

Democracy and Economic Development: Experience from South Korea

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The parallel development of democracy and capitalism is a value accumulated from historical experiences of the West. South Korea presents a distinguished case from other developing countries in Asia, as it achieved both industrialization and democratization simultaneously. While the nominal GDP of South Korea was at 2.41 billion USD in 1961, it reached 146.1 billion USD in 1987 with an annual growth rate of 9.7% per year. 1987 was also the year in which South Korea achieved its democratization. Since democratization, South Korea has grown continuously and at a high rate of 8.9% (GDP growth rate) on average, until the country was hit by the 1997 Asian financial crisis¹. Although the GDP growth rate of South Korea gradually decreased to 4.1% throughout 2000 to 2019, it was still higher than that of other advanced economies. South Korea's GDP reached a record of 1.63 trillion USD in 2019², placing the country as the 12th largest economy in the world and the fourth largest in Asia. This translates to a 676-fold economic development over a period of less than sixty years since South Korea first embarked upon its process of industrialization.

South Korea pursued economic growth throughout periods of authoritarianism, democratic transition, and democratization. South Korea's interplay between democracy and economic development can be explained by "challenges and responses." For instance, South Korea was able to effectively manage the uncertainties that arose from the process of democratic transition. Furthermore, despite various challenges that emerged during its period of democratic consolidation, it retained economic stability by turning toward new engines of economic growth. Some of the challenges South Korea faced during this time included weakened public consent on economic growth, new surge of demand for distribution, and division of value systems. How was South Korea able to see continued economic growth even after its democratic transition and democratization? In order to answer this question, we need to examine the linkage between political transition and economic growth in the context of South Korea's domestic experience. We also need to examine specific variables such as the institutional factors that enabled South Korea to attain high level of economic growth under the authoritarian regime; changes and continuities in institutional factors

¹ http://www.index.go.kr/potal/stts/idxMain/selectPoSttsIdxSearch.do?idx_cd=2736.

² http://www.index.go.kr/potal/stts/idxMain/selectPoSttsIdxSearch.do?idx_cd=2736.

following its democratization; and if changes have occurred, the new sets of institutional factors that have made its continued economic growth possible.

Authoritarianism, Democracy and Economic Growth

The characteristics of South Korea's economic development under authoritarianism include the government's mobilization of capital as well as strategic promotion of industries and industrial policies. In order to elucidate South Korea's "sustained" economic growth during the authoritarian era, two issues need to be examined. Firstly, it is true that the government's capacity to mobilize capital and labor, and its policies played a key role in the early model of South Korean development. However, the government's capacity and policies do not provide a full account of the variables that contributed to South Korea's continued economic growth. Due attention needs to be paid to the mechanisms of mobilization and participation. While mobilization and participation can be seen as mutually exclusive, they can co-exist when cooperative relationships are formed in the long-run between the government and businesses, the government and labor sectors, as well as between businesses and labor sectors. For instance, mobilization and participation co-existed during the period of heightened growth in South Korea despite the oppression of labor forces, due to relatively low income inequalities and cooperation between employers and employees based on long-term contracts. The government's lead on resource mobilization may have been the main feature during this period, but continued economic growth was also made possible due to limitations in the participatory mechanism.

The second issue addresses the "rent" caused by the government's market intervention. A rent is generated when a "strong" state—which is insulated from social pressure to the extent that it can order a certain group to make sacrifices for the society—intervenes in the market economy. What is important to consider is how to utilize the rent that has been generated. During its authoritarian era, the South Korean government utilized the rent in compensation for entrepreneurship in order to make continued economic growth possible³. In sum, mobilization and participatory mechanisms as well as the productive use of the rent laid an institutional foundation for South Korea's economic growth during the authoritarian era.

Democratic Transition and Economic Growth: Management of Uncertainty

During its democratic transition, South Korea faced a new set of challenges and displayed a feature of "continuity and discontinuity." The Roh Tae-woo administration inaugurated in 1987 exhibited dual aspects in terms of its policy ideals, institutional framework, and individual policies. The Roh government was faced with external challenges including increased pressure from developed nations to open up South Korea's market, effects of globalization, pressure for liberalization, and industrial transition. Domestically, a new set of challenges emerged such as the new surge of social demand, the need to re-establish relationships with societal groups including the

³ Chang, Ha-joon. 1993. "The Political Economy of Industrial Policy in Korea." *Cambridge Journal of Economics* 17: 131-157.

labor force, and the pressure to expand existing political coalitions. These challenges were fundamentally different from those in the past. South Korea's democratic transition also displayed a continuity in terms of elite power, since it had been achieved through pacts. Democratization via the establishment of pacts incurs divisions among elites and enables a certain group of elites to take the lead in negotiations with other societal groups. This is different compared to democratization from the bottom which is accompanied by a major shift in the ruling elites. Since its democratization, the South Korean government experienced restricted autonomy on labor⁴⁵. As the need for the government to proactively tackle the demand for policy shift grew stronger, the "discontinuity and shift" tactic emerged. At the same time, "continuity" also took place, as political participation of societal groups including the labor force, had not been systematically expanded in the short term.

Democracy and Economic Growth after Crisis

Since its democratization, the main challenge South Korea faced has been respective changes in its economic paradigm. President Kim Young-sam who was elected in 1992 advocated for a "civilian government" model which differed from the government-led growth model that South Korea had adhered to since the 1960s. In doing so, he aimed to eliminate "legacies of authoritarianism." The Kim Young-sam administration pursued a set of reform policies such as the abolition of the Five Year Plan of Economic Development, the revocation of policy finance, and introduction of the Real-Name Financial System, as well as a globalization policy for joining the OECD through financial liberalization. The Kim administration made a considerable achievement in terms of dismantling the authoritarian economic model. However, its ambitious penchant for reform was met by the Asian financial crisis in 1997. In the aftermath of the crisis, the South Korean economy recorded -5.1% of economic growth in 1998, which was the lowest since 1970s.

The reason that the South Korean government's drive for reform ended with the financial crisis largely had to do with the design of the reform, rather than its speed or scale. While the Kim Young-sam government tried to diminish the role of the government in pursuing its liberalization process to dismantle authoritarianism, it failed to put forward a systematic and sophisticated strategy for liberalization. The Kim administration utilized the "retreat of the state" strategy in its liberalization drive in order to set a new political-economic model and institutional framework. However, while liberalization might have been an effective tool for dismantling the state-led authoritarian growth model, it did not lead to an establishment of a new model in itself. As a consequence, the experiment to set up a new economic model following democratization came to an end.

The financial crisis was not only an economic crisis, but also a political and social crisis. At the same time, it acted as a catalyst for a great shift in the country's economic, political and social realms⁶. Since its democratization,

⁴ Kim, Byung-Kook. 2005. "Party Politics in South Korea's Democracy: The Crisis of Success?" Larry Diamond and Byung-Kook Kim, eds. *Consolidating Democracy in South Korea*. Linn Rienner.

⁵ 양재진. 2005. "발전이후 발전주의론: 한국 발전모델의 성장, 위기, 그리고 미래." 『한국행정학보』 39(1).

⁶ MacIntyre, Andrew J., T. J. Pempel and John Ravenhill, eds., 2008. *Crisis as Catalyst: Asia's Dynamic Political Economy*. Cornell University Press.

South Korea witnessed a wide range of issues, including government-business relations, concentration of economic power, low efficiency of financial institutions, inflexible labor markets, and inefficiency in the public sector, amongst others. The South Korean government utilized the crisis to alleviate the reform's opposition. As a consequence, following the crisis, a wide range of reform measures were implemented including the liberalization of foreign investment, merging and acquisition of financial institutions, reform of corporate governance, privatization of the public sector and enhanced labor flexibility. A decade following its democratization in 1987, the Korean-style development model evolved into a new paradigm encompassing "paradox of crisis."

Since the 2000s, South Korea has faced the dual challenge of democratization and globalization, but has actively played a transformative role. First of all, South Korea has been exploring and experimenting with the government's new role within the democratic system. As the democratic system increases the number of actors involved in policy decision-making, it becomes difficult for the government to make consistent policy decisions and institutionalize cooperation amongst major actors in the short term. Globalization, combined with democracy, has emerged as another challenging factor that demands changes in the government's role in economic growth. As globalization progresses and the global value chain is formed in major industrial sectors, the South Korean government faces a new task of positioning its industries within the new value chain and upgrading them to a more value-added production stage. Establishing the relationship between domestic industrial capacity and the changing global production system has become the core of transformation.

The dual challenge of democratization and globalization served as an opportunity for the South Korean government in its search for new roles in coordinating complex interests and promoting cooperation among various actors⁷. If the change in the number of actors in a democracy is inevitable, the formation and maintenance of an effective competitive environment is a new task expected from the government. Given the characteristics of high-tech industries, the role of the government in balancing competition and cooperation is of great importance, as it is difficult to expect various private actors to voluntarily participate in the development of technology and innovation and create a competitive market environment.

The Kim Dae-jung administration's ICT industrial policy, the green growth policy of the Lee Myung-bak administration, the creative economy policy of the Park Geun-hye government, and the Moon government's energy transition policy are all examples of the government's efforts to pursue a new role in a changing environment. For example, in the process of overcoming a crisis, the Kim Dae-jung administration reformed the economic power that had been once concentrated on large corporations and corporate governance, while simultaneously exhibiting developmentalism by intensively fostering the ICT industry. Additionally, while trying to implement policies with Neoliberal characteristics such as deregulation, liberalization, privatization, tax rate cuts, etc., as seen in the green growth policy, to create a virtuous cycle between economic growth and environment, the Lee administration actively supported related industries. The government sought its role as a facilitator of cooperation and coordination of interests.

⁷ Wong, Joseph. 2005. "Re-Making the Developmental State in Taiwan: The Challenges of Biotechnology." *International Political Science Review* 26(2): 169–191.

South Korea's Search for a New Equilibrium

South Korea's quest for a balance of democracy and economic growth is not over yet. South Korea has faced a series of challenges since democratization. Although South Korea has not successfully dealt with each challenge, it has actively sought new solutions in the wake of intense domestic political competition and conflicts. As a result, South Korea has become the most “dynamic country” in the world and has shown collective wisdom that turns crises into opportunities. At this point, South Korea faces challenges that need to be addressed such as finding new growth engines, solving income inequality and strengthening job security for contract workers. These tasks are the result of reforms chosen by South Korea after the financial crisis. In the case of income inequality, during the period of rapid growth before democratization, South Korea had the lowest income inequality among developing countries, but it rose sharply after the Asian financial crisis. The Gini coefficient deteriorated sharply within just two years from 0.267 in 1997 to 0.308 in 1999 and is also at 0.306 in 2019⁸. Based on the income share of the top 10%, as shown by a sharp increase from 35% in 1996 before the crisis to 50.6% in 2017, income inequality is worsening⁹. South Korea has yet to find a complete solution to this problem. However, it is evident that Korea has never stopped its experiments to search for a new equilibrium.

⁸ <동아일보> 2019/9/1.

⁹ 홍민기. 2019. “2017년까지의 최상위 소득비중.” <월간노동리뷰>. 2월호: 63-65.

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