

Learning from South Korea's development experience: a summary of the UNRISD- KOICA methodology workshop for the project "Making Development Cooperation Effective" leading to the HLF-4 in Busan

Author: Olive Cocoman, Research Analyst, United Nations Research Institute for Social Development

This report was published in December 2011 in the KOICA Journal for International Development Assistance, Vol. 3

Introduction

Research ongoing by the United Nations Research Institute for Social Development (UNRISD) and Korea International Cooperation Agency (KOICA) titled 'Making International Development Cooperation Effective' started with the assumption that careful reading of the experience of South Korea is definitely rewarding to those with an interest in making aid effective for development.

Firstly, the analysis of the South Korean case offers the experience of the utilization of aid for simultaneous economic growth and poverty reduction from the perspective of a recipient country. This perspective is often overshadowed by the donor perspective in discussions and analysis of aid effectiveness. Further, critical assessment of the development experience of the South Korea from a comprehensive perspective, encompassing a holistic view of the political, social and economic dimensions, rather than focussing to narrowly on economic growth alone, is required to understand recipient states responses to and action for economic growth with poverty reduction. As such, in the process of identifying the potential of aid, both aid and non-aid policies must be considered together.

Secondly, the experiences of South Korea are diverse and provide a rich case study. Firstly, the situation of South Korea being in transition from conflict to post-conflict and nation-building and secondly, receiving aid during the transition period from authoritarian to democratic regimes, can provide us with a variety of dynamics between various stakeholders worthy of consideration. In this regard, and though the research recognises that the context of aid today is different from the period during which South Korea received aid, the South Korean experience provides a interesting case for exploration to

see whether there are insights and policy lessons for developing countries facing the challenges and opportunities of the developmental context of the twenty-first century. Acknowledging that there is no one-size-fits-all model, the current research considers the questions:

1. What lessons can be drawn from the Korean experience of success in economic, social and political development which may be valuable for developing countries today?
2. What are the critical issues and questions in interpreting South Korean success? In answering this question, we need to further consider how should we interpret Korean developmental success and formulate lessons that can be transferable to developing countries?

At the commencement of the research project, the research team gathered in Seoul, in May 2011, and over two days presented ideas and brainstormed on the questions. This paper provides a synopsis of points made during that discussion. The overall consensus which the participants shared during the workshop is that economic and social policy should not be separated in understanding the development of South Korea and other developing countries because in driving economic growth with equity, the roles of social policy in redistribution, protection, reproduction and production, are not mutually exclusive from economic policies, and the South Korean experience is a good exemplary case to show the significance of the multiple roles of social policy in development. This report highlights the major issues and key points raised during the project workshop.

The list of participants included:

Dr Kim, Director of Research, Ms You-ah Chung, Director of ODA Research, Ms Hyunjoo Rhee and Dr Bongkyoon Seo (Policy researchers)
UNRISD: Dr Ilcheong Yi and Ms Olive Cocoman

Collaborators:

Dr Alice Amsden, MIT by video link
Dr Peter Evans, UC Berkeley by video link
Dr Thandika Mkandawire, LSE
Dr Mike Douglass, University of Hawaii
Dr Moo kwon Chung, Yonsei University
Dr Eun Mee Kim, Ewha Women's University
Dr Jae Jing Yang, Yonsei University
Dr Jooha Lee, Dongguk University
Dr Taekyoon Kim Ewha Women's University
Dr Manohar Pawar, Charles Sturt University
Dr Taewook Huh, University of Bristol
Dr Jinock Lee, Seongkonghoe University

Discussants

Dr Liling Huang, Taiwan National University

Mr. Songyun Park, KOEXIM Bank

Mr. Anselmo Sunghoon Lee, GCAP Korea

Ms. Oh Eun Jung, KOICA Gender Specialist

Human capability enhancement in the capability enhancing Korean state

The centrality of the state's role in capability expansion has been considered a significant aspect of the South Korean development success. Human capabilities are both a means and ends to development according to Amartya Sen (1995). Theories in development economics support this understanding. The 'institutional turn', (Hoff and Stiglitz 2001, Rodrik et al 2004) posits that growth depends on the design of appropriate and socially-embedded institutional arrangements such as how land reform and increased productivity among small farmers are important contributions to equitable growth in South Korea, Taiwan (Hart, 2002), Colombia and Costa Rica and this can be contrasted to experiences such as in Guatemala and El Salvador (Nugent and Robinson, 2010]. In addition, 'new growth theory' (Lucas 1988, Romer 1994 and Helpman 2004) purports that growth depends primarily on human capital and ideas to support the service sector. Combining these theories, Peter Evans has purported that a 21st century developmental state must be a 'capability enhancing state'.

Expanding the capabilities of the citizenry is not just a welfare goal, 'it is the inescapable foundation of sustained growth in overall GDP' (Evans, 2010:37-38). Evan's considers that the capability enhancing developmental state is the only option for positing a coherent alternative analytical paradigm of development to the current neoliberal paradigm. A more effective paradigm may credibly emerge from the global south or later industrialisers and South Korea is an excellent candidate for this alternative paradigm. For Evan's capability enhancement is the central role of the developmental state, which South Korea is often nominated as the prime example. The developmental state, characterized by strong state intervention, as well as extensive regulation and planning is seen in contrast to the regulatory state which intervenes less and empowers regulatory agencies to enforce a variety of standards of behaviour to protect the public. In particular, and as explicit in the Korean context, the developmental state can intervene directly in the economy through a variety of means to promote the growth of new industries, drive industrialisation policy and related policy domains, such as labour

market development and support through quality education and health provisions and employment protections.

Eunmee Kim highlighted that prior to this theorisation of the developmental state previous theories have failed to explain the South Korean model of success in economic growth and poverty reduction. Modernisation theory, for example, failed to explain East Asia and instead cultural traits such as Confucianism, on a zest for education and learning were highlighted as drivers for productivity growth. Furthermore, dependency theory failed to explain those countries, such as South Korea, that could be classified as dependent on foreign capital and technology and development, but without a bad relationship in this dependency .

For Evans, the success of state action is dependent upon the states embedded autonomy' in society which is the closeness of the states links with society with the private sector, labour and civil society. In South Korea, the focus on institutions as key to development has contributed to theory building (Johnson, Amsden, Kim, Lim 1987 and Woo, 1989). In particular, the developmental alliance between government and business is seen as central and will be analysed in this study by Eun Mee Kim. The states relationship with labour under both authoritarian and democratic regimes is also in focus. Between the period 1972 and 1994, large volumes of funding available to South Korea were used to finance the state-business alliance and this proved key to development (Kim, 1997, 27-94). Amalgamating aid resources and the local capital and commitment of the Chaebol, the large business group, the South Korean government drove industrialisation through a variety of mechanisms. These mechanisms, varieties of incentives and controls, will be analysed. For example, in efforts for human capability expansion, Eun Mee Kim posits that there is a need to demonstrate in revision how labour was co-opted in the South Korean development experience. Kim emphasised that any argument of the developmental state as a benevolent benefactor is gravely wrong, because in the South Korean case the suppression of labour was a major reason for economic success. Labour was a subjugated group that it was not able to express any voice. For example, an ethnographic study on LG, a member of the Chaebol business group, describes the use of the secret police to discipline workers. Additionally, it can be seen in the large heavy and chemical industries, a key industrial focus of the South Korean Government, the labourer to management structure mirrored that of the army. Post-military service workers worked under top-down hierarchical command. Similarly,

Jae Jing Yang noted that during the period of rapid economic progress, the 1960s – 1980s, a productive relationship between government and labour is not discernable but there is a relationship that resulted in much cooperation with big business. During this period, which saw the growth of corporate welfarism in South Korea, due to the state's interest in passing the burden of the cost of social protections to the private sector, the private sector undertook this responsibility to a high degree of quality and increasing wages, commitments to lifelong employment, health benefits and skill development elicited loyalty from trade unions and organised labour. In this process, the Chaebol upgraded their status and position in the production line and world economy. However, relatively quickly, price competitiveness demands drove the need to decrease labour demand and instead, investments in high technology were undertaken to control the costs of labour.

The skill development of employees is seen a crucial component of development. The South Korean developmental state is posited as highly attentive to human capability enhancement. Amsden challenges Evan's concept of embedded autonomy as being as not useful today due to the existence of too many companies of increased capacity to be controlled by governments with decreasing capacity. In agreement with Evans', Amsden purports that the "developmental state" will continue to play a crucial a role in economic growth and social transformation in the twenty-first century, just as it did in the latter half of the twentieth century," but it will have to depart fundamentally from existing models of the developmental state in order to achieve success.

Alice Amsden posits that the key to drive development, as seen in South Korea and applicable to many development countries today, is the use Private National Ownership (PNOs) of business. South Korea can be seen to have built up national industries through policies and practice which, still today, focus both on national ownership and on national skill development. Distinct, in this understanding is that national investment is required to be not only inward but also outward in focus. For example, utilising aid resources and in particular the receipt of 300million of grants and 200 million of loans in reparation funding from Japan, South Korea invested in outward looking industry. This is exemplified clearly in the government focus heavy and chemical industrialisation for foreign markets. The advent of Vietnam War provided a bouyant market relatively quickly, particularly for steel, and the process of bidding for tender for this market was a significant learning curve for the South Korea business. While, in the past, as the LDCs have been encouraged to undertake inward foreign direct investment for

technology development and 'know how', in South Korea most important was outward foreign direct investment which integrated with nationally owned property. This provides a 'vertical integration' allowing for more stability and less risk nationally, more exposure to external technology and additionally new venues to train South Korean nationals in roles not normally accessible internally in the South Korean state. Such benefits have in turn accumulative benefits sustaining growth and driving new growth.

Amsden elicited many benefits from this approach. Firstly, outward investment has the role of harnessing human capabilities in SMEs. Beginning by building small at the world technological frontier, such investment is crucial because it is impossible to depend on foreign investment to support large numbers of SMEs. As required, first rate outsourcing can be utilised to produce at lower costs and speed. South Korea has been a model of this process, while simultaneously building its own national companies. In addition, by engaging in outward investment, new players or emerging economies move into high technology industry in which growth requires investment in research and development. Yet, currently, much foreign investment except for in China and India, does very little research and development in their host countries. For example less than 1% of total research and development in South Korea is undertaken by foreign investors. Fortunately, South Korean companies have been dedicated to engage in research and development. These activities combine to reverse the brain-drain. Moreover, with evidence that the high level positions in MNCs promote foreigners only to a certain level, a race ceiling appears to exist in addition to the gender ceiling. For example, in a Taiwanese joint venture with Phillips, 'yellow/black/coffee glass ceilings' are depicted. Amsden posits that this curtailment on the opportunities for skill development at the high management levels such as CFO and CEO has been overcome by South Korean companies' support of skill development.

Furthermore, government support of new industry undertaking outward investment has the advantage of allowing the application of local consent to WTO rules. This is because public rules are easy to impose on national industry but not on foreign investment, and therefore foreign-owned enterprises can't be subjected to local content regulations. In this situation, state-owned enterprises and private national enterprises have more incentives to build their own local supply chains and in doing so support national job creation and secure the home market. Amsden demonstrates this in examples such as Brazil's Petrobrás securing the national production of oil tankers to carry Brazilian oil and South Korea's high speed rail project. Amsden concludes that for the developmental state the essence is nationalistic as

opposed to the universal policies of the enlightenment as it is in its design aiming to secure the national market, increase national ownership, national assets and national jobs. In addition, when the large MNCs engage in the purchasing of local products, the state is required to drive performance standards rather than the industries themselves. Towards, these ends, outward FDI and research and development are most appropriate developmental tools.

Relatedly, Thandika Mkandawire proposed that we consider how performance driven by the regulatory state or by the strong developmental state is different. For future research, Thandika Mkandawire highlighted that as Europe now looks to East Asia, innovation frameworks and industrialisation policy are not being discussed by the WTO and simultaneously there is the growing acknowledgement that the state matters. As such, being candid about the complexities of the South Korean model is useful. Evans set out the future research tasks required in this consideration as follows: to date, we lack comparable detail institutional analysis of the mechanisms of capability expansion by the state by analysing the institutions and structures associated with industrial transformation. There is the need to consider what kind of connections can be built between state and stake-holders to support a capability enhancing state and what networks have accurate information of what is wanted, needed, working or not working? This kind of network has been built between the state and industry in previous eras. Such a network was not only informational, but also involved political capacity on the part of civil society to ensure state action is in response to collective preferences. Formal institutions are one part of this but further networks and deliberative venues are necessary. As such, we need research to consider what makes states efficient and effective in the delivery of services, and what are the networks to support and provide the political structures to communicate with the state and inform the expansion of services? There are crude measures of capability expansion such as access to education, performance measures on health and how education has improved, however we need to find more detail and undertake an institutional analysis to know how to assist livelihoods based on narrow employment opportunities alone are not tenable.

Welfarist or Productivist Social Policy?

Responding to Evan's argument on capability enhancement, Thandika Mkandawire identified gaps in the understanding of social policy that result in limitations to the ability to be explicit about the capability enhancement capacity of the state. The welfare state is

seen an end state to be attained after economic growth and therefore does not contain useful instruments for development for LDCs. This is opposed to the view and the evidence from the development experience of European states and recently in MIC such as Brazil where social policies are used to drive developmental goals. The consideration of social policies as a luxury is exemplified in the academic literature by the fact that the two large literatures on the developmental states (Amsden etc.) and on welfare regimes (Esping Anderson etc.) continue to remain exclusive from one another and researchers have to date not crossed this conceptual divide.

Being welfarist and productivist are not separate. Yet, the welfare state can be highly productive and thus the achievement of a productive welfare state is a social investment (Myrdal). For Mkandawire, in South Korea the embedded autonomy of the state can be seen to exist beyond the big business, the Chaebol. This can be seen through the lens of 'social policy by other means' such as the process which force families to undertake social roles. As we look back historically, we can identify what is functionally prevalent, for example, land reforms and government subsidising inputs to poor farmers for livelihood subsistence to curb migration to the urban centres and promote food production. These must be included in the normal discussion of social policy. Mkandawire will explore the forms of transformative roles by which social policies working in collaboration and complimenting economic policies are evident in South Korea and proved successful in the Korean development experience.

Relatedly, Moo kwon Chung highlighted the instrumental role of social transfers in capability expansion. Listing the range of normative social policy tools for which South Korea has examples of in public health and education, social security and social transfers, non-contributory pension, child-benefit and school fees, as well as direct income subsidies to elderly people (Estevez Abe, 2008). Additional uses of social transfers were cited as having had a large role in productivity. For example, subsidising public utility charges for electricity, water, public transportation and telecommunication allowed for prices to be kept low for industry development while simultaneously subsidised urban workers wages. Further, public works and public loans to the disadvantaged were operationalised for job creation generating incomes and increasing consumption. In rural areas, agricultural subsidies in the form of fertilisers and

government programmes to purchase rice from farmers at a high price and then sell to the market at lower prices were employed. In addition to this emphasis on the incentives to productivity, Chung will consider if the role of social transfers in reducing poverty and increasing inequality is limited or if these applications of social policy through consumption and production subsidies can positively impact development. Again, the role of the state and the creation of high quality institutions (Evans 1995, Rothstein and Teorell 2008) which rests on the quality of government to ensure a high administrative capacity and low corruption rate allowing a strong bureaucratic approach to extend coverage are posited as significant requirements for these policy applications to be successful.

Delving into the role of social policies to strengthen capabilities in the times of crisis, Jae Jing Yang's considered his research focus on what social policies were employed at the time of crisis to cushion economic hardships in South Korea. Were there different or similar patterns of social policy responses to the economic crises and what theoretical and policy implications can be drawn from the South Korean case in this regard? Yang proposed that particular sources of change and continuity are significant. Sources of change include the different financial capacity of the state, the different causes of economic crisis, the regime type and variation in state autonomy, the types of forms of political coalition. The source of continuity may be seen to be the path dependency of policy and the fiscal conservatism deeply entrenched in South Korean economic bureaucracy.

Land reform was evoked as a central driver of change in capabilities. Initiated by the United States in the immediate post war period, the reallocation of land resulted in a large increase in agricultural productivity and this allowed, over time, the achievement of food security. Mkandawire provoked whether exogenous forces such as revolution are required to bring about changes in property rights? Mike Douglass described how in the global post-colonial period the normative squeeze on agriculture to fund development of the urban areas, can not be seen to have occurred in Korea. In contrast, in the 1950's in South Korea, land reform set an equality level to be achieved before industrialization and not after. The 1970's, the commencement of Saemaul Undong, a rural development scheme in South Korea focussed on self-reliant and self-help communities with strong local leadership to develop village infrastructure. Agricultural policies, as outlines previously, such as government buying rice at higher prices from farmers and selling at

lower prices to the urban centres, incentivised this rural development also. While the extension of services, price support and land reform were successfully undertaken, there were no urban-rural linkages developed and as the village cannot exist alone, Douglas will consider both the decline of rural development and the specific role of Saemul Udong during the 1970's that proved a deterrent to that process of rural decline in South Korea, albeit temporarily.

Specific sectoral efforts are the focus of the remainder of the research. Ilcheong Yi examines the successful expansion of quality education and health provision. High education and health attainment can exist without high economic growth, such as in Sri Lanka, however in South Korea this capability expansion has been seen an essential ingredient in economic growth. This research will consider how the role of the private sector in this provision and consider how the state mobilised and regulated the private sector to undertake a large role in these sectors. Yi posited that in the early stages of national planning in education and health, strong regulation of the private sector was undertaken in functional wealth distribution such as high salaries for teaching staff to ensure these jobs were attractive. Sectoral linkages between education, health and the military combined to be productive linkages which will be explored further. Jooha Lee will additionally examine policy linkages as a key action in South Korean governance and consider the linkages in economic and social policy such as the impact of economic policy on social protection.

Gender and the environment are two sectors of the state jurisdiction that are seen to have been marginalized in the course of South Korean development success. Jinock Lee, Taewook Huh, and Manohar Pawar all agreed that learning from failures would be the main task in research on the South Korean experience. What happened in gender and the environment, what went wrong and why did it go wrong are seen as crucial questions for analysis. Though the concerns of the time are different from twenty first century concerns, it is noteworthy to consider for the South Korean case what was won and what was lost in the process of development. For example, perhaps green growth can be seen as not a new issue as every agricultural producer has the concern for their agricultural asset, their environment. Pawar proposed that there has been minimal improvement in environmental protection and since 1990s there has been increased civil society action which has assisted the profile of the environmental degradation. The

mistakes demand to be questioned from the perspective of whether developing countries can leapfrog this situation.

Regarding gender, Oh Eun Jung highlighted that gender issues persist in South Korea, for example the lowest female participation rate in the OCED and the largest wage gap. How are current issues legacies of the gender development process in terms of political and economic empowerment? Mkandawire highlighted that positive outcomes are often unintended. For example, in Sweden gains in gender were not about inequality but were beneficial to equality. Advocacy efforts focussed on achieving equity in salaries regardless of sector rather than been hung on the issue of gender parity. In the process of looking back retrospectively, can we tease out deliberate and more unintended policy actions and form an ex-post discovery as a lesson on the latecomer. Jinock Lee will consider gender inequality throughout the development period from the 1950s and consider why this remains so persistent in South Korea, whilst economic development has transformed social relations toward better equality.

The role of aid and foreign civic volunteerism

Aid funding to South Korea from 1945 to the early 1990s constituted 12.7 billion USD in grants and loans and in addition reparation funding was received from Japan of 500 million. In considering how this foreign assistance impacted South Korean development in the different phases of development, the nature of the foreign assistance and the responses of the South Korean government, business, and civil society to aid resources must be understood. Aid effectiveness in the current understanding of the Paris Principles rests on a difficult balance of aspirations that have proven difficult to implement. Olive Cocoman described tensions between the theory and practice of the aid effectiveness principles, such how managing for results jars with comprehensive and nationally owned development because partnerships in development, as in any domain, are fraught with power issues. In particular the interests of donors remain dominant and the realization of recipient ownership remains remote. The analysis of the South Korean responses to donor interest and the seemingly autonomous planning by consecutive Korean governments, while in receipt, of aid requires consideration.

Yi suggests that looking into how South Korea managed to incorporate aid resources into the overall resource pool for national development planning and moreover for sustainable long-term planning, is of much significance to understanding aid and development effectiveness concerns. Hyunjoo Rhee noted that key to this success was the importance

of good institutions for managing aid resources which guaranteed ownership and policy space to the Korean government as well as the importance of planning for development that embodied both the Rhee and Park regimes. Thandika Mkandawire cited the importance of understanding the use of aid towards improving the potential of aid today. Towards this end, it is essential to understand the nature of the recipient and the questions what the multiplicity of donors mean for practice. Also important to consider is whether aid should not fund the big ticket items, such as infrastructure, human capital and industrialization rather than being fragmented in project based initiatives? The absorptive capacity needs consideration. In relation to these ideas, the usage of aid resources in South Korea as opposed to that of current practice may contain lessons.

Lastly, the role of civil society is seen crucial to the capability expansion paradigm whereby embeddedness rests on supporting civil society as a partner to the state. Evans cited Kerala as an example of powerful development of civil society and corresponding improvement in state capacity. For South Korea, Taekyoon Kim described the role of the voluntary sector in the international transfers of knowledge and aid and posited two key successes notable for research; the use of voluntary agencies with local populations and the teaching of civic voluntarism. The experience of South Korea may provide new understandings for civil society's role today. Voluntary associations in Africa can be seen as not being membership organizations but complimentary to the aid establishment said Thandika Mkandawire, and as such this capability enhancing role is in need of careful examination. Secondly, Taekyoon Kim will analyse the international transfer of knowledge in the use of western economic theories, and their role in Korean state planning.

Conclusion

This array of ideas and discussion points signal that the final research findings may have much to offer the debate on development assistance in the twenty first century. The final draft papers will be presented at a conference in Seoul in October 2011 and a policy brief and an edited volume will be completed for in 2012.