A History of Backwardness

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Abstract and Keywords

This chapter examines how late industrialization in South Korea was at first retarded by a state too weak to intervene and stimulate capital expenditures. It also takes the position that when industrialization began to accelerate, it did so in response to government initiatives and not to the forces of the free market. The Korean state was able to consolidate its power in the 1960s because of the weakness of the social classes: workers were a small percentage of the population, capitalists were dependent on state largesse, the aristocracy was dissolved by land reform, and the peasantry was atomized into smallholders. The behavior of the Korean state became influenced by two forces outside the class structure: the student movement and the American occupation forces. The student movement kept the new government relatively honest, and the American occupation forces drove the Korean military toward developmentalism, the only realistic course to reduce dependence on American support.

Keywords: American occupation, economic development, economic growth, government control, late industrialization, social class, South Korea, students

The Retarding Effects of a Weak State
This chapter examines how late industrialization in Korea was retarded by a state too weak to intervene and stimulate capital expenditures. It also takes the position that when industrialization began to accelerate, it did so in response to government initiatives and not to the forces of the free market. Finally, it will argue that these processes can be thought of as general propositions applicable to similar countries.

From 1876, when Japan coerced Korea to open its doors to foreign trade, until 1961, when Korean army officers seized control in a coup d’état, the question of state power overarched Korean history. In the interregnum, Korea had to debate its destiny with not just one but two occupying powers, Japan and the United States. It swallowed a heavy dose of the bitter pill of foreign domination, the realpolitik of all latter-day twentieth-century learning. Therefore, in this and the next chapter the concern is with the friction that enabled Korea to emerge after ninety years of so-called “modernization” with at least some of its skin still intact, though only half its original size and not yet possessed of a full stomach.

This chapter generally follows a chronological order, one objective being to provide a summary of modern Korean history. Within each discrete historical episode, however, the organizing theme is the state. The period of rule under the late Yi dynasty is discussed first to establish a benchmark for later contrast with strong centralized rule. Then the two occupations are considered for the purpose of assessing what has come to be called “modernization,” which took place in the period of statehood denied. Finally, the regimes of Syngman Rhee and General Park Chung Hee are introduced in relation to their two major antagonists, the student movement and the U.S. AID administration.

Little in this history is in any way premonitory of Korea's later success, except that resistance to foreign domination in Korea beginning in the 1870s was immediate and unusually obstreperous, and the country's hyperactive student movement maintains this tradition a century later. The years 1876–1910 were memorable for the spectrum of reform movements they stirred.

At the beginning of the period, the Yi dynasty gave its last gasps of repentance, and at the end of the period, there was outright insurrection. Of a population of roughly 12 million, the number of insurgents killed in, say, 1907–1908, was estimated by Japan at over...
14,000 (C. I. E. Kim, 1962). Betwixt and between, some movements expressed themselves as peasant rebellions, demanding egalitarianism as well as liberation from foreign influence. Other movements were led by Western-educated intellectuals who called for the withdrawal of foreign concessions, the scrutiny of royal accounts, the creation of schools, and freedom of speech and press. To be sure, visions about statehood were convoluted by class. Though the foreign aggressor was universally hated, the privileged elites collaborated with it to avoid social change, and the impoverished rural masses tolerated it in the absence of better alternatives. Nevertheless, in Korea, nationalism found an ideal climate in which to grow. Whereas many other colonies were pieced together from geographical units that were racially, tribally, or religiously distinct, Korea had existed for centuries as a nation with an unusual homogeneity of language, ethnicity, and culture. Although it took almost a century before the idea of the nation-state was to triumph over the previous reality, these early reform movements are noteworthy—in spite of their short-term failure—for a vision of Korea that was ultimately responsible for pushing industrialization through.

An abortive attempt by Japan to invade Korea had occurred in 1592–1598. Just two years later, in 1600, the Tokugawa regime came to power in Japan. For the next 276 years, Japan witnessed the rise of commerce and a more productive agrarian system, while Korea celebrated its victory over Japan in relative quiescence. When Japan reappeared on Korean shores in 1876, less than a decade after the imperialist had itself become the unwitting host of foreign intruders, Korea encountered a much more formidable foe. Hastily, Japan assumed the role of precocious colonialist, extorting trade treaties from Korea even before either country had a central bank, despite the fact that the Meiji had to suppress the Satsuma rebellion at about the same time it had to suppress a rebellion in the Korean army. Consequently, a decisive difference would determine the subsequent course of Korean history—the greater degree of centralized state power.

The Yi Dynasty
According to Pallais, an historian of the period,
Although prime responsibility for Korea's eventual subjugation to Japan must be attributed to foreign imperialism, Korea's capacity to adapt to the demands of the modern world in the late nineteenth century was hindered by those factors responsible for the extraordinary stability of the Yi dynasty (1392–1910). This stability was in large measure the result of a state of equilibrium produced by the interrelationships between a monarchical, bureaucratic, and centralized government structure and an aristocratic and hierarchical social system. The yangban elite, which had many of the attributes of an aristocracy, maintained itself by legal and de facto inherited status, privileges, landholding, officeholding (in the central bureaucracy), and utilization of Confucian orthodoxy for the legitimization of status and economic interests. King and aristocrat were both mutually antagonistic and mutually supporting; each was dependent on the other for the continuation of his place in the political and social structure. (1975, pp. 4–5)

Typically law and order are extolled as preconditions for growth, and what Pallais called attention to is the precondition of a strong state for law and order:

The balance of power between monarchy and aristocracy was an asset for the maintenance of stability, but it was a liability (p.30) when Korea was faced with the need to expand central power to mobilize resources for defense and development. . . . One of the main problems for the traditional Korean state as it moved toward the twentieth century was, therefore, overcoming the limitations on central authority in order to build national strength in the face of threatening challenges from the outside world. (1975, p. 5)

Pallais went on to say that later peasant rebellions and threats of foreign invasion in the 1860s created a sense of urgency about the need for reform, but the traditional system was incapable of allowing a major shift in the balance of power toward strong central and monarchical leadership. Furthermore, the challenge to the privileges of the upper classes gave rise to a reaction of the privileged against reform, and thus a reversion to limited monarchy.
The balance of power between state and aristocracy pirouetted on an impoverished peasantry, the state empowering the landlords to tax the peasantry, and the landlords protecting the state and providing it with a share of its revenues—but not a large enough share to accumulate a surplus. The upshot was entropy:

In the late Yi dynasty, the problems of revenue shortage and peasant unrest were both caused primarily by the aristocratic landowning class's monopoly over the land and free-floating resources of the country. One of the main reasons for the weakness of the central government was its inability to tax land effectively to meet its needs in a time of domestic crisis and foreign challenge. The existence of a centralized bureaucratic structure—as opposed to a decentralized or feudal political order—was no guarantee of greater centralized control over land and the tax revenues accruing therefrom. (Pallais, 1975, p. 58)

So weak was Korea’s state in the Asian context that it had maintained a tributary relationship with the Ming dynasty of China since 1392. One result was the decline of local industry. The needs of the royal household were increasingly met with the imports of luxury goods that were obtained in exchange for tribute in China. Production in government factories declined as a consequence and then declined still further as a result of the employment of slaves or handicraft workers who were required to render compulsory services without adequate compensation. Farmers maintained household industries solely to meet their own needs and to fulfill tributary obligations to landlords. Although independent artisans produced handicrafts for other’s use, the high degree of subsistence that characterized the economy meant little market activity. When Japan arrived to trade in the 1870s, a money economy had not yet spread throughout Korea. Soon the Japanese yen became the accepted currency, replacing barley and rice as the medium of exchange.

Another result of subjugation was the adoption of a Confucian system of class relations and beliefs, which, if rich in its own terms, was a deterrent to capitalist enterprise. Koreans may not have been drawn into capitalist enterprise kicking and screaming, but they were conditioned by Confucianism to accord it low status. Further, the ability of Korean
manufacturers to compete against Japanese goods was complicated by a primitive distribution system. Internal trade was carried on by itinerant peddlers, since there were few retail stores in small villages and towns.

The itinerant merchants used advanced accounting methods, yet bulls or humans provided the only means of conveyance by which they could transport goods. They were outcompeted when the Japanese began using more modern transport. In the cities proper, merchants were granted monopoly rights by officials in return for an agreement to supply needed merchandise at nominal prices. Consequently, merchants grew accustomed to monopoly rights to trade certain categories of goods in certain geographical areas. They sought to preserve their local monopolies to counter the threat of foreign competition, rather than to study the new methods of merchandising introduced by foreign traders. Because the opening of ports was forced upon the Korean government, it could not impose its own protective duties. “At any rate, it is doubtful whether any high ranking government official was aware of the implications of tariff duties on domestic commerce and industry” (Juhn, 1965, p. 46).

First unable to compete against Japanese goods, Korea lost more and more ground to its interloper. The monarchy was forced to rely on China to suppress a peasant uprising in 1894, which gave Japan a pretext under which to increase its military presence. Japan declared Korea a protectorate after routing Russia in war in 1905. Finally, with the defeat of insurgents and the dissolution of the Korean army, Japan formally annexed Korea amidst American indifference in 1910.
The Contradictions of Modernization
The judgment on Japan’s contribution to Korea’s subsequent success has gone through several iterations, although the facts have by and (p.32) large remained the same. The accounts of colonialism written before 1920 are enthusiastically favorable, praising Japan for uplifting a population that lacked “dignity, intelligence, and force.” This image of enlightenment was tarnished, however, by stormy demands of an estimated 2 million Koreans for independence in 1919, inspired by President Wilson’s “Fourteen Points” (Baldwin, 1969). Whatever glint remained in the image was altogether obliterated in the 1930s when Japan engulfed Korea in its war efforts. However, the critiques of colonialism by Korean scholars in the early postwar period tend to be overdrawn, the whole detestable episode swathed in the blackest of colors. After the Korean economy began to expand in the 1960s, the verdict was handed down in English-language publications that Japanese colonialism had been a “modernizing” force: Japanese colonial rule cannot be seen as an unrelieved disaster. It is true that, during the period of colonial rule, . . . many Koreans experienced an absolute, not just a relative, decline in their standard of living. And yet, for all the hardships imposed on the Korean people, Japanese colonial rule laid some of the key foundations for Korea’s later entrance into modern economic growth. (Mason et al., 1980, p. 75)

The Japanese dismantled the institutions of 1,000 years of dynastic rule and accomplished overnight, in 1910, what the dynastic rulers had failed or neglected to achieve in centuries: the abolition of slavery, the codification of civil law, and more. The Japanese also created a modern infrastructure in the areas of finance, transportation, and commerce. Nevertheless, Japanese colonialism was far more successful in smashing old foundations than in establishing new ones. (p.33) Paradoxically, in a late industrializer like Korea, colonialism removed the old blockages to industrialization but created new ones in its wake.

Korea’s intrinsic weakness first manifested itself as a failure to compete against foreign goods. After Japan withdrew in 1945, Korea was no more able to compete on the basis of its manufactures than it had been before. Indeed, a quantum shift in the world technological frontier had left Korea relatively
further behind. The Japanese had followed in the footsteps of Korean intellectuals and Christian missionaries in emphasizing formal education. In fact, investments in education, even at the university level, were unusually high by colonial standards, but they were motivated by policies designed to assimilate Koreans into Japanese society as the lower elements, policies that lent the colonial interlude its nasty character. Education at the higher levels was altogether lacking in the technical fields, except in agronomy and medicine, and because of discrimination in hiring, Korean academia had few productive outlets.\textsuperscript{10} Japanese corporations in Korea discriminated against Koreans at the managerial and even at the supervisory level. If, therefore, as is sometimes contended, the technical and managerial literacy rate rose as a consequence of Japanese manufacturing enterprise, it must have levitated.\textsuperscript{11} As for Korean capitalists, they existed at the fringes, unable for the most part to compete against Japanese goods.

Between 1910 and 1920, industry in Korea was altogether discriminated against by Japan in favor of agriculture. Then, after the 1919 uprising, a wafer-thin stratum of Korean capitalists was deliberately cultivated to further collaboration. With minimal assistance, an entrepreneurial class emerged, drawing its members from the yangban and from the commoner class. The new entrepreneurs were numerous enough to increase the variety of the indigenous elite, from landlord and scholar before the occupation to landlord, businessman, and intellectual after it.\textsuperscript{12} In 1938, however, Korean paid-up capital as a share of total paid-up capital in industry equaled only 12.3\%. Moreover, the paid-up capital of the average Japanese corporation was more than six times as large as that of the average Korean firm (\textit{Grajdanzev}, 1944). This size distribution reflected the fact that when, in the 1930s, Japan roared into heavy industry in Korea in preparation for war, it did so on the basis of zaibatsu capital. By 1941 70\% of total Japanese investment in industry in Korea was accounted for by six zaibatsu groups (\textit{Ewing}, 1973). Korean managers were altogether excluded from such enterprises, and with few exceptions, large-scale enterprise was not under Korean ownership. Therefore, when the Korean economy was resuscitated in the 1950s, it bore some unique features but many familiar marks of colonial distortion. There was overcapacity in textiles and light manufactures and undercapacity in basic industry. There were a large number of
small-size firms but a hiatus in the large-size category. The skeletons of Japanese-owned corporations in basic industry, which the Korean government inherited, were plentiful but ill managed and technically problematic to operate.

The contradictory quality of modernization under Japanese colonialism was especially vivid in agriculture, which, being both the object of Japanese aggression and the heart of Korean economy and society, became a battleground. The Japanese colonial government’s objective was to raise land-tax revenues. Toward this end, it had created a ponderous bureaucracy and carried out a land reform after 1910. The bureaucracy, while highly centralized, reached down to every village in the form of a police force and an agricultural extension service. As for the land reform, it replicated the agrarian structure existing in Japan in the late-nineteenth century. The state collected taxes from a landlord class, and landlords collected rents from their tenants. On the one hand, this reform represented a giant step forward insofar as it substituted the market for brute force as a mechanism by which to induce higher productivity. On the other hand, the establishment of property rights and the dispossession of the peasantry created acute distress. The same system in Japan was less exploitative because an urban labor market imposed a ceiling on rural rents. In Korea, however, with no urban alternative the peasantry was squeezed to the bone (see the appendix to this chapter).

During World War II, an estimated 10% or more of the Korean population was earning its bread abroad. More than 1 million Koreans were working in Japan, about 1 million were settled in Manchuria, some 200,000 were in the Russian Far East, and about 100,000 were in other countries, primarily China (Grajdanzev, 1944). Both hunger and politics were responsible for emigration. Koreans had lived in the frontier area of Manchuria and in the Russian Far East for centuries, but after 1905 many more had fled there as rebels. By 1945, more politically conscious by far, the insurgents were key figures (p.35) in the postwar struggle for the state. The Korean population in China was divided between Japanese camp followers and resisters trying to reach the Chinese army to fight against Japan. The Koreans who were living in Japan proper were chiefly unskilled workers, miners, and
agricultural laborers who had been drafted for employment in wartime Japan.

The end result of Japanese colonialism in Korea was a society that was unable to support itself and totally at odds. Peasant opposed landlord, and those who resisted Japanese colonialism opposed those who collaborated. Under these conditions, the machinery of modern government that Japan had bequested was a useless inheritance. With a distended police force accustomed to domestic repression, and a minuscule army incapable of national defense, Korea once again fell victim to the Great Powers.

The Cold War
The events that transpired between August 1945, when Japan retreated from Korea, and June 1950, when the Korean War began, were as complex as the underlying issues. The power and ideological struggles of the Cold War were visited upon a nation that was itself divided, although political polarities at the national and international levels were often not synonymous. According to B. Cumings, who looked under a microscope at the period 1945–1947,

Communism in Korea in 1945 did not signify a deeply held world view, or adherence to an authority residing in the Kremlin, or commitment to Marxist internationalism. It was a specifically Korean communism. Its adherents could scarcely be distinguished from nationalists and conservatives in their belief in the uniqueness of the Korean race and its traditions and the necessity to preserve both, or in their understanding that a unique Korea required unique solutions. What did distinguish Left from Right was (1) a commitment to a thoroughgoing extirpation of Japanese influences in Korea, with all that this implied for Korean society and for Koreans who had profited from colonial rule; (2) a commitment to mass politics and mass organization and to the social equality that this implied; (3) a commitment to the reform of Korea's “feudal” legacy, feudalism being a code for gross inequalities in the allocation of resources, particularly land. (1981, p. 86)

These were the politics of the Korean People's Republic, with a network of affiliated trade union, peasant, student, and people's committees spread throughout the Korean peninsula.
It was the government of the People's Republic that both the Russian and American armies confronted when their occupation of Korea began.

Both superpowers responded ultimately by establishing political outposts in Korea, but their initial reactions to the new government were opposite. Russia recognized the Republic almost immediately and within nine months of the liberation from Japan in the North, “landlordism had disappeared, the land had been redistributed, major industries had been nationalized, radical reform had eliminated the worst abuses of the colonial factory system and had established formal equality for women” (B. Cumings, 1981, p. 382).

Thereafter Russian policy was oriented toward ensuring that the political faction in power in the North was amenable to Russian influence, although that faction was perhaps the least distinguished and capable of all the possible political groupings. The United States did not recognize the People's Republic, causing it to be destroyed amidst a bloody uprising in 1946, after which point an American alliance was formed with political sympathizers. The rest, as they say, is history. Cold War politics played themselves out, ending irrevocably in war (1950–1953) and the division of Korea into two geographically and ideologically separate parts. If, however, one is to understand the ensuing course of industrialization in what is now South Korea, one must understand three key American policies.

First, the American occupation forces chose to work through the most conservative political faction, the Korea Democratic Party (KDP). Insofar as the KDP had little grassroots support in its organization, the American forces also relied on Korean civil servants and police who had served under the Japanese. The KDP was self-described as a party of “patriots, notables, and various circles of the intellectual stratum.” It stood for the promotion of world peace and national culture, the enhancement of the livelihood of the working masses, and rational reorganization of the land system. According to B. Cumings, “the reason for this befogged and cryptic agenda for Korea's future is not hard to find: a group did not win popularity in Korea in 1945 by urging the maintenance of landlordism, private ownership of industry, little or no punishment for collaborators, and the continuation in power of
those Koreans who had influence under Japanese” (1981, p. 97).

Although the KDP subsequently lost power, its significance lies in the fact that it safeguarded the last survivors of the yangban class, who resurfaced after the convulsions of war as the elite of the new order. Although, for the most part, the landlord class vanished by the end of the 1950s, some of the same individuals who were privileged yangban became privileged politicians, government bureaucrats, educators, and industrialists. This lent a continuity to postwar change. The weak Korean state of the 1870s was supplanted by the strong one of the 1960s, and the art of statehood may have been rooted in a class culture transmitted without interruption across generations. Moreover, the anticommunism of the KDP set the standard for future regimes. When the military junta took power in May 1961, it claimed that Korea was on the “verge of subversion by the communists,” that only the Korean armed forces were capable of preventing communism from taking root among the people, and that only through their timely action was the country saved from a communist coup (S. Han, 1974, p. 178). Notwithstanding the military junta’s pervasive intervention in the economy, an act that might otherwise be associated with socialistic tendencies, anticommunism has been the dominant political ideology guiding Korean industrialization.

Second, the American occupation forces groped toward land reform in response to violent peasant demands, to the Soviet example in the North, and to the need to build commitment to a war that pitted kith and kin against one another (M. H. Choi, 1960). The agrarian reform of the Japanese was pushed one stage further, and land was redistributed to the tiller. Although land-to-the-tiller in Korea never enriched the peasantry or overflowed the state tax coffers, its long-run effects were major. Reform redirected idle capital away from land speculation to manufacturing and uprooted a class that had not proved itself progressive. It relieved the bottleneck in food supply, which in turn dampened inflationary pressures. It created a far more equitable income distribution. Finally, it cleared the field for strong centralized state power. (p.38) As a consequence of land reform, Korea has enjoyed a reputation among developing countries as one with a relatively equitable income distribution (World Bank, 1983). This
reputation has become increasingly undeserved as industrialization has advanced. Korea has unusually high levels of aggregate economic concentration and of wage inequality by international standards. Land reform fell far short of the demands of the People's Republic for an "act of destruction willed against a whole ruling class," (B. Cumings, 1981, p. 69), and anticommunism alone did not amount to much of an agenda for Korea's future. Nevertheless, land reform did respond to the ancient cry for egalitarianism.

When Korea was an overwhelmingly agrarian country, land reform undoubtedly contributed to greater equity in the size distribution of income. In the late 1930s, 3% of all farm households had owned over two thirds of all land, whereas ten years later, fewer than 7% of all households were landless (Ban et al., 1980). In conjunction with an expanding education system, growing urban employment, and the rags-to-riches fables of a few hard-driving industrialists, land reform provided industrialization with a plausible vision, a Korea of equal opportunity.

Third, to fight the Korean War, the Americans buttressed the Korean army. At the beginning of the war, the Korean military was not much more than a small constabulary. At the war's end, it numbered 600,000 men—the fourth largest army outside the Soviet bloc. It had modern heavy equipment and an officer corps of significant proportions (H. B. Lee, 1968). After biding its time in the 1950s and blinking at the student revolution that brought a decade of political incompetence to a close, the military would open a new chapter on both growth and state power in the 1961 coup. Here was the ultimate Spite from Pandora's box.
Aid and the Origins of the Diversified Business Group
The 1950s paralleled the millennium of dynastic rule that ended in 1876 in that more energy was spent plundering the existing surplus (p.39) than producing more, the surplus itself arriving in the alluring form of U.S. foreign aid for war reconstruction. The average annual inflow of aid from 1953 through 1958 was $270 million excluding military assistance, or roughly $12 per capita per year. This was nearly 15% of the average annual gross national product (GNP) and over 80% of foreign exchange (Cole and Lyman, 1971). To maximize aid inflow, macroeconomic policies featured low interest rates, an over-valued exchange rate, a deficit budget financed by borrowing from the Central Bank when taxes and aid-generated revenues were insufficient, and Central Bank financing of commercial bank credit to the private sector. Such policies inevitably produced an internal financial gap between government transactions and private transactions, and an external financial gap between import demand and foreign exchange supply. The state, under the leadership of Syngman Rhee and other “patriots, notables, and various circles of the intellectual stratum,” then allocated aid entitlements in exchange for political campaign contributions. When campaign contributions ran into diminishing returns with respect to votes (at one time the number of political parties was estimated at 344), elections were rigged or the constitution was amended.

The windfall gains from aid provided a basis for the emergence of an altogether new entrepreneurial element, less conservative in outlook than Korea's older textiles industry and far more growth oriented than its small-scale sector. During the period when venality was pervasive (the First Republic, 1948–1960), political connections led to an uneven distribution of the spoils. Fortunes, therefore, were amassed, the “gravy train” starting with sales of Japanese property at below-market prices. Favored firms, whatever their origins, were allocated hard currency to import scarce materials—grains and fertilizers—that they then resold on the domestic market at monopoly prices. They were given loans at subsidized interest rates. They were granted tax exemptions, and they were awarded preferential contracts for large-scale government projects (K. D. Kim, 1976). The magnitude of fraud is indicated by the size of the loans that the most favored firms received, “loans” on which they paid neither interest nor
principal. A Government Audit Report, prepared in 1961 after the First Republic’s fall, suggests that total outstanding loans equaled about $140 million (or about half of the average yearly grant aid in the 1950s).  

According to the Government Audit Report on Illicit Wealth, the (p.40) industries to which these enterprises thriving on venality belonged included textiles, paper, housing, mining, fertilizer, flour, alcohol, glass, pottery, livestock, construction, warehousing, and trade. This is a wide range of industries, and while textiles is represented, it is underrepresented in proportion to its weight in total output (the textiles industry accounted for approximately 20% of manufacturing value added in the 1950s).  

The point is that the cradling of enterprises in illicit wealth was not industry specific. These subsidized entrepreneurs were generalists, devoted to moneymaking in whatever industry the opportunity arose. They drew their members from all social classes, although they tended to be better educated and much more likely to have descended from the gentry than were their social peers (Jones and Sakong, 1980). In this respect they provided a link with the past. Their novelty lay in the fact that they skated over the stage of incremental growth that was characteristic of small-scale enterprise, operated with a different logic of investment from that of traditional cotton spinning and weaving firms, and formed crack troops to penetrate new industries.

Thus, as the high-aid era drew to a close, the embryo of a new social, economic, and political force had been conceived. The 1950s had witnessed a decrease in the size of agricultural enterprises and the death knell of the nobility, along with an increase in the size of industrial enterprises and the tentative groping toward a symbiotic relationship between the state and the progenitors of large diversified business groups (chaebol). The rise of the chaebol, moreover, relit some of the glimmer of economic activity that had been characteristic of the 1930s. By international comparison, the growth rates Korea attained during the high-aid era were superlative. As indicated in Figure 2.1, between 1953 and 1958 the average annual rate of change in the volume of production of both heavy and light manufactures was the highest in Korea of all 36 countries for which U.N. data were available.
U.N. data, however, exclude North Korea, which was growing roughly three times faster than the South (Cole and Lyman, 1971). What’s more, the growth rates that the South chalked up were unsustainable. By 1959 the economy was deeply depressed, partly the effect of conservative macroeconomic policies and partly the effect of the winding down of aid and of the reconstruction boom. With tariff protection and subsidized credit, the textiles industry had achieved in half a decade what it had failed to achieve in half a century of political discrimination—modern plants of international scale to undertake integrated spinning and weaving. The growth rate of textiles output, however, turned negative at the end of the 1950s as firms added to their capacity to take advantage of cheap U.S. credit (Y. B. Kim, 1980). “Thus, by the early 1960s, U.S. officials had become extremely gloomy about the prospects of Korean development” (Mason et al., 1980, p. 195).

Three Contending Views

Out of the corruption, paralysis, underachievement, and bitter disappointment of the 1950s came three conflicting views about how Korea should proceed, one associated with students and intellectuals, one articulated by U.S. aid advisors, and the one that was ultimately to prevail—that of the Korean military.
The issue of economic development was foremost and, although submerged under politics, its failure underly the turmoil that brought the decade to a close.
The Students

In April 1960, a high-school student protesting crooked elections was slain by police and his body was thrown into the sea. The atrocity provoked youth- and student-led demonstrations throughout the country. The president, Syngman Rhee, called on the army to intervene, but the army remained passive. The American government did likewise, disgusted with Rhee and disturbed by his intransigence toward Japan that obstructed the formation of a greater Pacific alliance. Within days, the Second Republic fell. According to H. B. Lee,

The April Revolution was a giant social revolt. The suffering and revolting self that had been emerging in the latter part of the decade of the 1950s was now given its full play. The students began revolting against the Liberal Government, but their success touched off a general revolt in the society. The people revolted against the government. The young revolted against the old. In many schools, students revolted against their teachers. In some government ministries, junior civil servants revolted against senior civil servants. In a more serious vein, some eight lieutenant colonels openly revolted against some generals, requesting that the army be cleared of corrupt elements. (1968, p. 119)

There was nothing revolutionary about the outcome of the April events, though. They provoked an election that voted into power a party little different in outlook, age, and background from the previous regime. Thus the protests continued. Among the protesters, however, were radical reformists who had been silenced under Rhee—trade unionists, whose activities had been circumscribed by a state-run labor federation (Ewing, 1973); socialists, teachers, and unemployed intellectuals, whose ranks had been decimated during the Korean War; and students, spearheaded by the Student League for National Unification (Minjok T’ongil Yongmaeng) of Seoul National (p. 43) University. Although the alliance of radicals and moderate reformists could trace its antecedents back to the early reform movements of the late nineteenth century, its vision of economic development was still undefined, consisting of little more than vague demands for full employment and more aggressive policies to eliminate poverty. The radical view of how Korea should proceed, however, focused its attack on imperialism. The radicals, in particular, opposed a blanket
technical agreement, in the offing between South Korea and the United States, that gave the United States the right to “continuous observation and review” of the way U.S. financial and technical assistance was being administered. The radicals were joined in their opposition to this agreement by nonreformist politicians who termed it “shameful” and organized mass demonstrations against it (S. Han, 1974, p. 183).
The United States

The economic policies that the United States espoused in Korea showed consistency over time, the tumultuous events of the 1940s and 1950s merely reinforcing that central tendency. The lesson that the United States drew from the upheavals in Korea was the need for stability before growth, and this lesson was at the heart of American short- and medium-term macroeconomic policies toward Korea. Long-term goals were perceived in terms of the law of comparative advantage, the objective being to reduce Korea's dependence on aid. For the purpose of developing a sound economy, aid was dispensed on the principle of static efficiency, that is, building infrastructure, natural resource-processing facilities, and light industry on the basis of small-scale enterprise. This policy reflected little of the Keynesian revolution then sweeping American universities. Economic advisors in Korea, for the most part, were not academics; rather they were affiliated with the U.S. military and with international aid organizations. The policies that the United States advocated were based on traditional market theory and were precursors to those of the World Bank and of the International Monetary Fund (IMF).

The immersion of international organizations like the IMF and the World Bank in the industrialization of latter-day twentieth-century learners is unique in the history of emulation. So, too, is the amount of foreign aid to which Korea has had access. Therefore, it is of interest to explore the extent to which, if at all, these policies and aid shaped Korean industrialization, one of the more successful cases to emerge from the Cold War era.

By and large, the Rhee administration staunchly opposed the U.S. policy package. The rancor between the two countries exceeded what could reasonably be expected from a corrupt aid recipient, a frugal aid donor, and the inherent indignity of the aid relationship. According to one observer, "The most touchy subjects of controversy between the two governments, among many less crucial that cannot all be cited, were Rhee's insistence on an unrealistic exchange rate and the pleading by the United States for a comprehensive stabilization program with proper budgetary methods and restrictive monetary and credit policies" (Reeve, 1963, p. 122). Corruption apart, Rhee's position was that a stabilization package comprising devaluation, a balanced budget, tight
money, and high interest rates would make growth all but impossible.

The U.S. fear of inflation flared at the time of occupation, although there was no reversion to the hyperinflation of the war years after a sharp increase in prices during the first quarter of 1946 (Bloomfield and Jensen, 1951). Nevertheless, as the Korean War approached, the U.S. Secretary of State, Dean Acheson, fired off a “missile” to the Korean Ambassador that read:

It is the judgment of this government that the financial situation in Korea has already reached critical proportions and that, unless this progressive inflation is curbed in the none-too-distant future, it cannot but seriously impair Korea's ability to utilize effectively the economic assistance provided. . . . Government expenditures have been vastly expanded by bank overdrafts without reference to limits set by an approved budget. Tax collections have not been increased, aid goods have been under-priced, and governmental subsidies have been expanded . . .

Unless the Korean Government is able to take satisfactory and effective measures to counter these inflationary forces, it will be necessary to reexamine, and perhaps to make adjustments in, the . . . Administration's assistance program in Korea. (April 7, 1950)\(^{21}\)

Nevertheless, hyperinflation did not materialize during the Korean War either. Price increases slowed with good harvests, and “the relative movements of prices and money supply from mid-1950 to mid-1953 support the proposition that money was used mainly for transaction purposes . . .” (Cole and Park, 1983, p. 222). Between 1953–1955 and 1960–1962, the GNP deflator averaged only 16.7\%, despite an unbalanced budget and heavy lending by the Central Bank. However, the United States had engineered a massive devaluation of 300\% immediately after the Korean War, another devaluation in 1955, and two devaluations in 1961 (Cole and Park, 1983; Krueger, 1979). The U.S. government's concern with fiscal and monetary restraint was ingrained, spilling over to long-run measures beginning in the early 1950s. In the words of two advisors from the Federal Reserve,
The fact that the sizable long-term investment program being currently carried on by Government Agencies . . . has been financed by bank credit expansion has contributed very materially to the present inflation. . . . At the present moment . . . everything must be done to discourage further long-term lending until the budgetary situation is normalized. (Bloomfield and Jensen, 1951, pp. 49-50)

The casus belli became Rhee's contention that U.S. aid did little to promote long-run growth. In fact, if aid-financed imports of food, beverages, and manufactures are classified as consumer goods; if crude materials, fuels, and chemicals are classified as intermediate goods and raw materials; and if machinery and transport equipment are classified as capital goods, then capital goods accounted for a very small share of total imports—3.4% in 1953 and 11.7% in 1960. Even though consumer goods, during the same period, declined in importance—from 70.4% of total imports in 1953 to 35% in 1960—this was only because the share of intermediate goods and raw materials had risen to 50% of the total (Krueger, 1979), and the Rhee government protested that intermediate goods and fuels were largely designated for light industry.

In the half decade following the end of World War II, the aim of project aid had been to develop capital projects which would ultimately make the provision of further assistance unnecessary. Emphasis was given in planning to the expansion of electric power-generating facilities, expanded tungsten production, the development of new anthracite coal fields, rehabilitation of the fishing industry, the production of chemical fertilizers and the expansion of the railway system. (U.S. House of Representatives, 1954, p. 12)

This is a quotation from an invaluable report of a U.S. congressional subcommittee that took the trouble to visit Korea and conduct field interviews on the eve of a new development program, with only six years to go before the Korean military coup. What did the subcommittee discover about postwar Korea?
In terms of physical capital, the subcommittee discovered the evidence of Japan’s unassailable contribution to growth, and yet a dearth of large-scale enterprise:

Manufacturing activity is more highly developed than is generally appreciated. With the exception of Japan, the proportion of total Korean output derived from manufacturing, prior to the invasion in 1950, was higher than in any other Asian country, and a considerable variety of fabricated products was produced, although the scale of enterprise was in general, quite limited. (p. 196)  

In terms of human capital, however, “there is a serious deficiency in technical and supervisory personnel”; although in the business community “managerial skills appear to be available, but far too much [sic] of these skills is diverted to unproductive trading and speculation” (p. 38). As for the contribution of U.S. aid to skill formation,

It was apparent that not sufficient attention has been given under the aid program to training Korean personnel in various technical and managerial fields vital to the rehabilitation program. Experience gained in the military training program under United States supervision indicates that the Koreans are quick to absorb and apply technological knowledge if they are given the opportunity. . . . The need for greatly expanded civilian training programs for Korean personnel is particularly pressing when the reluctance of the Japanese to train Koreans for jobs above the most menial level is considered. (pp. 38–9)

Nevertheless, technical backwardness is not likely to have diminished greatly under the new U.S. aid development program initiated in 1954–1955. Of fifty-one new projects, most focused on small-scale enterprise in light manufacturing (Mason et al., 1980); furthermore, of the few large-scale projects attempted in basic industry, most ran into snags. U.S. influence on technical and managerial literacy in the civilian sector, therefore, was bipolar. In the area of quality control, and particularly in the construction industry, it had an unambiguously positive effect on civilian subcontractors, as discussed in Chapter 9. Technology transfer, however, was
A primary cause for these planning difficulties was the rapid rotation of supervisory personnel without adequate overlap of replacements. A contributory cause was . . . the use of military personnel inexperienced in domestic communication systems. (98)23

In telecommunications, (p.47)

On net, the impact of U.S. occupation on Korean industrialization was probably similar to that of Japan, as characterized by the U.S. congressional subcommittee: “modernizing but distorted and unbalanced.” The difference between them was that the Japanese colonial administration had enacted a model of centralized state management in Korea that was in tune with the historical stage of development in which both Japan and Korea found themselves, whereas the liturgy of U.S. economic advisors was private ownership and decentralized control. The corruption of the
Rhee regime had strongly reinforced the conviction supporting the latter approach.

The U.S. authorities argued forcefully for privatization of the banking sector (although that sector later proved the most powerful tool for shaping the course of industrial activity after subsequent nationalization by the military). The U.S. authorities contended that private ownership would subject banks to fewer political pressures and induce them to act more responsibly. A report prepared by consultants from the Federal Reserve Bank of New York emphasized this viewpoint:

> The importance for Korean economic and financial welfare of getting the ownership and control of these banks into private hands is so great . . . that it is to be hoped that special efforts will be made by those in charge of vested property disposal to (p. 48) seek out responsible private interests who would be willing to purchase these shares. (Bloomfield and Jensen, 1951, p. 73)

The government initiated action in 1954 to divest itself of shareholdings in commercial banks that it had acquired from former Japanese owners, but it was unsuccessful in several auction attempts.

In 1957, however, the government succeeded in selling its shares to a relatively small number of large stockholders, “mainly wealthy businessmen who were prospering from high profits on government-controlled import licenses” (Cole and Park, 1983, p. 53). The government also introduced strong deflationary measures. By 1960 unemployment was estimated at one fifth the total labor force. Per capita income, according to U.N. estimates, was less than $100, roughly the same as that in India, one quarter that of Japan, and two thirds that of Taiwan (United Nations, 1961). Furthermore,

> Delays [amounting to six years] in putting [an] admittedly costly domestic fertilizer plant into production contributed significantly to the chronically large excess of imports over exports, since long-established intensive cultivation in South Korea demand[ed] huge quantities of chemical fertilizer to
maintain the fertility of the soil. The value of exports remained exceedingly low. (Reeve, 1963, p. 126)

Despite all these failures of the U.S. aid administration, the agreement giving the United States wide latitude to “observe” and “review” Korea’s economic policies was overwhelmingly approved by the National Assembly on the deathbed of the Second Republic (S. Han, 1974).

The Military

Over twenty-five years after the coup d'état of May 1961, the U.S. government was still a powerful force in Korean affairs, as was the military, although General Park Chung Hee, who had presided over the coup and over the Golden Age of growth, had been assassinated in 1979. Moreover, the student movement remained hyperactive. Therefore, while the military's view about how Korea should proceed was the one that prevailed, the other two poles of dissent had survived. On the one hand, the student movement kept afire demands for democracy, civil rights, higher wages, egalitarianism, eradication of poverty, and protection of the small-scale firm. On the other hand, the United States continued to stand in relation to Korea the way water stands in relation to fish.

(p.49) The U.S. government and the Korean military shared a fundamental obsession with anticommunism and a commitment to private enterprise. Thus, when 5,000 troops crossed the Han River and entered Seoul on May 16, 1961, the United States looked on blankly. Both countries needed one another in the geopolitical vortex of the postwar period, yet the United States decidedly held the upper hand. Although Korea could threaten to withhold payments on the huge foreign debt that it would soon amass, the U.S. government could threaten to close world markets to Korea’s exports, the lifeblood of its economy; to reduce subsidies to Korea's defense budget; and to subject Korea and its statesmen to all the pressures that were at the disposal of the global hegemonic power. Nevertheless, as will be discussed in the next chapter, in the mealy matter of economic growth, Korea charted an independent course.

The military's only claim to government was its ability to create a sustainable mechanism to raise national income. In the general election immediately after the coup, Park Chung Hee had defeated the opposition candidate only by a slim
margin. In the general election two years later, the last for at
least another two decades, he won a landslide victory because
growth had accelerated in the intervening years. Growth,
therefore, took precedence over other claims, income
distribution most certainly included. In Park's words,

The economic, social and political goals we set after the
revolution are: promotion of the public welfare, freedom
from exploitation, and the fair distribution of an income
among the people. It is obvious that these goals cannot
be reached overnight. They are, nevertheless, the
fundamental aims of the economic order towards which
we must move.

Before these goals can be achieved, we must see to it
that after more than a decade of stagnation, our poor
economic power is greatly strengthened and that the
heretofore shrunken or undeveloped power of
productivity is fully utilized. We must take a great leap
forward toward economic growth. . . . It is urgently
necessary to have an economic plan or a long-range
development program through which reasonable
allocation of all our resources is feasible. (C. H. Park,
1962, p. 224)

If the lesson that the United States learned from the Korean
up-heavals was the need for stability before growth, then the
military learned that causality ran in the opposite direction,
from growth to stability. Inflation in Korea during the period
1962–1979 averaged 18.4%—lower than that in Latin America
but higher than that in India, China, Taiwan, Hong Kong,
Singapore, Japan in its fast-growth (p.50) phase, or still
earlier learners in theirs.24 This is not to suggest that
government policy in Korea during the high-growth period was
reckless; after all, the government was not unaware that
hyperinflation and bankruptcy of foreign exchange reserves
are the ingredients of countercoups. Rather, the policy was
risky. As will be argued in the following chapters, however,
risk was mitigated by leaving as little as possible to chance
and the vagaries of the market.

Within the first 100 days of its assumption of power; the
military had announced its intention to launch the first five-
year development plan. By the time Park's book, Our Nation's
Path, was sent to press in February 1962 and still another of
his books, *The Country, The Revolution and I*, was published one and a half years later, the twin pillars of the military's strategy to industrialize had been devised. The scaffold was still missing, little mention being made of exports, but there was clarity on the critical roles of both large-scale enterprise and long-range planning. However, apologies and rationales for supplanting market forces by state power were put forth in terms of both roles. In the case of large-scale enterprise,

One of the essential characteristics of a modern economy is its strong tendency towards centralization. Mammoth enterprise—considered indispensable, at the moment, to our country—plays not only a decisive role in the economic development and elevation of living standards, but further, brings about changes in the structure of society and the economy. . . . Where the appalling power of mammoth enterprise is concerned, only with private profit under a self-assumed assertion of contribution to national development, there is no free competition. . . . Therefore, the key problems facing a free economic policy are coordination and supervisory guidance, by the state, of mammoth economic strength. (C. H. Park, 1962, pp. 228–229)

In the case of planning,

The economic planning or long-range development program must not be allowed to stifle creativity or spontaneity of private enterprise. The overall national development program may necessitate, for the rational operation of the economy, reluctantly imposed administrative controls over the regional relocation of various industries and planning for investment. Yet we should (p.51) utilize to the maximum extent the merits usually introduced by the price machinery of free competition, thus avoiding the possible damages accompanying a monopoly system. (C. H. Park, 1963, pp. 224–5)

Although the U.S. aid advisors in Korea had tried earlier to formulate their own development plan—a task they subcontracted to a private Washington-based consulting firm—the plan's object, to terminate aid, led to its rejection by the Rhee forces. In 1958, however, Rhee had established an Economic Development Council, staffed by many “young
foreign-educated intellectuals,” fed on the ideas of planning that were then sweeping the economic development profession from the universities (H. B. Lee, 1968, p. 90). It was this concept of national planning, if not the identical plan, that later inspired the military rulers.

Park, whose principal hobby was said to be the study of Korean and world history, compared the Korean “revolution” under his leadership in 1963 to the Meiji reform, the modernization of China under Sun Yat-Sen, Kemal Pasha's development of Turkey, and Nasser's revolution in Egypt. Park's discussion of Japanese modernization is interesting both for what it says and for what it does not say. What it omits, even elliptically, is any reference to the nuts and bolts of the Japanese model—export strategy, investment policy, exchange rate regime, and so on. That these influenced Korean policymakers is indisputable, but they came later. What Park's discussion includes is an analysis of Japan's industrialization, not as a matter of policy but as a matter of relations between the state, social classes, and ideology. According to Park's reading of history, the causes of the modernization of Japan were as follows:

1. The Meiji reform had as its ideological basis a nationalistic patriotism.
2. Thereby they succeeded in Japanizing foreign thoughts that came in volume, and guarding the reform tasks undergoing then-repeated domestic ordeals from foreign invasion.
3. By eliminating the influence of feudal lords and directly connecting the emperor with the energetic middle class, a progressive atmosphere to overcome feudalism was created.
4. Millionaires who promoted the reform were allowed to enter the central stage, both politically and economically, thus encouraging national capitalism. An imperial system was thus established with the emperor at the apex of the pyramid of political and economic forces, and with the nobility serving as elder statesmen of the nation.

(p.52) Park concluded by saying, “The case of the Meiji imperial restoration will be of great help to the performance of our own revolution. My interest in this direction remains strong and constant” (C. H. Park, 1963, pp. 120–1).
This, then, may be said to have been Park's vision for Korea's industrialization when he marched across the Han, no doubt casting himself in the role of emperor. The vision could not be implemented in the absence of a strong state. In 1961, however, the field was clear for the assumption of state power. The landed nobility had been destroyed; the peasantry was less rebellious as a result of a land reform; and the “captains of industry” were beholden to the state for their regeneration. Only workers and students remained as opponents to military rule. Industrial workers, however, were still only a small portion of the population. As for the students, their role in an industrialization based on learning became pivotal. The Hangul generation, the first generation of students since the nineteenth century to escape education under the Japanese, came off the streets and into the modern factories of the 1970s as managers. In Chapter 3, attention turns to the model of accumulation that bound these social forces together.

Conclusion
The Korean state was able to consolidate its power in the 1960s because of the weakness of the social classes. Workers were a small percentage of the population, capitalists were dependent on state largesse, the aristocracy was dissolved by land reform, and the peasantry was atomized into smallholders. The behavior of the Korean state became influenced by two forces outside the class structure: the student movement and the American occupation forces (first the U.S. army, then the U.S. aid administration). The student movement kept the new government relatively honest. The American occupation forces drove the Korean military toward developmentalism, the only realistic course to reduce dependence on American support.

It is to industrialization policies that attention is now turned.

Appendix 2-1

Colonial Agriculture
From Japan's perspective, Korea was a valuable asset by dint of its agricultural resources. This is not to say that a food supply was the only motive for Japanese aggression. Raw materials in the northern part of Korea, geopolitics, nationalism, and the Korean market were also contributory factors. Moreover, Japanese imperialist policy shifted over time. Rice riots in Japan led to an emphasis on
agriculture in Korea, while protests by Japanese farmers over declining farm prices prompted a policy reversal (Duus, 1984). After 1930, industrialization in Korea was stressed as Japan began its conquest of Manchuria. Nevertheless, the exploitation of agriculture was the major endeavor of the Japanese colonial administration, and Korea was even singled out for a special role in this regard: to serve as a colony for Japanese settlers. Japanese settlers were slated not only to supervise and guide the improvement of Korean agriculture, they were also to set up farms and work the land with their own hands. This added dimension of imperialism was absent in Taiwan, where the mosquito frustrated foreign settlement, and in fact, “the differences between Taiwan and Korea cannot be overemphasized” (Moskowitz, 1974, p. 78). However, Japanese farmers never became a significant proportion of total Japanese settlers. The myth of a sparsely populated Korea dissipated, and the Japanese population as a percent of the total population in Korea never amounted to as much as 3% (T. H. Kwon et al., 1975). Nevertheless, the settler mentality endured and created far fewer opportunities for Koreans in business and the civil service and far more abusive race relations than might otherwise have been the case.

In the first year of annexation, Japan initiated a cadastral survey to determine the size, value, and ownership status of every plot of land. By 1919 the survey had been completed and a new, less regressive tax system had taken effect. The new agrarian structure implanted in Korea in the interim was very similar not only to the one that existed in late nineteenth-century Japan but also to the one that Japan instilled in early twentieth-century Taiwan (see Amsden, 1985). Superficially, it resembled the one that had been in effect for a thousand years, whereby the state collected taxes from landlords and landlords collected rents from tenants. Moreover, although Korean specialists are divided on this point, the same individuals who were last landlords under the old system most likely became landlords under the new one; now, however, the landlords worked in conjunction with former bureaucrats, Confucian scholars, and the Japanese (Cumings, 1974). Japanese landlords—both corporate and individual—may have possessed as much as 50% of Korea’s total available land (see the estimates of Ho, 1984, and of Grajdanzev, 1944).
Nevertheless, in key respects, the new agrarian structure was quite distinct.

Under the precapitalist system, peasants had traditional rights to their land and were unlikely to lose it. Under the new system, they had no rights at all. On the other hand, under the precapitalist system, landlords lived by virtue of their political domination, and the resolution of disputes between landlord and peasant depended directly (p.54) on force. Under the new system, landlords lived by virtue of their property rights; their land was alienable, and disputes, in theory, were resolvable by law.

Some appreciation of the differences between these two agrarian systems is gained by looking at the major problems associated with the dynastic agrarian structure and the advantages of tenancy. Formerly, the economic surplus largely went to a parasitic landlord class. Taxes were paid by the landlords to the monarchy, but only enough to sustain it, not enough to allow it to invest. By and large, the landlords used the surplus for political consumption—to buy patronage and to build their military strength. The peasantry, moreover, was not dependent on the market, and therefore was not forced to be efficient. If peasants were lucky enough to accumulate a surplus, they were not driven to invest it in improvements. By contrast, the new system represented a radical improvement insofar as it introduced the market as a stimulant for increased productivity. Tenants were exploited to the maximum. In the presence of population pressures there was competition to acquire tenants' leases, and rents escalated. Neither did Korean peasants enjoy the alternative open to Japanese peasants—industrial employment—an alternative that might otherwise have set a ceiling on rents and acted as a further stimulant to efficiency. Instead, exploitation of the Korean peasantry increased, while the colonial administration's cadastral survey expanded tax collections and discouraged landlords from investing in tax evasion.

In light of the foregoing, one would expect Japan's agricultural policies in Korea to have resulted in a decline in the welfare of the masses, a deterioration in income distribution, and a rise in output; in fact, this is what occurred. The index of rice consumption fell from 100 in 1915–1919 to only 56 in 1934–1938. A similar decrease in consumption index characterized millet, barley, and beans. In 1932 the rice available per
member of a landlords' family was 11.43 koku; the comparable figure for tenants was only 0.41. Meanwhile, between 1910 and 1941, agricultural output rose at an average annual rate of 2.3% (S. C. Suh, 1978). Over time, the social composition of the agricultural population shifted toward tenancy. Tenants accounted for 37.7% of the agricultural population in 1918 but for as much as 53.8% in 1932. In the late 1930s, less than 3% of farm households owned about two thirds of the cultivated land area (Grajdanzev, 1944; see also references in footnote 5).

There appears to be general agreement that from the perspective of economic development, Japanese imperialism was less effective in Korea than in Taiwan. For comparisons in agriculture and in education, see Ho (1984) and Tsurumi (1984), respectively.

Notes:
(1) In the 1980s, the legitimacy of state power had become the burning issue.

(2) For an account by Korean authors of Korean resistance to Japanese rule, see Ahn et al. (1980). W. K. Han (1977) analyzed the rise of Korean nationalism as a response to foreign invasion.

(3) Comparing student militance in two Japanese colonies, Korea and Taiwan, Tsurumi wrote,

In Taiwan, student demonstrations against favoritism toward Japanese classmates had also surfaced from time to time, but although serious incidents occurred in individual schools, these never became a stepping stone to city-wide student protest, and anti-Japanese defiance in Taiwan never knew the country-wide solidarity shown by Korean students. (1984, p. 307–8)

For some accounts of the period 1876–1910, see Conroy (1960), who argued that Japanese colonialism was not motivated by economics; and Shoichi (1970) who argued that it was. See also Chen (1968), Duus (1984), Juhn (1965), H. H. Kim (1980), C. S. Lee (1963), B. B. Weems (1964), and C. N. Weems Jr. (1954). Koh (1966) presented an historical comparison of the cotton industry in Japan and Korea.

(4) Kublim (1959) presented an early overview of the context in which Japan colonized.
(5) W. K. Han (1977) examined the relationship between the state, the yangban system, and the “exploited classes.”


(8) The general literature on modernization is voluminous. From an economic perspective, the classic work is that by Rostow (1960). For a critique, see Baran and Hobsbawm (1961) and Fishlow (1965). From a sociological perspective see Levy (1966). For a critique, see A. G. Frank (1969).

(9) Other reforms included separation of the royal household from affairs of state, outlaw of all forms of discrimination against commoners, abolition of the Confucian-oriented national exams, the adoption of a new tax system based on payments in cash rather than kind, separation of judicial functions from the executive departments, institution of an independent court system, legalization of remarriage by widows, and removal of a ban on early marriage. Juhn (1965) presented a brief summary.

(10) For an overview of colonial education in Korea, see Tsurumi (1984).

(11) Mason et al. (1980) suggested a process of “learning-by-watching,” but this seems a farfetched notion of modernization. Moreover, in the area of technical and managerial skills, it would have been difficult even to “watch,” since many cognitive skills, particularly in large-scale organizations, are not practiced out in the open. However, Koreans may have learned more in the banking sector at the
managerial level than they did in manufacturing. See Moskowitz (1979).

(12) Eckert (1986) presented the interesting case of a large-scale Korean enterprise in textiles that survived into the period of postcolonial rule.

(13) B. Cumings (1981) wrote:

> By 1945 as much as 11.6% of the Korean population was outside Korea, most of it in Japan and Manchukuo, and that fully 20% of all Koreans were either residing abroad or in a province other than their native one. This massive redeployment of population produced severe dislocations of Korean society because population mobility had historically been very low. In this period, Korean peasants first became uprooted from their villages and entered industry or urban life, or both, in Japan, Manchukuo, and northern Korea. As mentioned earlier, much of this uprooted population returned to their native homes after liberation to participate in the politics of postwar Korea. (p. 490)

(14) This point is stressed in a critical account of the United States' policy in Korea in the 1940s and 1950s by H. C. Park (1986).

(15) Although land reform caused temporary dislocations in agricultural production, it begat a highly productive system once peasants were provided with capital, fertilizer, and other inputs to pursue scientific farming (see Ban, Moon, and Perkins, 1980).

(16) The process of measuring equality in Korea is vexed by institutional factors. Inequality in Korea is likely to be understated for three reasons: (1) The value of real estate and other assets, which tends to appreciate with inflation, rose more rapidly in the 1970s than wages. Because this value is excluded from income and these assets tend to be owned by higher income earners, the treatment of such assets is likely to result in the understatement of inequality. (2) The equivalent of the United States' Internal Revenue Service in Korea sometimes includes and sometimes excludes from the calculation of personal income, capital gains, rent, and
interest payments. Such income is also taxed differently from wage income. (3) It was possible until 1988 to open bank accounts in Korea under an assumed name.

(17) Brandt (1986) has a discussion of egalitarianism in postwar Korea.

(18) According to the Government Audit Report, quoted in C. H. Park (1963), total outstanding principal on loans in 1961 was W48,574,122,000, and interest was W10,271,000,000. Using the real effective exchange rate for 1962 (because the won was devalued twice in 1961), as calculated by Y. C. Park (1985), the interest and principal on these loans in dollars was about $140 million.

(19) This represents value in 1975 constant market prices, as reported by the Korea Development Bank (1984).

(20) The data are in real, rather than nominal, terms but are bound to contain substantial margins of error, since they are among the earliest attempts of the United Nations at international growth comparisons.

(21) This document is reproduced in Tewksbury (1950).

(22) Page references in this and the next paragraph are to U.S. House of Representatives (1954).

(23) Page references are to the 1957 Audit Report.

(24) Data on inflation in Korea are presented in Table 3.1. Data on inflation in other countries are from International Monetary Fund, International Financial Statistics, various years. For data on inflation in Japan, 1905–1970, see Ohkawa and Rosovsky, 1973. Learners in the nineteenth century for the most part experienced mild price declines (see, for example, Landes, 1969).