

An Unpromising Recovery

South Korea's Post-Korean War Economic Development: 1953-1961

By Michael J. Seth

Introduction: South Korea Lags Behind the North

In 1953, both North and South Korea were shattered by the destructive three-year Korean War that left upward of two million dead and cities and towns in ruin. Already poor prior to the war, neither country had very promising prospects for the future. However, in the first eight years after the conflict, North Korea carried out an impressive recovery under a highly organized, purposeful government that appeared to be laying the foundations for a modern industrial society. By contrast, South Korea during this time was characterized by political corruption and turmoil, sluggish economic growth, and dependency on massive aid from the United States. On the surface, at least, there seemed little to suggest that South Korea in 1961 was on the eve of one of the most dramatic economic transformations in history.

South Korea's economic development in the first eight years after the Korean War was hindered by political upheavals and pervasive corruption. Syngman Rhee, the first president who had served since 1948, governed in an authoritarian manner but was unable to provide the effective leadership that South Korea needed to create a stable political system and pull itself out of poverty. His Liberal Party had no real ideology other than perpetuating Rhee's rule and using his administration to personally advance the political and economic fortunes of its members. Nominally democratic with opposition parties and elections, Rhee and his Liberal Party supporters did not refrain from using bribery, electoral manipulation, and strong-armed tactics to maintain power. But rising discontent by a rapidly growing urban population, increasing public disgust with the regime's corruption, and the disappointments over the slow pace of economic recovery and growth made Rhee's hold on power increasingly tenuous. Losing its support, the regime took to increasingly extreme measures to maintain itself in power by pushing through a new National Security Law in December 1958 that made it easier for the government to crack down on critics under the name of endangering national security. In 1959, Rhee executed Cho Pong-am, who ran against him three years earlier. In 1960, Rhee stood for a fourth term, and the obviously fraudulent victory of his unpopular vice presidential candidate led to a violent student-led uprising in April that resulted in his exile to Hawai'i.

Following this "April Revolution," South Korea had a brief experiment with a more democratic government. On June 15, 1960, a new constitution was drawn up that created a parliamentary cabinet form of government that placed real authority in the hands of Prime Minister Chang Myŏn. But the new administration of the Second Republic, as it was called, was no more successful in providing effective governance than the Rhee regime. Its brief one year of rule was plagued by a series of strikes, as labor leaders, teachers, students, and others called for the removal of all members of the old regime and the enactment of laws addressing their grievances for improved working conditions, more freedom to organize, and better pay. The decision by the Chang government to devalue the currency led to double-digit inflation, adding to the distress of wage earners, as well as making the business community uneasy. Support from the business community further eroded when the Assembly moved to pass legislation punishing corrupt businessmen with ties to the Rhee regime—although the final bill was fairly innocuous.¹ With demonstrations by students, laborers, and various groups in Seoul



April 1960 Revolution. Source: Creative Commons at <http://tiny.cc/2jfq5w>.

occurring almost daily, there was an impression that the government was unable to establish order. Even more threatening to the government was the demand by students and other groups for direct negotiations with P'yŏngyang and the withdrawal of US forces from the country. This came at a time when the instability of the government was also seen by some in the military as a possible invitation to the North to invade again. In the midst of this political turbulence, a group of army officers led by General Park Chung-hee (Pak Chŏng-hŭi) seized power on May 16, 1961, the second violent overthrow of a government in thirteen months.

Unsuccessful Economic Policies: Unhappy Americans

Under the Rhee and Chang Myŏn administrations, South Korea's economy grew at a painfully slow rate. It averaged about 4 percent a year, less than 2 percent per capita when the high birthrate was factored in. Starting with the low point at the end of the Korean War, these growth rates meant that in 1961 the country was still extremely poor. Furthermore, most of this modest growth can be accounted for by the massive amounts of aid the United States poured into the country. Washington financed most of the ROK operating budget, paying the entire cost of its large military. From 1946 to 1976, the United States provided \$12.6 billion in economic assistance; only Israel and South Viêt Nam received more on a per capita basis. To put this into comparative perspective: \$6.85 billion was given in this period to all of Africa and \$14.89 billion for all Latin America.² The greatest amounts of aid came in the decade that followed the Korean War, yet during this time, there did not seem to be much to show for it. Partly, this was because much of the assistance to Korea was relief, including food and building materials for reconstruction, not for long-term development. With such aid, the basic infrastructure was largely rebuilt by the late 1950s, bringing South Korea back up to its prewar level. Still, American officials complained of aid funds being misallocated for political purposes and by the apparent inability of the Rhee administration to generate sustained economic growth. The Americans felt that South Korea was a "rat hole" swallowing up assistance without producing sustained economic progress.

The economic policies pursued by the Rhee regime were not conducive to rapid development. Rhee's government followed an import substitution industrialization policy in which imports were blocked in order to protect and encourage the development of domestic industries. While import substitution policies were pursued by many postcolonial states after World War II, this was not a practical policy for South Korea because it lacked natural resources and a large internal market. As a result, there was little industrial development. The economy instead relied on imported goods purchased with US aid funds, money spent by American



Syngman Rhee, president of the Republic of Korea (left), presents the ROK Order of Military Merit (Taiguk) to Rear Admiral Ralph A. Ofstie, USN, Commander Task Force 77, in ceremonies at the presidential residence in Pusan, Korea. Also present (center) is the ROK Chief of Naval Operations, Vice Admiral Sohn Won Il. Photo is dated May 13, 1952. Source: Official U.S. Navy Photograph, now in the collections of the National Archives, <http://tiny.cc/wofq5w>.

soldiers in the country, and a flourishing black market in goods intended for the US forces stationed in the country. The United States encouraged Seoul to establish trade relations with Tokyo through rice and seaweed exports and attempted to interest the Japanese in investing in the country. But Rhee would not sign a peace treaty or establish diplomatic relations with his country's former enemy. His anti-Japanese sentiments, while shared by most Koreans, went to extremes, including frequent clashes with Japanese fishing vessels and a constant state of tension with the country's former colonial master. Rhee's policies, considered "irrational" by the Americans, nonetheless reflected genuine fears that opening up South Korea to trade and investment with Japan would recreate the economic structure of the colonial period, thereby reducing the country to an economic colony.

Rather than develop a constructive development strategy, the Rhee regime relied on US aid and an overvalued currency to keep the country economically afloat. American aid at one point in the mid-1950s accounted for nearly 80 percent of all government revenues and a substantial portion of South Korea's entire GNP. The government used this aid to accumulate US dollars. It then gave out import licenses to favored businessmen, which enabled them to buy these dollars at the official exchange rate. Since the *hwan* (later renamed the *won*) did not reflect any market reality, this meant that they could buy imported goods cheaply and sell them locally at great profits. Part of the profits would go to Rhee's Liberal Party. Lee Byung-chull (Yi Pyŏng-chŏl), one of the most prominent of the favored capitalists, exemplifies how this system worked. He purchased imported sugar at low prices for his Cheil Sugar, using his government-issued foreign exchange license to become the country's largest refiner while also becoming an important financial contributor to the pro-government Liberal Party.³ In this manner, a small group of wealthy businessmen who were dependent on their cooperation with the regime flourished. Meanwhile, the country exported little. In 1956, exports amounted to \$25 million and imports \$389 million; the huge deficit was made up for by the infusion of US aid funds.

The slow pace of economic recovery in South Korea, despite massive aid, was worrisome to the Americans, who by 1956 had become aware of the much faster recovery in North Korea.⁴ In 1957, they began cutting aid and insisting on a program that involved limiting the budget deficit to curb inflation and pressured Rhee to devalue the currency. These measures

weakened the regime in the late 1950s but did not result in any economic improvements. South Korea remained embarrassingly dependent on the US. "Could we preserve our self-respect as a sovereign nation, independent, free, and democratic," Park Chung-hee later wrote, being so dependent on the US, which had "a 52 percent majority vote with regard to Korea."⁵ Park was referring to the fact that the American aid accounted for over half of the government's budget. Economic conditions did not improve under the brief Chang Myŏn regime. The radical devaluation of the currency by the new government only led to inflationary pressures that contributed to the demonstrations and instability of 1960-61, a situation hardly conducive to investment or economic growth.

The Prospects in 1961

Thus Park's military government that came to power in 1961 inherited a poor nation with only a modest rate of economic growth that was reliant on the United States for survival. The leaders of the coup were among those frustrated at seeing their country stuck in poverty while Japan boomed and at the contrast between their country's impoverished citizens and the well-fed American troops.⁶ Especially alarming was how their country compared with rapidly industrializing North Korea. This posed a threat to the very legitimacy of the South Korean state that was so clearly falling behind its North Korea rival because it gave credibility to P'yŏngyang's claim to represent the path of progress, modernization, and prosperity for all Koreans.



Park Chung-hee, left, in 1961. Source: *The Asia-Pacific Journal: Japan Focus* at <http://tiny.cc/wofq5w>.

Freeing the nation from its "mendicant" status and lifting it out of poverty thus became the military government's highest priority. But in 1961, the task seemed hopelessly difficult to many outsiders. The country had little industry and lacked the mineral and energy resources of its northern rival. Once an agricultural exporter, South Korea was experiencing rapid population growth that was turning it into a food importer. In March of that year, New York Times reporter A. M. Rosenthal did a series on South Korea. It concluded with an article titled "Outlook Dreary for South Korea." "South Korea," the author wrote, "the poorer half of one of the poorest countries in the world, is trying to exist as a nation with too many people and too few resources. No one knows the answers to the country's economic woes," he reported, except for "a Korea dependent for the foreseeable future, perhaps for decades, upon the self-interest and charity of . . . the United States."⁷ This was not an unusually pessimistic assessment; for most observers, South Korea's prospects for the future looked grim. Foreign visitors commented on the poverty and the Seoul streets chaotic with panhandlers, prostitutes, and children selling gum. Overcrowded, possessing few natural resources, artificially severed in half, cut off from the more industrial and developed North, riddled with official corruption and political instability, few countries must have seemed a less promising candidate for an economic takeoff.

Unseen Foundations for 1960s Economic Development

Yet while it was not obvious to many observers at the time, underneath this very unpromising start were some developments that were laying the foundation for the “South Korean Miracle.” As riddled with self-serving, corrupt officials as it was, the state had many able and talented people in the areas of economics, education, and finance. This was partly the result of US assistance, which provided thousands of Koreans with technical training. This ranged from a program to train statisticians to the many economists and engineers that received a US education. While this was only a small proportion of the aid funding, it resulted in a large core of well-educated and trained bureaucrats; educators; and other skilled professional people. To these were added a steady stream of South Koreans who were using their own means of travel to study science, engineering, economics, education, and a variety of other fields in the United States. They were often employed as young technocrats by the government. In 1958, the Rhee administration, drawing from this growing body of technocrats, created an Economic Development Council, which began to make plans for long-term economic development. Although the Rhee administration collapsed in 1960 before plans could be implemented, they formed a basis for those of the Park Chung-hee regime after 1961.

This period also saw the emergence of entrepreneurs who would provide a pool of talent from which the later Park regime could draw. South Korea’s economy after 1961 became dominated by huge business conglomerates called *chaeböl*. Nearly half of the fifty largest of these *chaeböl* got their start during the 1950s.⁸ Among the entrepreneurs that emerged in this period were Chung Ju-young (Chöng Chu-yöng), the founder of Hyundai; Koo In-hwoi (Ku In-hoe), whose Lucky Chemical Company became the electronics giant LG; Kim Sung Kon (Kim Söng-gön), the founder of SsangYong, who prospered in the cement business; and the most successful entrepreneur, Lee Byung-chull, the richest man in Korea in 1961, whose enterprises evolved into the Samsung *chaeböl*. When General Park Chung-hee came to power in 1961, he first arrested these “corrupt” businessmen but soon had Lee and others advising and working closely with him in planning the country’s push for industrialization.

South Korea’s economic transformation was also made possible by the social transformation that was occurring in the country at this time. During and after the Korean War, there was a massive exodus from the countryside to the cities, while the wartime destruction of property contributed to a social-leveling process. This was following the upheavals of the colonial period and the partition of the country in 1945, all of which resulted in old social classes and social barriers breaking down. A more fluid and unsettled society was emerging, a society open to change. South Korea had a citizenry that was restless and open to new opportunities, possessing a sense of optimism, a belief in the possibility of a better life noted by foreign observers but often regarded by them as unrealistic.

In particular, two fundamental changes in South Korea contributed enormously to the country’s eventual economic takeoff. One was land reform, a crucial element in South Korea’s economic as well as social modernization. Korea was a predominantly rural peasant society in 1945 still dominated by descendants of the old *yangban* landholding aristocratic class; the majority of farmers owned little or no land. Land reform was an emotionally charged issue. The South Korean

government, dominated by conservative members of the landowning class, was reluctant to carry out land reform. But worried by the influence of North Korea—which carried out a sweeping redistribution of land in 1946—the South’s restless peasants, and US pressure, the National Assembly passed a land reform act in 1949. Still, it was only during the Korean War that this was carried out. Under the land reform, property holdings were limited to 7.5 acres; farmers receiving redistributed acreage had to pay 150 percent of the annual value of the land received over a ten-year period. While this initially left them with a large debt, the high rate of inflation made it easy to pay off. The result was dramatic; in 1944, 3 percent of landowners owned 64 percent of the farmland; but in 1956, the top 6 percent of landowners owned only 18 percent, and tenancy had virtually disappeared.⁹

Few developments changed South Korea so profoundly, so quickly. Traditional peasants became small entrepreneurial farmers. The conservative landlords, rather than disappearing completely, now directed their

Chaeböl and Keiretsu

The *chaeböl* is a form of business conglomerate in South Korea. Typically a family-controlled corporation, the *chaeböl* rose to prominence in the 1960s and helped South Korea become a global economic player. International industries such as Hyundai, LG, and Samsung are examples of *chaeböl* business conglomerates. The *chaeböl* received heavy support from the government, both politically and financially. In the 1960s and 1970s, President Park Chung-hee helped Samsung and others grow through financial support and protection from foreign competitors—most notably by banning those who were selling consumer electronics in South Korea.

The Korean *chaeböl* is most commonly compared to the Japanese *keiretsu*, a set of companies with interlocking business relationships and shareholdings. In the years following World War II, the *keiretsu* emerged after the *zaibatsu*, conglomerate businesses that were started during the Meiji period (1868-1912), were dismantled by occupying US forces. Post-war *keiretsu* businesses operated by using cooperation between multiple industries centered around and assisted by a major bank. Examples of major corporations who operate as *keiretsus* are Mitsubishi, Toyota, and Honda.

While many similarities exist between the Korean *chaeböl* and the Japanese *keiretsu*, many differences also exist between the two. See the table below for a comparison between the Korean *chaeböl* and the Japanese *keiretsu*.

Chaeböl and Keiretsu Compared

	Chaeböl	Keiretsu
History	Relatively short	Much longer
Management	Largely by founding families	Mostly by professional executives
Ownership	Centralized	More decentralized
Production Structure	Subsidiaries produce components for export products	External contractors are hired for production
Financial Structure	Subject to government regulation in credit allocation. Prohibited from owning private banks.	Historically working with an affiliated bank with almost unlimited access to credit.

Source: Zhu, Zhiqun. “Understanding East Asia’s Economic ‘Miracles’” *Key Issues in Asian Studies*, No. 3 (Ann Arbor: Association for Asian Studies, 2012): 27.

capital and energy toward business or education.¹⁰ Since the 1910s, some members of the landed aristocracy had been entering business; the land reform accelerated this trend. Many others established private schools, universities, and private educational foundations. In this way, land reform contributed to the foundations of a prosperous society. It brought stability to the countryside and redirected much of the capital and entrepreneurial energy of the old landlord class toward commerce, industry, and education.

A second fundamental change South Korea went through in the decade before 1961 was an extraordinarily rapid transformation of education. Immediately after liberation in 1945, new schools mushroomed, and enrollments exploded. The Korean War did little to slow the expansion of schooling, despite the destruction of school buildings. In 1953, classes were being held everywhere space could be found, from abandoned factories to tents. Since there was a shortage of teachers, class sizes were enormous, with as many as 100 students in a class and with two and even three shifts a day. Between 1945 and 1960, primary school enrollment grew by three times, secondary schooling eight times, and higher education ten times. By 1960, primary schooling was nearly universal for boys and girls, and the dropout rate was minimal. South Korea had the lowest dropout rate of any poor country with reliable statistics.¹¹

The state in the 1950s carried out policies that proved highly successful for creating a literate society. It invested in teacher education and insisted on maintaining high standards of professionalism, including required in-service teacher training programs. The state concentrated on establishing primary education and left much of the development of upper levels to private foundations. This made it easier to achieve universal primary education in a short time. As a result, half of the high schools and three-quarters of the colleges and universities were private in 1961. Many educational foundations were supported by former landowners seeking new opportunities after they had lost their agricultural estates. Enrollment in secondary and higher education grew even faster. In 1960, 29 percent of those of secondary school age were enrolled in middle and high schools, a number that would rise to over 90 percent in the next two decades.¹² The South Korean government sought to maintain fairly uniform standards throughout the country, even in remote rural areas. Public funds were often directed at rural schools. As a result, the gap in educational standards between rural and urban areas was less than in many developed nations in 1961. The main engine of educational expansion, however, was a nearly universal popular demand for schooling. The government couldn't build schools fast enough to meet this demand. Parents were willing to make enormous sacrifices to obtain schooling for their children. As a result of this demand, the state was able to shift much of the cost of schooling to the families of children, thus building up an impressive education system with modest expenditures. By 1961, the ROK had an extremely high rate of school enrollment for a poor developing country—the highest rate of educational attainment of any nation within comparable GDP per capita range. As a result, South Korea began its 1960s industrial takeoff with a better-educated population than most other nations when they began their respective economic upturns, including China, Việt Nam, Thailand, or India.

Conclusion

South Korea's economic development before 1961 is a complicated story. On the one hand, it seemed mired in economic stagnation; riddled with political corruption; and wedded to import substitution policies that were unrealistic in a small, resource-poor country. Still, largely unnoticed by most foreign observers, South Korea was undergoing social changes, including education and technical training that would serve the nation well once the Park Chung-hee regime in the 1960s moved it into an export-led development path. ■

NOTES

1. Han Sung-joo, *The Failure of Democracy in South Korea* (Berkeley: University of California Press, 1974), 169.
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3. Joungwon Alexander Kim, *Divided Korea: The Politics of Development, 1945–1972* (Cambridge: Harvard University Press, 1975), 157.
4. Gregg Brazinsky, *National Building in South Korea: Koreans, Americans, and the Making of Democracy* (Chapel Hill: University of North Carolina Press, 2007), 103–104.
5. Park Chung-hee, *The Country, The Revolution and I* (Seoul: Hollym Corporation, 1970), 28.
6. Laura C. Nelson, *Measured Excess: Status, Gender, and Consumer Nationalism in South Korea* (New York: Columbia University Press, 2000), 11.
7. A. M. Rosenthal, "Outlook Dreary for South Korea: Crowded Nation Has Few Resources—Long Reliance on US Held Inevitable," *New York Times*, March 21, 1961.
8. Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960–1990* (Albany: State University of New York Press, 1997), 103.
9. Cho Jae Hong, "Post-1945 Land Reforms and Their Consequences in South Korea," PhD dissertation, Indiana University, 1964.
10. John Lie, *Han Unbound: The Political Economy of South Korea* (Stanford: Stanford University Press, 1998), 9–18.
11. See Michael J. Seth, *Education Fever: Society, Politics and the Pursuit of Schooling* (Honolulu: University of Hawai'i Press, 2002), 78–79.
12. *Ibid.*, 87.

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