwise would have occurred in the Asian NICs. According to the World Bank's report, the role of the government is to ensure adequate investments in people, provide an environment for private

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enterprise, and be open to international trade.\textsuperscript{46} The World Bank’s position was that in order for the state to achieve rapid growth, it must have two complimentary elements: 1) getting the fundamentals right, which include high savings, broadly based human capital, limited price distortions, acquisition of technology, and education; and 2) careful policy intervention.\textsuperscript{47} The 1993 World Bank report provided a reworking of the export-led model which better reflected the development situation in East Asia and moved it closer to the other revisionist models.

High rates of savings and investment are characteristic of the East Asian, late industrialization, and export-led growth models. The export-led model focuses on investment that comes from both domestic and international sources. It encourages direct foreign investment from multinational corporations.\textsuperscript{48} Late-industrialization does not encourage the use of DFI, rather, it focuses on foreign loans.\textsuperscript{49} The Taiwanese use of DFI is characteristic of the export-led and East Asian models but not late industrialization theory, whereas the Korean experience in this area is more characteristic of Late-industrialization.

Reflected in the Korean and Taiwanese experiences, all three theories, export-led, East Asian, and late industrialization, place a strong emphasis on

\textsuperscript{46}World Bank, 1993, p. 10.


\textsuperscript{48}Linnemann, 1987, pp. 1-5, passim.

\textsuperscript{49}Amsden, 1989, p. 9.
Along with an emphasis on exports, the East Asian and the late-industrialization models acknowledge a role for protectionism. This corresponds with the Korean and Taiwanese experiences, wherein protectionist measures were initially utilized to encourage domestic industrialization. This fits with the "Infant Industry" arguments against classical economics, where protectionist measures are justified as temporary actions to raise domestic industry to a point where it can compete with foreign industry. However, in recent years, both countries have begun to remove these protectionist measures in order to liberalize their economies in response to global pressure for free trade.

Table 5 combines the characteristics of the initial development theories found in chapter 1 and those of revisionist theories, the late-industrialization, and the East-Asian models. These theories contain several elements found in previous development theories. As shown, late industrialization and the East-Asian model share the characteristics of strong interventionist government, use of foreign sources of capital, focus on education, a high level of exports, production of domestic goods for consumption, market-oriented economy, protectionism, and involvement in the world market.

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50 Henderson, 1997, Summer, pp. 11-15 passim.
Note the export-led model was split to take into consideration the revisions of the 1993 World Bank Report.
A pattern of common characteristics is illustrated in Table 5. By comparing the development theories and revisionist theories, it can be determined that several of these theories share common characteristics. A focus placed on education was present in eight of the nine theories. Seven of the nine theories placed an emphasis on labor intensive industries. Strong government involvement, high levels of savings, use of foreign sources of capital, and involvement in the world market were present in six of the nine theories. Five of nine place an emphasis on a market-oriented economy, high levels of exports, and protectionism. Finally, one in nine placed a priority on adequate food, shelter, and clothing and basic services: safe water, sanitation, and access to health care. Below is a list of common characteristics found in at least six of the nine development theories listed in Table 5.

Table 6 Common Characteristics of the Development and Revisionist Theories

<table>
<thead>
<tr>
<th>Common Characteristics of the Majority of Development Theories</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Strong government involvement</td>
</tr>
<tr>
<td>* High levels of savings</td>
</tr>
<tr>
<td>* Use of foreign sources of capital</td>
</tr>
<tr>
<td>* Focus on education</td>
</tr>
<tr>
<td>* Labor intensive</td>
</tr>
<tr>
<td>* High level of exports</td>
</tr>
<tr>
<td>* Involvement in the world market</td>
</tr>
</tbody>
</table>

These models reflect judgements by the expert community about the characteristics necessary for successful development. Although not a perfect measure of expert opinion, I assert that those characteristics found in a majority of these models have support within the expert community. This preponderance
of expert opinion provides one basis for selecting characteristics put forward for the general model of development.

Another means of determining general characteristics that may be transferred to other countries stems from the comparison, made earlier, of characteristics which were common to both Korean and Taiwanese development. As shown in Table 7, by comparing these common characteristics with those common in the development theory, I find that they share the following characteristics: the idea of a strong government involvement, high levels of saving, the use of foreign sources of capital, high levels of exports, a focus on education, and involvement in the world market.

Table 7 Shared Characteristics of Development Theories and Case Experiences

<table>
<thead>
<tr>
<th>Common Characteristics of the Majority of Development Theories</th>
<th>Common Characteristics of Korean and Taiwanese Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Strong government involvement</td>
<td>* Strong government involvement</td>
</tr>
<tr>
<td>* High levels of savings</td>
<td>* Strong relationship with the U.S.</td>
</tr>
<tr>
<td>* Use of foreign sources of capital</td>
<td>* High level of savings</td>
</tr>
<tr>
<td>* Focus on education</td>
<td>* Use of foreign sources of capital</td>
</tr>
<tr>
<td>* High levels of exports</td>
<td>(differing types used in each)</td>
</tr>
<tr>
<td>* Labor intensive</td>
<td>* Focus on Education</td>
</tr>
<tr>
<td>* Involvement in the world market</td>
<td>* High levels of exports</td>
</tr>
<tr>
<td></td>
<td>* Involvement in the world market</td>
</tr>
<tr>
<td></td>
<td>* Initial stage of import substitution</td>
</tr>
<tr>
<td></td>
<td>* Colonial infrastructure</td>
</tr>
</tbody>
</table>

They differ in that the development theories also emphasize labor intensiveness. The Korean and Taiwan cases also share a strong relationship with the U.S., initial periods of import substitution, and a colonial infrastructure,
which are not present in the common characteristics of the theories of development.

It is my assertion that certain common characteristics, found in the theoretical literature and case study experiences, can be transferred and adapted to other countries pursuing development. The other aspects of the Korean and Taiwanese development experiences are unique to the Korean and Taiwanese experiences and are not repeatable by or transferrable to other developing countries.
In the beginning of this thesis, I attempted to establish that through an examination of developmental theory and a review of the Korean and Taiwan case studies, a general model of development could be created that can apply to all developing countries. In this sense, I am guilty of falling into the same trap as the World Bank did: trying to universalize a non-universal process. I recognize that the characteristics highlighted in this section should be considered general and not specific plans. It should be kept in mind that developing nations should not try to make themselves carbon copies of other nations. Korean and Taiwanese development should not be used as exact models for developing countries to follow. Every country is unique and therefore the solution to the development question is going to be different for everyone.

In order to achieve the same results that Korea and Taiwan did, one would have to have an almost exact replica of the situation in Korea and Taiwan in the 1960s. The likelihood of this happening in today’s world economy is not very realistic. The best advice that can be taken from Korea’s and Taiwan’s experiences are a few basic methods from which the core elements of a development plan can be created for individual countries.
As is seen throughout the previous chapters, I have been able to narrow down a list of common characteristics found in both the theoretical literature and the case study experiences that compose the basis of the general model for development, but one must keep in mind that these characteristics also carry risks with them depending upon how they are implemented.

As illustrated throughout the discussion of the late-industrialization and the East Asian models, strong government influence played an important role in Korea's development. A strong government influence over the economy may sound easy, but there can be complications with this. According to a World Bank report, "the prerequisites for success were so rigorous that policy makers seeking to follow similar paths in other developing economies have often met with failures." Failure occurs if costs of government intervention become too expensive and if the institutes do not limit their efforts to "pick winners" for a positive return.¹

Governments have to be flexible when implementing economic plans and realize that in some instances it may be in their best interest to step back. As the government creates policies and takes measures to ensure that their domestic industries are given a chance to grow, they may decide to take protectionist measures to ensure this. In today's world economy there is a general push for free trade and the removal of all barriers that may inhibit free trade. Korea is

currently facing the task of having to remove their tariffs and other non-tariff barriers in order to comply with the WTO. The goal for developing countries should be to find the balance between government intervention and how much intervention is too much.

In order for countries to focus on export manufacturing, they must have the assurance of a large, well educated labor supply which is essential for this type of manufacturing. Countries need to work toward creating an educational system that will provide the skilled workers necessary for export manufacturing. It is important to remember that the type of education must be appropriate for the situation and type of manufacturing done.

Before they start pushing an export driven model of development, that is state-led companies should study the market to ensure that there is enough international demand for the product they want to export or the system could have disastrous results. No endeavor that the country enters into is guaranteed to be successful, but with the proper research and commitment, countries should be able to foresee many of the problems they may encounter. Countries should also be aware of competition; others may be interested in developing the same market.

High levels of savings and investment can be pursued by those countries which do not have subsistence economies. A high level of savings is one

essential element for successful development. Savings and investment are important, but they alone are not likely to drive development. Countries do not necessarily have to follow Korea's or Taiwan's example by focusing primarily on loans or FDI. Countries today need to be open to all forms of investment. Both loans and FDI carry risk factors with them. An over-dependence on foreign loans can cause countries to have a large foreign debt burden. It is possible that countries may become so dependent on these foreign sources of money that they fail to develop domestic sources of capital. Many countries have fallen into debt crisis and were unable to meet the payments they owe.

Countries that use FDI as their main source of capital are also open to problems. The use of FDI opens companies to influence by multi-national corporations (MNCs). The MNCs may then be able to exact a great influence over the direction a company takes. This influence by MNCs may also weaken the government's ability to dictate or advance the country's economic policy through the domestic company.
Table 8 is a brief synopsis of the ideal characteristics and the real dangers that they carry with them.

<table>
<thead>
<tr>
<th>Table 8 General Characteristics of Development and Their Dangers</th>
</tr>
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<tbody>
<tr>
<td><strong>Ideal</strong></td>
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</tbody>
</table>
| Strong government involvement | -government involvement too great inhibiting industry  
- government choosing wrong policies to pursue  
-corruption in government |
| High levels of savings | -investment in the wrong areas  
-not every country has the ability to create high levels of savings |
| Use of foreign sources of capital | FDI- reliance on capital from foreign companies  
- MNCs gaining too much control over domestic industries  
Foreign loans -creation of larger foreign debt burden  
-dependent on availability of foreign |
| Focus on education | -wrong type of education pursued  
-flight of educated workers to more developed countries (brain drain) |
| Focus on exports | -dependent on international market demands  
-shifting international market tastes  
-failure to develop industries that supply domestic goods  
-competition from other exporters producing the same product |
| Involvement in the world market | -dependent on market to determine prices of exports  
-possibility of being subject to the rules of international organization such as the WTO |

In contrast to the above characteristics which I argue are transferrable, the following are characteristics of Korean and Taiwanese development appear unique to their individual situations and cannot be transferred to other countries.
The influence of the Japanese on the Korean and Taiwanese developmental process cannot be repeated. At the same time, this does not mean that another colonial power could not have previously played the role Japan played for Korea and Taiwan in another developing nation.

One of the biggest benefits that Korea and Taiwan have going for them was the time period in which their development occurred. They were developing at a time when the Cold War dominated world politics and the super powers were willing to hand out money to anyone who would support them in their endeavors. Situations in the world such as this are rare today. With the end of the Cold War, the U.S. is no longer willing to provide the amount of aid to countries that it once did. During the 1960s, when both Korea and Taiwan were moving through the transition toward industrialization, the American market was favorable towards exports. Korea and Taiwan had the benefit of good timing when they started to industrialize.³

Like good timing, the final element of the Korean and Taiwanese development that cannot be repeated is the role that "luck" played. Both countries were able to find a balance between government and industry that worked for them. They also happened to be developing during a favorable time period and chose the right industries to devote their resources to. Other developing countries might also have similar luck in the future, but no one can

³Berger, 1988, p.15.
guarantee that it will be present. The development process has so many variables that it is almost impossible to control all of them. No matter how many plans are created, in many ways, a country is still dependent on the “fates” to ensure that everything falls into the right place at the right time.

It is important to remember that the characteristics highlight above should be considered a general not specific plan for development. The best suggestions for today’s developing countries would be to create a development plan that emphasizes the country’s strengths and the application of the basic characteristics listed in Table 8. Governments need to remain open to new possibilities rather than being strictly tied to developmental models used in the past. It is important for countries to remember to be flexible in development and try new ideas. If countries become too locked into one specific plan, they may not be able to cope with problems when they arise. As Amsden commented, “Japanese and now Korean economic history, however, also teaches that we may expect not merely imitation and copying from learners --- the long standing stereotype. We may also expect creativity because learning itself turns out to be a highly creative process.”

Developing countries all across the world are waiting to become the next economic miracle. In order to do this, countries need to develop economic policies that are right for their individual situations, but also need to keep in mind

that not every country will be as successful as Korea and Taiwan. In matters of
development, there are rarely any quick fixes. Change takes time and patience;
even the East-Asian miracle did not happen overnight.
EPILOGUE

Korea's "economic miracle" may be over. Korea is in serious trouble of having a economic meltdown due to the currency crisis that has swept through Asia. The origins of the current crisis are in dispute, but it is generally believed that it began in early May 1997 with the rumors that Japan might raise its interest rates. These rumors created a shift in the decisions of international investors to sell Southeast Asian currencies, which set their currencies and stock markets plummeting. The crisis went from Thailand to Indonesia to Hong Kong to South Korea, finally sending the Dow Jones industrial average spiraling down 554 points on October 27, 1997.¹

In an effort to stop the Korean economy from collapsing, the IMF was called in to bail out Korea. The IMF created a loan package for Korea of $57 billion dollars, the largest in history. This loan package carries with it certain measures that Korea must comply with. The Korean government agreed to cut nearly 10% from expected spending next year, limit its annual growth rate to 3%, and open up its financial markets more to foreigners.²

Many believe the origins for the current financial problems in Korea can

be traced back to the level of debt that Korean companies possess. According to the Bank of Korea, "South Korea's 30 largest business groups carry a debt load equal to 386.7% of their equity, meaning that they owe four times as much as their net worth." This can be traced back to the way that the Korean government encouraged banks to loan money. The Korean banks made unwise loans to companies that would be considered by others as high risk. When the financial crisis hit Korea, it became apparent that many companies did not have the means to meet their loan payments.

Unlike Korea, Taiwan is one of the few Asian countries that has not been thrown into economic turmoil with the advent of the "Asian flu." A light foreign-debt burden, better banking regulation, and a more flexible economy are reasons listed in a recent article in the *Economist* to explain Taiwan's ability to weather the financial crisis in Asia. Due to Taiwan's ability to avoid the "Asian flu," the government is currently pursuing ways to assist other Asian countries. Currently Taiwan has $36 billion invested in the region and is looking for ways to increase imports from these countries and increase opportunities for foreign workers from the affected region.

It is still unsure what the long term effects of the Asian crisis will be for

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Korea. With the IMF bailout, Korea will be able to meet its foreign loan payments in the short term. The austerity measures imposed by the IMF should benefit Korea in the long-term, but first Korea will have to make it through the short-term problems of unemployment and social unrest that can be results of these measures.

Taiwan’s outlook for the future is very good. The Taiwanese have not had to face the financial difficulties of other Asian countries. They should be able to maintain their current state and maybe even expand their influence in Asia.

The Asian crisis should make developing countries stop and take notice. Although Korean development was considered miraculous, it did not protect the country from the current crisis. Korea’s focus on the use of foreign loans rather than DFI seems to have led to serious problems for the Koreans. Developing countries should be aware of the dangers mentioned earlier concerning the use of foreign loans and DFI. Although both carry risks, it appears that Taiwan was able to successfully manage the use of DFI better than Korea was able to manage its use foreign loans. Developing nations need to pay attention to the mistakes that Korea made and learn not to repeat them.
Bibliography


